PRIDE INTERNATIONAL

2003 ANNUAL REPORT

*Includes two rigs, the *Pride Rio de Janeiro* and the *Pride Portland*, not yet placed into service.

Cover and this page: The Pride Rio de Janeiro *completed construction and underwent sea trials in March 2004. The rig has since been deployed to Brazil. Equipped with modern drilling and pipe-handling systems, the rig and its sister, the* Pride Portland, *are enhanced versions of the successful* Pride Brazil *and* Pride Carlos Walter *semisubmersibles, currently working for Petrobras offshore Brazil.*

Financial Highlights

	Year Ended December 31,				
	2003	2002 [1]	2001 [1]	2000 [1]	1999 [1]
(In thousands, except share and employee data)					
Revenues	$ 1,689,720	$ 1,269,774	$ 1,512,895	$ 1,173,038	$ 734,791
Earnings (loss) from operations [2, 3]	122,218	150,590	284,549	189,437	(31,561)
Net earnings (loss) [2, 3]	(23,933)	(8,335)	91,521	48,922	(59,269)
EBITDA, as defined [4]	370,616	380,794	523,025	367,789	96,973
Net earnings (loss) per share					
Basic	(0.18)	(0.06)	0.70	0.40	(0.55)
Diluted	(0.18)	(0.06)	0.68	0.39	(0.55)
Weighted average shares outstanding					
Basic	134,704	133,305	131,630	123,038	107,801
Diluted	134,704	133,305	142,778	126,664	107,801
Working capital	$ 83,121	$ 152,364	$ 73,596	$ 123,719	$ 160,490
Property and equipment, net	3,446,331	3,473,636	3,452,803	2,706,791	2,590,728
Total assets	4,378,430	4,402,857	4,291,207	3,423,059	3,144,027
Long-term debt and leases, net of current portion	1,815,078	1,886,447	1,725,856	1,326,623	1,421,227
Stockholders' equity	1,702,779	1,699,297	1,696,086	1,441,995	1,235,212
Book value per share	12.58	12.67	12.77	11.42	10.50
Employees	12,200	10,100	9,500	9,800	6,900

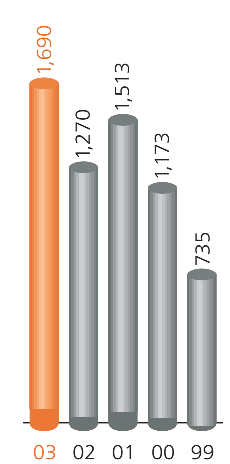
(1) *The consolidated financial information as of and for the years ended December 31, 2002, 2001, 2000 and 1999 has been restated to reflect the retroactive adoption of Financial Accounting Standards Board Interpretation ("FIN") No. 46R. "Consolidation of Variable Interest Entities."*

(2) *Earnings (loss) from operations and net earnings (loss) for the year ended December 31, 1999 include restructuring charges for the cost of involuntary employee termination benefits, including severance, wage continuation, medical and other benefits, facility closures, related personnel relocation costs and other costs in connection with a reduction in our workforce in 1999.*

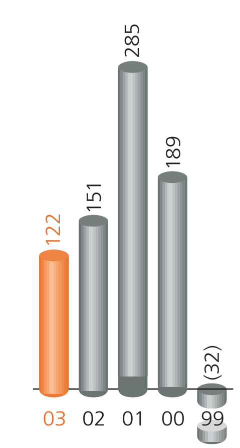
(3) *Earnings from operations and net earnings for the year ended December 31, 2001 include pooling and merger costs for investment advisory, legal and other professional fees, closure of duplicate office facilities and employee terminations in connection with our acquisition of Marine Drilling Companies, Inc. in September 2001. Please read Note 4 of the Notes to Consolidated Financial Statements on page 45 of this annual report for more information about these charges.*

(4) *EBITDA as defined consists of net earnings before minority interest, income taxes, net other expense, depreciation and amortization expense and pooling and merger costs. Please refer to "Selected Financial Data" on page 17, "Reconciliation of Non-GAAP Financial Measures" on page 62 and Note 4 of the Notes to Consolidated Financial Statements on page 45 of this annual report.*

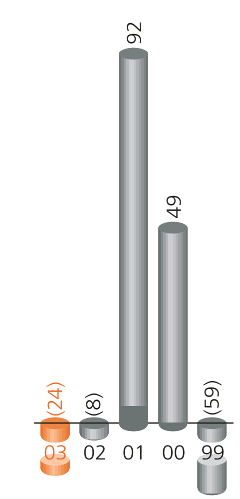
Revenues



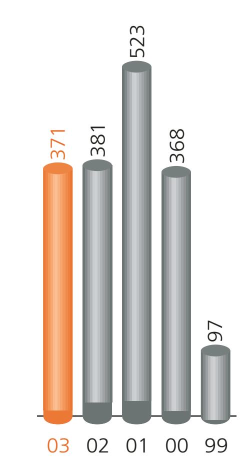
Earnings (Loss) from Operations



Net Earnings (Loss)



EBITDA



My Fellow Stockholders,

Last year at this time, as I reviewed the outlook for 2003, I pointed to the exceptional position Pride enjoyed relative to its peers in terms of contract backlog. The strong backlog, I believed, would lead to sequentially improving quarterly earnings throughout the year. Our backlog allowed us to produce strong cashflows from operations in 2003. And despite weakening markets, we were able to increase our backlog to 74 rig-years and $1.7 billion at the end of March 2004, up from 66 rig-years and $1.4 billion at the end of March 2003. While our revenues were a record for Pride at $1.7 billion, overall results were quite disappointing. Because we recorded nearly $100 million (pre-tax) of charges in connection with third-party construction contracts, we reported a net loss of $23.9 million, or $0.18 per share, as compared to 2002's loss of $8.3 million, or $0.06 per share, on revenues of $1.3 billion.

A Year of Challenges. Market conditions in 2003 remained weak in the U.S. Gulf of Mexico for most classes of rigs, and internationally for mid-water semisubmersibles in particular. We continued our strategy of mobilizing our underutilized U.S. Gulf of Mexico assets to Mexico for long-term contracts, with five jackup rigs, one semisubmersible and one platform rig joining the eleven rigs mobilized to Mexico in 2002. These and other rig relocations by our competitors resulted in a significant decline in the supply of jackup rigs in the U.S. Gulf, with 18 jackups departing U.S. waters in 2003.

Although we have experienced modestly improved pricing for our working jackups, there has been no corresponding pickup in customer demand, despite high commodity prices that prevailed throughout the year (Henry Hub spot natural gas—$5.48 per MMBtu; West Texas Intermediate crude oil—$31.09 per barrel*). As a result, five of our U.S. Gulf of Mexico jackups remained stacked throughout 2003, although we have recently contracted an additional jackup to commence work in May 2004.

In addition, while our exposure to the mid-water semisubmersible market is limited, the *Pride Venezuela* has been stacked since completion of its contract in Venezuela in July 2003, and the *Pride South Atlantic* in Brazil was idle from October 2003 to January 2004. Marketing of assets in this class remains difficult due to a substantial oversupply in the North Sea and U.S. Gulf, which is placing downward pressure on pricing and utilization worldwide.

Our technical services division undertook projects beginning in late 2001 to construct four deepwater platform rigs on behalf of two major oil company customers. Our past experience with building several high-specification floating rigs for our own account gave us confidence in our ability to successfully perform these projects on behalf of our clients. However, execution of the projects has presented major challenges to us, and we have experienced significant cost overruns on all four.

Difficulties with several of the shipyards contracted to perform the work have been the primary cause of the increased costs. We terminated our contract with the initial U.S. shipyard prior to the completion of the first two rigs. As a result, we incurred substantial unplanned costs to make alternative arrangements to complete construction. Also, we contracted Asia-Pacific shipyards for the third and fourth rigs, which resulted in freight costs higher than originally budgeted. Another builder encountered significant financial difficulties, and we incurred additional costs to allow that shipyard to complete a reduced scope of work and to complete the balance of the job in another shipyard. For the year, we recorded loss provisions on the four projects totaling $98.4 million, or $64.0 million net of taxes. These provisions reflected our estimate of the costs to complete the work and of additional contract revenues from the projects.

Our backlog allowed us to produce strong cashflows from operations in 2003. And despite weakening markets, we were able to increase our backlog to 74 rig-years and $1.7 billion at the end of March 2004, up from 66 rig-years and $1.4 billion at the end of March 2003.

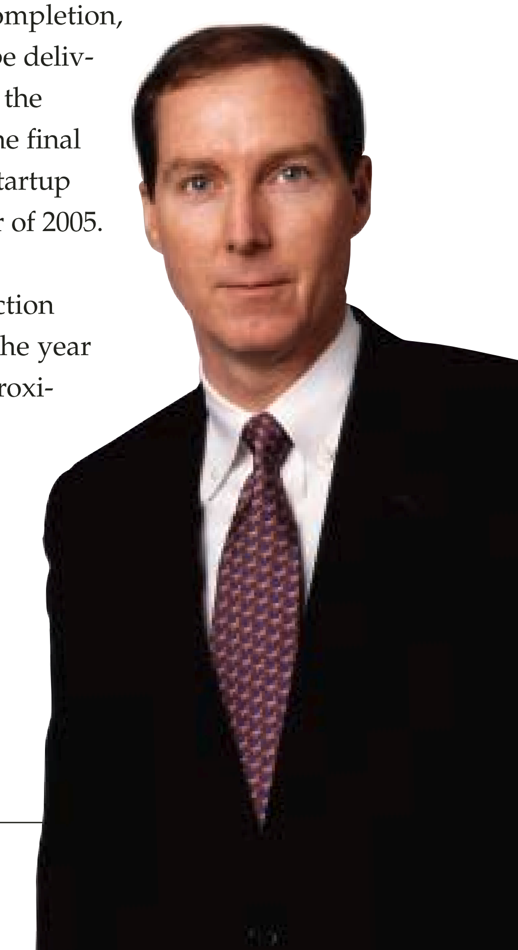
Other factors contributing to results not meeting our expectations include increased general and administrative expenses relating to executive retirement costs, higher professional fees and rising insurance premiums. In addition, a significant amount of free cash flow was devoted to upgrading U.S. Gulf of Mexico assets for international deployment. As a result, we did not meaningfully reduce debt during the year, which was a major objective.

Achievements in the Face of Adversity. In spite of these difficulties, the year was also characterized by significant accomplishments and positive developments. In addition to the multi-year contracts on rigs deployed to Mexico during 2003, we have secured a ten-year aggregate contract extension for our drillships *Pride Africa* and *Pride Angola* with Total E&P Angola.

In our international land business, results benefited from increased activity in Argentina and Venezuela. Worldwide, utilization of our land fleet increased from 64% in 2002 to 75% in 2003. At the beginning of April 2004, overall utilization of our land fleet stood at 80%, including 88% in Argentina and 82% in Venezuela. E&P services activity picked up during the year proportionally with the increase in Latin America drilling activity.

The first of the deepwater platform rigs constructed by our technical services segment was delivered on time to a unit of ExxonMobil and installed on the *Kizomba A* tension-leg platform offshore Angola. It commenced operations in November 2003. The rig is earning daily management fees and has performed efficiently during the initial period of operations. The second and third projects are nearing mechanical completion, and are scheduled to be delivered and started up in the second half of 2004. The final unit is scheduled for startup during the first quarter of 2005.

Absent the construction projects, EBITDA for the year would have been approximately $469 million (up from $377 million in 2002), the second highest in the Company's history, trailing only the peak year of 2001.



Source: Simmons & Company International, Upstream Energy Statistics, 2003 averages.

Forging Ahead to Deliver Results. We have taken steps to strengthen our management team and improve our focus on strategic objectives. Among the changes, we have separated the position of CEO and President and promoted John O'Leary (formerly Vice President–International Marketing) to the post of President and appointed a new Executive Vice President and Chief Financial Officer, Louis Raspino, who is a seasoned executive with significant industry experience. We also promoted John Blocker (formerly Vice President–Latin American Operations) to Senior Vice President–Operations. Greg Looser was appointed Vice President and General Counsel upon the retirement of Bob Randall in December 2003.

Together, we have launched a series of initiatives to streamline and rationalize the Company and improve operating and financial performance. These initiatives are intended to:

- Reduce leverage and cost structure through improving working capital management, reducing operating, general and administrative costs, limiting discretionary spending for capital projects and completing targeted asset sales.
- Improve financial flexibility by increasing liquidity, improving financing terms and conditions and refinancing or repaying high-cost debt.
- Improve financial planning and reporting systems and intensify benchmarking of financial performance.

> The principal elements of our business strategy remain to operate with critical mass in strategic market areas; enter into long-term contracts at good margins; capitalize on the operating leverage of our large and diverse fleet; maximize returns over the business cycle while focusing on near-term cash generation; and reduce debt.

Looking to the future, the principal elements of our business strategy remain to operate with critical mass in strategic market areas; enter into long-term contracts at good margins; capitalize on the operating leverage of our large and diverse fleet; maximize returns over the business cycle while focusing on near-term cash generation; and reduce debt.

We are committed to executing this strategy. Pride remains valued at a discount to our better capitalized competitors. We believe we can generate superior returns for our stockholders by reducing leverage with a resulting expansion of earnings and cashflow multiples. With a focused effort from an energized management team, we are confident that we will make good progress toward our primary goals in 2004. We appreciate your support of the Company.

Paul A. Bragg

Paul A. Bragg
Chief Executive Officer
April 2004

Company Profile

Pride International, Inc. is one of the world's largest drilling contractors, providing offshore and onshore drilling and related services to major integrated exploration and production companies, independent operators and government-owned oil companies globally. Today, our fleet of 331 rigs and our more than 12,000 employees, representing 50 nationalities, are at work in over 30 countries and marine provinces.

Pride serves its customers in the world's largest and most active exploration and production areas, with a leading market presence in West Africa, South America and the Gulf of Mexico.

Our marine fleet of 78 rigs includes:

- West Africa—2 ultra-deepwater drillships, 3 deepwater semisubmersibles, 1 deepwater platform rig, 2 jackup rigs, 3 tender-assisted rigs and 1 barge rig;
- South America—3 deepwater, dynamically positioned semisubmersibles, 2 other semisubmersibles, 2 jackups and 2 barge rigs;
- Gulf of Mexico, U.S.—11 jackups and 18 platform rigs;
- Gulf of Mexico, Mexico—14 jackups, 2 semisubmersibles and 3 platform rigs;
- Mediterranean and the Middle East—1 semisubmersible and 2 jackups; and
- India and Southeast Asia—3 jackups and 2 tender-assisted rigs.

On land, our fleet of 253 drilling and workover rigs includes:

- South America—231 rigs;
- North Africa and the Middle East—8 rigs;
- Chad—5 rigs; and
- Kazakhstan/Russia—3 rigs.

The significant diversity of our rig fleet and the global reach of our operations enable us to provide a broad range of services to our customers and to take advantage of market upturns while reducing our exposure to sharp downturns in any particular market sector or geographic region.

Pride's headquarters are in Houston, Texas, and its common stock trades on the New York Stock Exchange under the symbol "PDE."

Pride engineered, constructed and is operating a high-specification deepwater platform rig installed on Esso Exploration Angola Limited's Kizomba A *tension-leg platform. The rig commenced operations in November 2003 offshore Angola in 5,000 feet of water. Two similar rigs are scheduled to become operational in the second half of 2004 for BP in the Gulf of Mexico, and another rig for Esso Angola in the first quarter of 2005.*

International Offshore

Our international offshore segment continued to experience high levels of activity during 2003, despite worldwide weakness in the market for deepwater assets. Revenues from international offshore operations were a record $683.1 million during the year, an increase of 6% over the prior year, representing 40.4% of Pride's consolidated gross revenues and 56.3% of combined segment profit (excluding technical services).

Pride's international offshore segment consists of 30 rigs operating worldwide outside of the Gulf of Mexico, including West Africa, South America, the Middle East, India and Southeast Asia.

West Africa. Our market-leading position in Angola includes two ultra-deepwater drillships, three deepwater semisubmersibles, one jackup rig, two tender-assisted rigs and one deepwater platform rig. During the fourth quarter of 2003, we entered into a ten-year aggregate contract extension for our two drillships, the *Pride Angola* and the *Pride Africa*, which will keep these high-specification assets continuously employed through at least 2010.

The deepwater semisubmersibles *Pride South Pacific* and *Pride North America* are also working offshore Angola. In addition, we manage the deepwater semisubmersible rig *Leiv Eiriksson*. In November 2003, the *Kizomba A* deepwater platform drilling rig began operations for Esso Exploration Angola under a management contract expiring in December 2008.

Elsewhere in West Africa, we have one jackup rig, one barge rig and one tender-assisted rig.

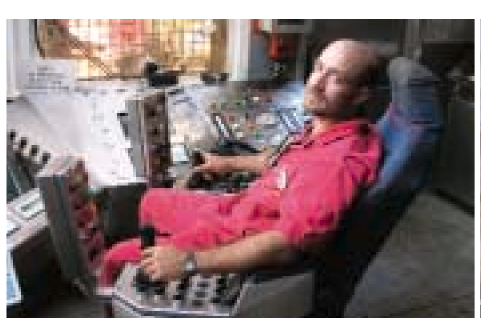
South America. Our offshore assets in Brazil include the deepwater, dynamically positioned semisubmersibles *Pride Carlos Walter* and *Pride Brazil*, which are contracted to Petrobras through mid-2006. The *Pride South America*, another dynamically positioned semisubmersible rig, is working for Petrobras through January 2005. The mid-water semisubmersible *Pride South Atlantic* is contracted to several independent operators through July 2004.

Our offshore fleet in Venezuela includes two barge rigs operating on Lake Maracaibo. We also manage two jackup rigs on behalf of Petroleos de Venezuela, S.A. In addition, the mid-water semisubmersible *Pride Venezuela* has been stacked in Trinidad since completing its contract offshore Venezuela in July 2003.

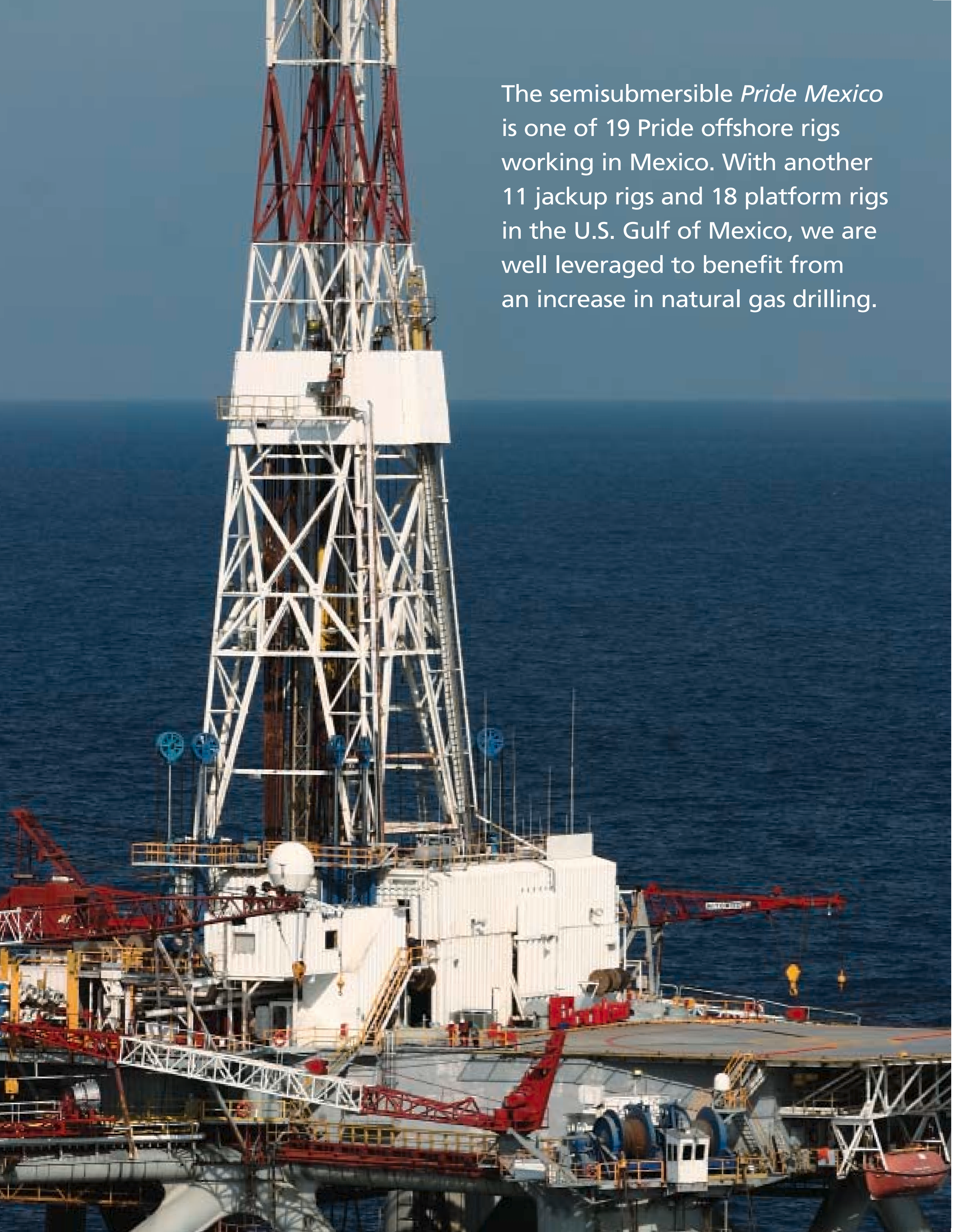
Other International. The mid-water semisubmersible *Pride North Sea* operates in the Mediterranean Sea under a contract that expires in August 2004. Elsewhere, we operate two jackup rigs in the Middle East, two in India, one (an accommodation unit) in the North Sea and one in Southeast Asia. In addition, two tender-assisted rigs are working in Southeast Asia.

We expect revenues and gross margins for our international offshore segment to be lower in 2004 than in 2003, primarily due to weaker market conditions in the West African deepwater market, where two of our deepwater assets are completing contracts later in 2004, and to the *Pride Africa* undergoing its five-year special periodic survey.

Below, from left: Driller's station on board the Pride North America*; the moonpool of the* Pride Angola *during drilling operations in the Girassol Field; crewmen on the* Pride South Pacific *practice firefighting techniques. Right: The* Pride Africa *has been working in Angola since October 1999.*



Revenues in our international offshore segment were a record $683.1 million in 2003. Contracts for our two ultra-deepwater drillships, *Pride Africa* and *Pride Angola*, were recently extended for a combined ten years by Total E&P Angola.



The semisubmersible *Pride Mexico* is one of 19 Pride offshore rigs working in Mexico. With another 11 jackup rigs and 18 platform rigs in the U.S. Gulf of Mexico, we are well leveraged to benefit from an increase in natural gas drilling.

Gulf of Mexico

Results in the Gulf of Mexico segment improved considerably in 2003, as seven additional rigs from our U.S. Gulf fleet commenced work in Mexico during the year and we benefited from a full year's contribution from the 11 rigs that commenced work in Mexico in 2002. Revenues were $271.1 million, an increase of 64% over the prior year. Gulf of Mexico operations were responsible for 16.1% of Pride's consolidated gross revenues and 14.4% of combined segment profit (excluding technical services). For the year 2003, average Gulf of Mexico jackup fleet utilization averaged 69% versus 45% in 2002, and average daily revenues per rig increased from $26,300 to $31,400.

In response to the weak market conditions that have existed in the U.S. Gulf of Mexico since the fourth quarter of 2001, we mobilized nine jackup rigs and one platform rig from the U.S. sector to the Mexican sector in 2002, and five additional jackups, one semisubmersible and one platform rig in 2003. The rigs are working for a unit of Petroleos Mexicanos S.A. ("Pemex").

As of April 2004, the 14 jackups working for Pemex had contracts with an average remaining term of 2.0 years and an average contract day rate of $32,900. Of our two semisubmersibles in this market, the *Pride South Seas* is contracted through June 2005 and the *Pride Mexico* is contracted through April 2007.

In the U.S. sector of the Gulf of Mexico, we operate 11 jackup rigs and 18 platform rigs. Six of the jackups and six of the platform rigs are currently working under contracts ranging in duration from well-to-well to one year. The average dayrate for the working jackups is $27,000.

Market conditions improved modestly during the year. As a result, mat-supported jackups in the U.S. Gulf are currently being contracted at rates of approximately $7,000 per day higher than at the start of 2003. We remain well leveraged to benefit from an eventual recovery in natural gas drilling in the U.S. Gulf of Mexico.

We expect that revenues and gross margins from our Gulf of Mexico operations in 2004 will exceed those for 2003 due to higher revenues from a full year of operations for those rigs working in Mexico. Results for 2004 are also expected to benefit from improved day rates and a modest increase in activity in the U.S. sector of the Gulf.

Above: Driller (top) and floorhand (bottom) on the Pride Texas, *one of 25 Pride jackup rigs operating in the Gulf of Mexico.*

International Land

Results in our international land segment increased during 2003, primarily as a result of significantly improved market conditions in South America. Revenues were $482.8 million, an increase of 61% over the prior year. For the year 2003, international land contributed 28.6% of Pride's consolidated gross revenues and 23.6% of combined segment profit (excluding technical services). Average rig utilization improved to 75% in 2003, versus 64% in 2002.

We operate 253 land-based rigs internationally, including 231 rigs in South America. In Argentina, we operate a market-leading fleet of 152 rigs, of which 51 are drilling rigs and 101 are workover rigs. Our land-based fleet in Venezuela consists of 38 rigs, of which ten are drilling rigs and 28 are workover rigs. Elsewhere in South America, we are active in Bolivia, Brazil, Colombia and Ecuador, with a total of 20 drilling rigs and 21 workover rigs. Outside of South America, our land-based operations include five rigs in Chad, one in Mexico, one in France, one in Russia, two in Kazakhstan, four in North Africa and four in the Middle East.

During 2003, our international land segment benefited from improved economic and political stability in Argentina and Venezuela. Activity levels in Argentina have recovered steadily from mid-2002, as high oil prices positively impacted our customers' cash flows and investment levels. The average rate of utilization of our available rig fleet in Argentina was 83.5% in 2003 as compared with 68% in 2002. As of April 2004, 134 rigs or 88% of our total fleet in Argentina was under contract.

In Venezuela, since the conclusion of the massive strike by PDVSA employees in February 2003, our rig activity has recovered and currently exceeds significantly the level that existed before the strike. As of April 2004, we had 31 rigs or 82% of our land-based rigs in Venezuela under contract as compared with only three rigs at the end of the strike.

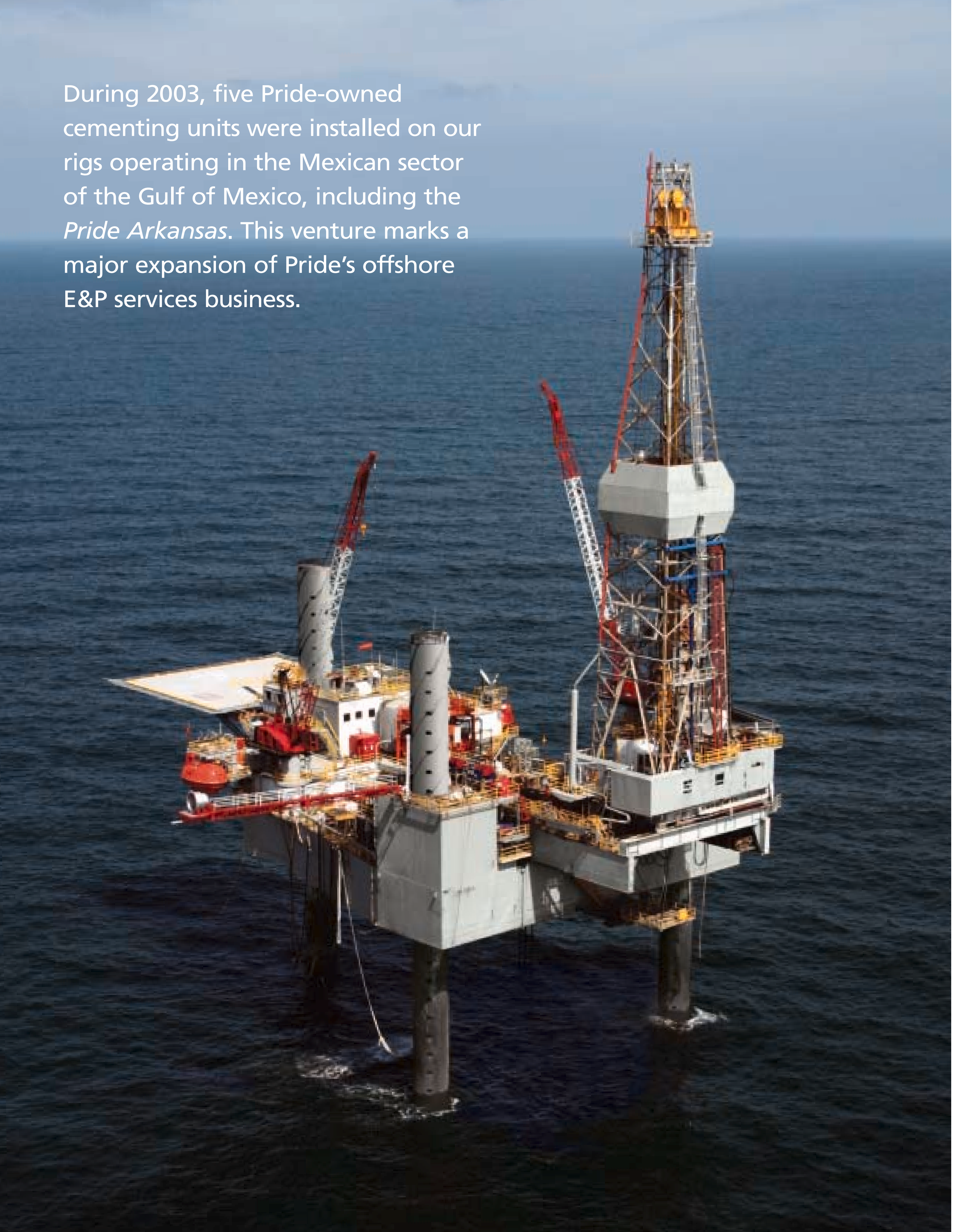
In Kazakhstan, the first of two large land rigs commenced operations on an artificial island in the northeast Caspian Sea in April 2003, and the second rig commenced operations in July 2003. Both of the rigs were stacked at the onset of the winter ice conditions in November 2003, but are currently being reactivated.

In Africa, results improved due to a full year of operation for five newly constructed mobile land rigs that started work in Chad between December 2001 and April 2002. The rigs are contracted to a unit of ExxonMobil with initial terms ranging from five to seven years.

Looking ahead, there is good potential to put more rigs to work in Argentina due to the recent increase in natural gas prices, and in Venezuela as the government seeks to halt the continued decline in production. Our expectation is that results in 2004 will be similar to 2003, based on maintaining or slightly improving the current levels of activity in South America, offset by reduced activity for our three rigs located in Kazakhstan and Russia.

Below: Pride's land drilling operations span the globe. Our rigs work in conditions ranging from Rig 291 *(left) in the bushland of Chad, to* Rig 14 *(center) in the mountains of Colombia to* Rig 1625/3 *(right) in the extreme cold of Western Siberia.*

The 3,000-horsepower *Rig 319*, the first of two Pride land rigs specially modified to the customer's specifications, began working in the northeast Caspian Sea in April 2003. The two rigs are located on artificial islands, where they are drilling for Agip KCO in the giant Kashagan field.



During 2003, five Pride-owned cementing units were installed on our rigs operating in the Mexican sector of the Gulf of Mexico, including the *Pride Arkansas*. This venture marks a major expansion of Pride's offshore E&P services business.

E&P Services

Pride's E&P services division enjoyed improved results in 2003, tracking the increased activity in our international land business in South America. Revenues rose to $122.1 million, an increase of 67% over the prior year. For the year 2003, E&P services contributed 7.2% of Pride's consolidated gross revenues and 5.6% of combined segment profit (excluding technical services).

On land, we provide a variety of oilfield services to exploration and production companies in Argentina, Bolivia, Brazil, Colombia, Ecuador, Peru and Venezuela, including cementing, fracturing, coiled tubing services, directional drilling, measurement-while-drilling, underbalanced drilling, nitrogen injection and fishing services. We also manage integrated services projects in Argentina and other South American countries.

Offshore, we are performing directional drilling, mud engineering, cementing services and integrated services projects on Lake Maracaibo in Venezuela. We also provide coiled tubing services, nitrogen injection and mud logging services in Brazil. In the past year, we have expanded our offshore operations with the installation of Pride-owned cementing units on five of our jackup rigs operating in the Mexican sector of the Gulf of Mexico. Three more units are slated to be installed later this year.

Our E&P services activity has benefited from the improved market in Argentina and Venezuela during 2003. Revenues and gross margins were higher in Argentina due to the commencement of additional integrated services contracts. Activity in this segment has also improved due to the commencement of services onshore and offshore Brazil and offshore Mexico in the past year.

We expect results in 2004 to be modestly improved over 2003, based on current levels of activity in South America being maintained throughout the year.

Above: Our E&P Services division is a technological leader in the oilfield. Below, from left to right: Coiled tubing drilling unit working on a well in Argentina; a Pride technician confirms the structural integrity of a titanium shaft for an advanced downhole motor designed and built in Argentina; Pride-owned cementing units are installed on five offshore rigs in Mexico.

Rig Fleet

The tables below present information about our rig fleet as of April 1, 2004:

OFFSHORE RIGS

Rig Name	Rig Type/Design	Built/Updated or Expected Completion	Water Depth Rating (Feet)	Drilling Depth Rating (Feet)	Location	Status
DRILLSHIPS – 2						
Pride Africa [1]	Gusto 10,000	1999	10,000	30,000	Angola	Working
Pride Angola [1]	Gusto 10,000	1999	10,000	30,000	Angola	Working
SEMISUBMERSIBLE RIGS – 13						
Leiv Eiriksson [2]	Bingo 9000	2001	8,200	30,000	Angola	Working
Pride North America	Bingo 8000	1999	7,500	25,000	Angola	Working
Pride South Pacific	Blohm & Voss	1974/1999	6,500	25,000	Angola	Working
Pride Portland [3]	Amethyst	2004	5,600	25,000	Maine	Shipyard
Pride Rio de Janeiro [3]	Amethyst	2004	5,600	25,000	Brazil	Sea Trials
Pride Brazil	Amethyst	2001	5,000	25,000	Brazil	Working
Pride Carlos Walter	Amethyst	2000	5,000	25,000	Brazil	Working
Pride South America	Amethyst	1987/1996	4,000	20,000	Brazil	Working
Pride Mexico	Neptune Pentagon	1973/1995	2,625	22,000	Mexico	Working
Pride South Atlantic	F&G Enhanced Pacesetter	1982	1,500	25,000	Brazil	Working
Pride Venezuela	F&G Enhanced Pacesetter	1982/2001	1,500	25,000	Trinidad	Available
Pride South Seas	Aker H-3	1977/1997	1,000	20,000	Mexico	Working
Pride North Sea	Aker H-3	1975/2001	1,000	25,000	Mediterranean	Working
JACKUP RIGS – 35						
Pride Cabinda	Independent leg, cantilever	1983	300	25,000	Angola	Working
Pride Hawaii	Independent leg, cantilever	1975/1997	300	30,000	Malaysia	Working
Pride Pennsylvania	Independent leg, cantilever	1973/1998	300	20,000	India	Working
Pride Tennessee	Independent leg, cantilever	1981	300	25,000	Mexico	Working
Pride West Virginia [4]	Independent leg, cantilever	1982/2002	300	30,000	India	Working
Pride Montana	Independent leg, cantilever	1980/2001	270	20,000	Saudi Arabia	Working
Pride North Dakota	Independent leg, cantilever	1981/2002	250	30,000	Nigeria	Working
Pride Ohio	Independent leg, cantilever	1975/1998	250	20,000	Middle East	Working
GP-20 [2]	Independent leg, cantilever	1982	200	20,000	Venezuela	Working
GP-19 [2]	Independent leg, cantilever	1981	150	20,000	Venezuela	Working
Pride Wisconsin	Independent leg, slot	1976/2002	300	30,000	Mexico	Working
Pride Texas	Mat-supported, cantilever	1999	300	20,000	Mexico	Working
Pride Alaska	Mat-supported, cantilever	1982/2002	250	25,000	Mexico	Working
Pride Kansas	Mat-supported, cantilever	1999	250	25,000	USA	Working
Pride Missouri	Mat-supported, cantilever	1981	250	20,000	USA	Working
Pride Alabama	Mat-supported, cantilever	1982	200	25,000	Mexico	Working
Pride Arkansas	Mat-supported, cantilever	1982	200	25,000	Mexico	Working
Pride Colorado	Mat-supported, cantilever	1982	200	25,000	Mexico	Working
Pride Florida	Mat-supported, cantilever	1981	200	20,000	USA	Working
Pride Mississippi	Mat-supported, cantilever	1981/2002	200	25,000	Mexico	Working
Pride Nebraska	Mat-supported, cantilever	1981/2002	200	20,000	Mexico	Working
Pride Nevada	Mat-supported, cantilever	1981/2002	200	20,000	Mexico	Working
Pride New Mexico	Mat-supported, cantilever	1982	200	25,000	USA	Working
Pride South Carolina	Mat-supported, cantilever	1980/2002	200	20,000	Mexico	Working
Pride Utah	Mat-supported, cantilever	1978/2002	80	16,000	USA	Available
Pride Kentucky	Mat-supported, slot	1974	262	25,000	USA	Available
Pride Arizona	Mat-supported, slot	1981/1996	250	25,000	USA	Contracted
Pride California	Mat-supported, slot	1997/2002	250	20,000	Mexico	Working
Pride Georgia	Mat-supported, slot	1981/1995	250	20,000	USA	Working
Pride Louisiana	Mat-supported, slot	1981/2002	250	25,000	Mexico	Working
Pride Michigan	Mat-supported, slot	1975/2002	250	25,000	USA	Working
Pride Oklahoma	Mat-supported, slot	1996/2002	250	20,000	Mexico	Working
Pride Wyoming	Mat-supported, slot	1976	250	25,000	USA	Available
Pride Illinois	Mat-supported, slot	1970/1993	225	20,000	USA	Available
Pride Rotterdam	Accommodation unit	1975/1992	205	—	North Sea	Working

Rig Name	Rig Type/Design	Built/Updated or Expected Completion	Water Depth Rating (Feet)	Drilling Depth Rating (Feet)	Location	Status
TENDER-ASSISTED RIGS – 5						
Al Baraka I [5]	Self-erecting barge	1994	650	20,000	West Africa	Available
Piranha	Self-erecting barge	1978/1998	600	20,000	Malaysia	Working
Ile de Sein	Self-erecting barge	1981/1997	450	16,000	Indonesia	Working
Barracuda	Self-erecting barge	1982	330	20,000	Angola	Working
Alligator	Self-erecting barge	1982/2004	330	20,000	Angola	Shipyard
BARGE RIGS – 3						
Pride I	Floating cantilever	1994	150	20,000	Venezuela	Working
Pride II	Floating cantilever	1994	150	20,000	Venezuela	Working
Bintang Kalimantan	Swamp barge	1983	N/A	16,000	Nigeria	Working
PLATFORM RIGS – 22						
Kizomba A [2]	Ultra-heavy electrical	2003	N/A	30,000	Angola	Working
Rig 1501E	Heavy electrical	1996	N/A	25,000	USA	Working
Rig 1502E	Heavy electrical	1998	N/A	25,000	USA	Available
Rig 1503E	Heavy electrical	1997/2003	N/A	20,000	USA	Working
Rig 1002E	Heavy electrical	1996	N/A	20,000	Mexico	Working
Rig 1003E	Heavy electrical	1996	N/A	20,000	Mexico	Working
Rig 1005E	Heavy electrical	1998	N/A	20,000	Mexico	Working
Rig 1006E	Heavy electrical	2001	N/A	20,000	USA	Working
Rig 750E	Heavy electrical	1992	N/A	16,500	USA	Available
Rig 751E	Heavy electrical	1995	N/A	16,500	USA	Available
Rig 650E	Intermediate electrical	1994	N/A	15,000	USA	Available
Rig 651E	Intermediate electrical	1995	N/A	15,000	USA	Working
Rig 653E	Intermediate electrical	1995	N/A	15,000	USA	Available
Rig 951	Heavy mechanical	1995	N/A	18,000	USA	Available
Rig 200	Intermediate mechanical	1993	N/A	15,000	USA	Available
Rig 210	Intermediate mechanical	1996	N/A	15,000	USA	Working
Rig 220	Intermediate mechanical	1995	N/A	15,000	USA	Available
Rig 100	Intermediate mechanical	1990	N/A	15,000	USA	Available
Rig 110	Intermediate mechanical	1990	N/A	15,000	USA	Available
Rig 130	Intermediate mechanical	1991	N/A	15,000	USA	Available
Rig 170	Intermediate mechanical	1991	N/A	15,000	USA	Available
Rig 14	Light mechanical	1994	N/A	10,000	USA	Working

(1) *Owned by joint ventures in which we have a 51% interest.*
(2) *Managed by us, but owned by others.*
(3) *Owned by a joint venture in which we have a 30% interest; formerly known as the Amethyst 4 and Amethyst 5.*
(4) *We have entered into a memorandum of agreement to sell the unit subject to various conditions, some of which may be difficult to satisfy. Accordingly, the sale may not be completed.*
(5) *Owned by a joint venture in which we have a 12.5% interest.*

LAND RIGS

	Total	Drilling	Workover	Utilization
SOUTH AMERICA – 231				
Argentina	152	51	101	88%
Venezuela	38	10	28	82%
Colombia	20	12	8	55%
Bolivia	8	5	3	50%
Brazil [1]	11	1	10	82%
Ecuador	2	2	—	0%
OTHER INTERNATIONAL – 22				
Chad	5	3	2	100%
North Africa	4	3	1	0%
Oman	4	4	—	100%
Russia/Kazakhstan	3	3	—	67%
Other	6	4	2	50%
Total Land-Based Rigs	253	98	155	80%

(1) *One drilling rig and three workover rigs are managed by us, but owned by others.*

Directors and Executive Officers

Board of Directors

William E. Macaulay, 58, has been a director of Pride since July 1999 and became chairman of the board of Pride in June 2003. Mr. Macaulay is chairman and chief executive officer of First Reserve Corporation and First Reserve GP IX, Inc., which manage three investment funds that own an aggregate of 14% of the outstanding Pride common stock. He is also a director of the following oilfield services companies: National Oilwell, Inc., Dresser Ltd. and Weatherford International, Inc.

Robert L. Barbanell, 73, became a director of Pride in connection with Pride's acquisition of Marine Drilling Companies, Inc. in September 2001. From September 2001 to June 2003, he served as Pride's chairman of the board. Mr. Barbanell was a director of Marine from June 1995 until September 2001. Mr. Barbanell has served as president of Robert L. Barbanell Associates, Inc., a financial consulting firm, since July 1994. He is also a director of Cantel Medical Corp.

Paul A. Bragg, 48, has been chief executive officer and a director of Pride since March 1999. He was president of Pride from February 1997 to January 2004 and was chief operating officer from February 1997 to April 1999. He joined Pride in July 1993 as its vice president and chief financial officer. From 1988 until he joined Pride, Mr. Bragg was an independent business consultant and managed private investments. He previously served as vice president and chief financial officer of ENSCO International Incorporated, an oilfield services company, from 1983 through 1987.

David A. B. Brown, 60, became a director of Pride in September 2001 in connection with Pride's acquisition of Marine. Mr. Brown was a director of Marine from June 1995 until September 2001. Mr. Brown has served as president of The Windsor Group, Inc., a strategy consulting firm, since 1984. Mr. Brown was chairman of the board of the Comstock Group, Inc. from 1988 to 1990. Mr. Brown is a director of EMCOR Group, Inc., Layne Christensen Company, NS Group, Inc. and Mission Resources Inc.

J. C. Burton, 65, became a director of Pride in September 2001 in connection with Pride's acquisition of Marine. Mr. Burton was a director of Marine from May 1998 until September 2001. He served in various engineering and managerial positions with Amoco Corporation, an integrated energy company, from 1963 until his retirement in March 1998. Most recently, he was the president of the international operations group for Amoco Exploration and Production Company. He currently serves as a director of NS Group, Inc.

Jorge E. Estrada, 56, has been a director of Pride since October 1993. Since January 2002, Mr. Estrada has been employed by Pride for business development in Latin America. For more than five years, Mr. Estrada has been president and chief executive officer of JEMPSA Media and Entertainment, a company specializing in the Spanish and Latin American entertainment industry. Previously, Mr. Estrada served as president of Geosource, Inc.'s worldwide drilling division and vice president of its exploration division in Latin America.

Ralph D. McBride, 57, has been a director of Pride since September 1995. Mr. McBride has been a partner with the law firm of Bracewell & Patterson, L.L.P. in Houston, Texas, since 1980.

David B. Robson, 64, became a director of Pride in September 2001 in connection with Pride's acquisition of Marine. Mr. Robson was a director of Marine from May 1998 until September 2001. From August 1996 until his retirement in February 2004, Mr. Robson served as chairman of the board and chief executive officer of Veritas DGC Inc., a geophysical service provider to the petroleum industry. Prior thereto, he held similar positions with Veritas Energy Services Inc. and its predecessors since 1974. He is chairman of Vada Capital, Inc., a family-owned private equity firm.

Executive Officers

Paul A. Bragg, 48
Chief Executive Officer

Edward G. Brantley, 49
Vice President and Chief Accounting Officer

John C. G. O'Leary, 48
President

Gary W. Casswell, Jr., 51
Vice President – Eastern Hemisphere Operations

Louis A. Raspino, 51
Executive Vice President and Chief Financial Officer

Nicolas J. Evanoff, 41
Vice President – Corporate and Governmental Affairs

John R. Blocker, Jr., 52
Senior Vice President – Operations

Marcelo D. Guiscardo, 51
Vice President – E&P Services

Bobby E. Benton, 51
Vice President – Western Hemisphere Operations

W. Gregory Looser, 34
Vice President, General Counsel and Secretary

David A. Bourgeois, 59
Vice President – U.S. Gulf of Mexico Operations

Jonathan R.A.S. Talbot, 41
Vice President – Marketing

Pride recognizes the contributions of **James W. Allen** (left), former Senior Vice President and Chief Operating Officer, who retired from the Company in January 2004 following more than 10 years of service, and **Robert W. Randall** (right), former Vice President, General Counsel and Secretary, who retired from the Company in December 2003 after more than 12 years of service.

Selected Financial Data

We have derived the following selected consolidated financial information as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003, from our audited consolidated financial statements beginning on page 35 of this annual report. You should read this information in conjunction with those consolidated financial statements and the notes thereto. We have derived the selected consolidated financial information as of December 31, 2001 and 2000 and for each of the years in the two-year period ended December 31, 2000, from our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2001 that are not included herein. We have derived the selected consolidated financial information as of December 31, 1999 from the audited consolidated financial statements of Pride and Marine Drilling Companies, Inc., which we acquired in September 2001 in a transaction accounted for under the pooling-of-interests method of accounting, that are not included herein. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of this annual report.

	Year Ended December 31,				
(In thousands, except per share amounts)	2003	2002 (1)	2001 (1)	2000 (1)	1999 (1)
Statement of Operations Data:					
Revenues	$1,689,720	$1,269,774	$1,512,895	$1,173,038	$ 734,791
Operating costs, excluding depreciation and amortization	1,197,845	794,739	889,561	709,721	509,770
Restructuring charges – operating (2)	—	—	—	—	12,817
Depreciation and amortization	249,222	230,204	202,710	178,352	128,534
General and administrative, excluding depreciation and amortization	121,259	94,241	100,309	95,528	91,400
Pooling and merger costs (3)	(824)	—	35,766	—	—
Restructuring charges – general and administrative (2)	—	—	—	—	23,831
Earnings (loss) from operations	122,218	150,590	284,549	189,437	(31,561)
Other income (expense), net	(126,516)	(139,851)	(127,572)	(94,775)	(47,601)
Earnings (loss) before income taxes and minority interest	(4,298)	10,739	156,977	94,662	(79,162)
Income tax provision (benefit)	(1,130)	2,977	49,948	34,928	(23,889)
Minority interest	20,765	16,097	15,508	10,812	3,996
Net earnings (loss)	$ (23,933)	$ (8,335)	$ 91,521	$ 48,922	$ (59,269)
Net earnings (loss) per share:					
Basic	$ (0.18)	$ (0.06)	$ 0.70	$ 0.40	$ (0.55)
Diluted	$ (0.18)	$ (0.06)	$ 0.68	$ 0.39	$ (0.55)
Weighted average shares outstanding:					
Basic	134,704	133,305	131,630	123,038	107,801
Diluted	134,704	133,305	142,778	126,664	107,801
Balance Sheet Data:					
Working capital	$ 83,121	$ 152,364	$ 73,596	$ 123,719	$ 160,490
Property and equipment, net	3,446,331	3,473,636	3,452,803	2,706,791	2,590,728
Total assets	4,378,430	4,402,857	4,291,207	3,423,059	3,144,027
Long-term debt and leases, net of current portion	1,815,078	1,886,447	1,725,856	1,326,623	1,421,227
Stockholders' equity	1,702,779	1,699,297	1,696,086	1,441,995	1,235,212

(1) *The consolidated financial information as of and for the years ended December 31, 2002, 2001, 2000 and 1999 has been restated to reflect the retroactive adoption of Financial Accounting Standards Board Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities."*

(2) *Restructuring charges include the cost of involuntary employee termination benefits, including severance, wage continuation, medical and other benefits, facility closures, related personnel relocation costs and other costs in connection with a reduction in our workforce in 1999.*

(3) *Pooling and merger costs consist of costs incurred for investment advisory, legal and other professional fees, closure of duplicate office facilities and employee terminations in connection with our acquisition of Marine in September 2001. Please read Note 4 of the Notes to Consolidated Financial Statements on page 45 of this annual report for more information about these charges.*

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes beginning on page 35 of this annual report. The following information contains forward-looking statements. Please read "Forward-Looking Statements" on page 33 of this annual report for a discussion of certain limitations inherent in such statements.

Overview

We provide contract drilling and related services to oil and gas companies worldwide, operating both offshore and on land. As of March 1, 2004, we operated a global fleet of 327 rigs, including two ultra-deepwater drillships, 11 semisubmersible rigs, 35 jackup rigs, 30 tender-assisted, barge and platform rigs and 249 land-based drilling and workover rigs. We operate in more than 30 countries and marine provinces. We have five principal operating segments: Gulf of Mexico, International Offshore, International Land, E&P Services and Technical Services.

The markets for our drilling, workover and related E&P services are highly cyclical. Variations in market conditions during the cycle impact us in different ways depending primarily on the length of drilling contracts in different regions. Contracts in the U.S. Gulf of Mexico, for example, tend to be short-term, so a deterioration or improvement in market conditions tends to impact our operations quickly. Contracts in our international offshore segment, as well as in Mexico, tend to be longer term. Accordingly, short-term changes in market conditions may have little or no impact on our revenues and cash flows from those operations unless the market changes occur during a period when we are attempting to renew a number of those contracts.

In late 2001, we commenced the first of four major deepwater platform rig construction projects. The rigs are being constructed on behalf of two major oil company customers under lump-sum contracts. We have experienced significant cost overruns on these projects, and we estimate that total costs on all four projects will substantially exceed contract revenues. Accordingly, in 2003, we recorded provisions for losses on these projects totaling $98.4 million, or $64.0 million net of taxes at the U.S. statutory rate. The provisions reflect our current estimates of the costs to complete the projects and of additional contract revenues from the projects, following a review by our operating and senior management. There are, however, uncertainties regarding many of the estimates and, particularly, the range of possible outcomes of certain commercial disputes related to the projects, which could result in settlements significantly above or below our current estimates. Our current estimates may be revised in future periods, and those revisions may be material.

Weakness in the deepwater semisubmersible and drillship markets offshore West Africa and Brazil did not have a significant impact on our results for 2003, as our deepwater rigs in those markets were operating under long-term contracts entered into when market conditions were more favorable. The impact of the continued weakness in these markets on our results for 2004 is likely to be more significant, however, as the contracts for two of our deepwater assets in the West African market are due to be renewed during the year. We believe, however, that conditions in those markets will improve later in 2004 as development drilling commences on a number of major oil discoveries.

We experienced improved utilization of our jackup rig fleet in 2003, principally due to our success in marketing rigs into Mexico and other international markets from the U.S. Gulf of Mexico, which has experienced weak market conditions since late 2001. The contracts in Mexico have an average remaining term of approximately two years and, together with recently obtained extensions to the contracts for our two drillships working offshore Angola for an aggregate of ten years, resulted in an increase in the contract backlog for our offshore rig fleet to approximately 74 years and $1.7 billion as of March 1, 2004, from 66 years and $1.4 billion as of March 1, 2003. In calculating our contract backlog, we include the remaining firm period of outstanding contracts, excluding any option periods, and the contract operating day rate less a 5% allowance for any downtime or reduced rate billing, excluding any mobilization fees, performance bonuses and anticipated charges for ancillary services. The above figures are the aggregate for all offshore rigs operated by us, including rigs owned by others that we manage, and excluding the deepwater platform rigs under construction.

Conditions in our South American land and related E&P services markets improved during 2003, and our activity in these markets has recovered from the political and economic crises in Argentina and Venezuela in 2002 to levels exceeding those before the crises. Assuming there are no new major disruptions in these markets in 2004, we expect our 2004 results from operations in these markets to be comparable to 2003 results.

We ended 2003 with approximately $28 million more debt and $79 million less total cash (cash and cash equivalents plus restricted cash) than at the end of 2002. Total debt and liquidity in 2003 were negatively impacted by the high level of capital expenditures required to prepare rigs in our U.S. fleet for work in Mexico, higher than normal operating costs during the start-up of operations for those rigs,

net cash outflows on the rig construction projects discussed above and an increase in trade receivables. We expect that debt levels and liquidity in 2004 will continue to be negatively impacted by increased net cash outflows relating to the construction projects. Debt levels and liquidity in 2004 will also be negatively impacted by our 30% share of stacking and debt service costs if we are unable to secure work during 2004 for the *Pride Portland* and *Pride Rio de Janeiro*, two Amethyst-class semisubmersible rigs that are concluding construction and are expected to be available for work in the second quarter and third quarter of 2004, respectively. In addition, the day rate under which either or both of our two West African deepwater semisubmersible rigs, whose existing contracts expire in 2004, are recontracted could have a significant impact on our future debt and liquidity. However, we expect debt and liquidity in 2004 to benefit from a full year of operations for our rigs in Mexico and from a reduced level of capital expenditures, as our program to upgrade rigs from our U.S. Gulf of Mexico fleet for international markets winds down.

Debt reduction and liquidity in 2004 also will be positively impacted if we succeed in our announced focused efforts to reduce operating, general and administrative costs, improve our working capital management and sell certain assets. Although we intend to aggressively pursue these strategies to reduce our debt and improve our liquidity, it is not practicable at the present time to quantify the possible impact, if any, of any of these measures.

As of March 10, 2004, our liquidity position totaled approximately $108 million, consisting of approximately $53 million of unrestricted cash, $31 million of available undrawn capacity under our senior secured revolving credit facilities and $24 million of available undrawn unsecured credit facilities. The total undrawn portion of our senior secured revolving credit facilities at that date was approximately $107 million. Indentures governing our outstanding 9⅜% senior notes due 2007 and our 10% senior notes due 2009 limit our ability to draw under these facilities to a percentage of consolidated net tangible assets, which effectively restricts our ability at present to borrow additional amounts under these facilities. Accordingly, approximately $76 million of the $107 million of undrawn capacity under these facilities was not available as of March 10, 2004 to meet our short-term liquidity needs, leaving only $31 million available. Furthermore, in connection with the announced extension of the drilling contracts for our two drillships, we are in the process of finalizing an approximate $128 million expansion of the drillship loans. We currently expect that approximately $103 million of the proceeds and approximately $15 million of currently restricted cash will be used by the joint venture to repay indebtedness due from the joint venture company to Pride early in the second quarter of 2004. If the transaction is completed, the funds paid to us will be available to reduce our other outstanding debt and improve liquidity. In addition, as of December 31, 2003, $38.8 million of our cash balances, which amount is included in restricted cash, consisted of funds held in trust in connection with our drillship and semisubmersible loans and our limited-recourse collateralized term loans and is therefore not available for our use. The amount as of March 10, 2004 was approximately $27 million.

In September 2001, we acquired Marine Drilling Companies, Inc. in a stock-for-stock transaction. We issued 58.7 million shares of our common stock to the former shareholders of Marine, which equaled approximately 44% of the outstanding shares of our common stock immediately following completion of the acquisition. The acquisition was accounted for as a pooling-of-interests for accounting and financial reporting purposes and, accordingly, our consolidated financial statements for each period prior to the merger reflect the combined operations of Pride and Marine.

Since November 2003, we have reorganized our senior management team. John O'Leary has been appointed to the position of President, Louis Raspino joined Pride as Executive Vice President and Chief Financial Officer, John Blocker has been appointed Senior Vice President – Operations and Gregory Looser has been appointed Vice President, General Counsel and Secretary.

Business Environment and Outlook

General

Revenues. Our revenues depend principally upon the number of our available rigs, the number of days these rigs are utilized and the contract day rates received. The number of days our rigs are utilized and the contract day rates received are largely dependent upon the balance of supply and demand for drilling and related services in the different geographic regions in which we operate. The number of available rigs may increase or decrease as a result of the acquisition, relocation or disposal of rigs, the construction of new rigs and the number of rigs being upgraded or repaired or the subject of periodic surveys or routine maintenance at any time. In order to improve utilization or realize higher contract day rates, we may mobilize our rigs from one market to another. Our revenues also depend on the number and scope of construction or engineering projects being undertaken by our technical services group. Revenues for these projects are recognized on a percentage-of-completion basis.

Oil and gas companies' exploration and development drilling programs drive the demand for drilling and related services. These drilling programs are affected by their expectations about oil and natural gas prices, anticipated production levels, demand for crude oil and natural gas products, government regulations and many other factors. Oil and gas prices are volatile, which has historically led to significant fluctuations in expenditures by our customers for oil and gas drilling and related services.

Operating Expenses. Earnings from operations are primarily affected by changes in revenue, but are also a function of changes in operating expenses. Operating expenses are generally influenced by changes in utilization. For instance, if a rig is expected to be idle for an extended period of time, we may reduce the size of the rig's crew and take steps to "cold stack" the rig, which reduces expenses and partially offsets the impact on operating income associated with loss of revenues. We recognize as an operating expense routine overhauls that maintain rather than upgrade the rigs or E&P services equipment. These expenses vary from period to period. Costs of rig enhancements are capitalized and depreciated over the expected useful lives of the enhancements. Depreciation expense decreases earnings from operations in periods subsequent to capital upgrades. Operating expenses in relation to our engineering and construction projects are recognized in proportion to revenues using the percentage-of-completion method. Additionally, operating expenses may include a provision for expected losses if we estimate that a project will be unprofitable in total. Our general and administrative expenses are principally related to our corporate headquarters and our regional offices.

Environmental Regulation. We are subject to the U.S. Oil Pollution Act of 1990, the U.S. Outer Continental Shelf Lands Act, and the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA. Additionally, other countries where we operate have similar regulations covering the discharge of oil and other contaminants in connection with drilling operations.

Segment Review

The following table summarizes average daily revenue and percentage utilization by type of rig for the last three years. Average daily revenue information is based on total revenues for each rig type divided by actual days worked by all rigs of that type. Average daily revenue will differ from average contract day rate for a rig due to billing adjustments for any non-productive time, mobilization fees, performance bonuses and charges to the customer for ancillary services. Percentage utilization is calculated as the total days worked divided by the total days available for work by all rigs of that type.

	2003		2002		2001	
	Daily Revenue	Utilization	Daily Revenue	Utilization	Daily Revenue	Utilization
Gulf of Mexico						
Jackup Rigs	$ 31,400	69%	$ 26,300	45%	$ 40,100	80%
Platform Rigs	$ 20,000	35%	$ 20,700	42%	$ 19,500	57%
International Offshore						
Drillships/Semisubmersible Rigs	$ 117,600	86%	$124,900	84%	$118,500	93%
Jackup Rigs	$ 52,300	94%	$ 48,000	89%	$ 36,600	82%
Tender and Barge Rigs	$ 33,200	82%	$ 33,700	94%	$ 31,400	78%
International Land						
Land Drilling	$ 14,900	68%	$ 12,200	57%	$ 13,400	79%
Land Workover	$ 3,900	80%	$ 3,400	68%	$ 5,600	77%

Gulf of Mexico

Demand for drilling services in the U.S. Gulf of Mexico showed only a marginal improvement in 2003. Demand has continued to lag the recovery in natural gas prices that commenced in mid-2002 when natural gas inventory storage levels started to decline. Market conditions have, however, somewhat improved due to the reduction in the supply of rigs resulting from a number of rigs leaving the U.S. sector of the Gulf of Mexico for other markets. As a result, jackups in the U.S. Gulf of Mexico are currently being contracted at rates of approximately $4,000 per day higher than at the start of 2003.

In response to the weak market conditions that have existed in the U.S. Gulf of Mexico since the fourth quarter of 2001, we have actively marketed a number of rigs in our U.S. Gulf of Mexico fleet to international markets. Since early 2002, we have obtained long-term contracts for 14 jackup rigs and two platform rigs with a unit of Petroleos Mexicanos S.A. in the Mexican sector of the Gulf of Mexico and for two jackup rigs in other international markets, one in Nigeria and one in India. Additionally, we obtained long-term contracts with Pemex in Mexico for the *Pride South Seas*, a semisubmersible rig that we mobilized from South Africa, and for the *Pride Mexico*, a newly acquired semisubmersible rig. The first nine jackup rigs, one of the platform rigs and the *Pride South Seas* were contracted and completed redeployment in 2002 and worked throughout 2003. Three of the jackups and the second platform rig commenced operations in July 2003, and the *Pride Mexico* and the remaining two jackup rigs commenced operations in the fourth quarter of 2003.

As of March 1, 2004, our 14 jackups working for Pemex had contracts with an average remaining term of 2.1 years and an average contract day rate of $32,900. Six of our jackups were working in the U.S. Gulf of Mexico with an average contract day rate of $26,800, of which four were on short-term contracts. There were five rigs available. Additionally, three of our platform rigs were working offshore Mexico on contracts with an average contract day rate of $20,200 and five were working in the U.S. Gulf of Mexico at an average contract day rate of $21,000.

Two of our available jackup rigs could be put back into service in the U.S. Gulf of Mexico at a relatively low cost. The remaining three rigs have not worked since late 2001, and we would require longer-term contracts to justify the cost of reactivating these rigs. All of our available rigs would require additional expenditures to work in Mexico or other international markets.

We expect that revenues and gross margins derived from our Gulf of Mexico operations in 2004 will exceed those for 2003 due to higher revenues from a full year of operations, and the absence of start-up costs, for those rigs working in Mexico. Results for 2004 are also expected to benefit from improved day rates and a modest increase in activity in the U.S. sector of the Gulf.

International Offshore

Our international offshore segment has continued to experience high levels of activity, and we have maintained essentially full utilization of six of our seven high-specification deepwater rigs in 2003. The seventh rig, the *Pride South America* semisubmersible rig, received its five-year periodic survey and related maintenance in the first quarter of 2003 and was out of service for approximately 70 days. In addition, the rig had approximately 45 days of downtime in the third and fourth quarters of 2003 due to repairs to its thruster systems.

The *Pride Carlos Walter* and *Pride Brazil* semisubmersible rigs working offshore Brazil both experienced unscheduled downtime in the fourth quarter of 2003 relating to the replacement of certain bearings on their riser tensioner systems. The downtime resulted in approximately $3.0 million of lost revenues and approximately $1.5 million of increased operating costs. Each rig has eight sets of riser tensioners, and we plan to replace the bearings on the remaining unchanged sets during 2004, which is expected to result in an aggregate of approximately 25 days of downtime for the two rigs in 2004.

Two of our deepwater semisubmersible rigs working in West Africa are expected to complete their current contracts in April 2004 and August 2004, respectively. Demand and day rates for deepwater rigs in the West African market are lower than when the rigs were last contracted. We currently expect that the rigs will be recontracted at rates significantly less than their current rates and that one or both could have some period without contract revenues. Our remaining three deepwater semisubmersibles are on long-term contracts, and our two deepwater drillships, the *Pride Africa* and *Pride Angola*, are working under contracts that were extended in December 2003 by an aggregate of ten years, commencing at the end of the contracts' current terms in June 2005 and May 2005, respectively. The *Pride Africa* is scheduled to undergo its five-year special periodic survey in the fourth quarter of 2004 and is expected to be out of service for approximately 45 days.

The market for intermediate water-depth semisubmersible rigs remained weak during 2003. Idle time for our three rigs working in the international offshore segment was due primarily to one of the rigs undergoing its five-year periodic survey during the period and to the *Pride Venezuela* being stacked for the last five months of 2003 after it completed its contract with PDVSA in July. The *Pride Venezuela* has been demobilized to Trinidad and is being marketed internationally. Additionally, the contract for the *Pride South Atlantic*, offshore Brazil, expired in October 2003, and the rig commenced a new contract to drill three wells, with possibly additional optional wells, offshore Brazil, in January 2004. Both the *Pride Venezuela* and the *Pride South Atlantic* were warm stacked after their respective contracts expired. Therefore, operating costs while they were stacked were similar to when they had been working.

Since the transfer of two independent-leg jackup rigs to Nigeria and India under two-year contracts in 2002, we have had eight jackup rigs working in international waters outside of the Gulf of Mexico. All of these rigs are currently working under long-term contracts, of which four are due to expire in 2004. These jackup rigs experienced 94% utilization in 2003. The idle time was primarily due to two of these rigs undergoing shipyard repairs in 2003. Additionally, we manage two jackup rigs on behalf of PDVSA in Venezuela under contracts that expire in the second quarter of 2004. Four of our jackup rigs are expected to undergo their planned special periodic surveys during 2004 and will be out of service for a combined total of approximately eight months. We currently expect that the four rigs whose contracts are due to expire in 2004 will be recontracted at modestly lower day rates.

We expect revenues and gross margin for our international offshore segment to be lower in 2004 than in 2003 primarily due to the weaker market conditions in the West African deepwater semisubmersible market and to the *Pride Africa* undergoing its special periodic survey.

International Land

During 2003, our international land segment benefited from improved economic and political stability in Argentina, where approximately 62% (154 out of 249) of our worldwide land drilling and workover rigs are located. Operations in 2002 had been adversely affected by the economic and political instability in that country. The Argentine peso declined in value against the U.S. dollar following the Argentine government's decision to abandon the country's fixed one-to-one dollar-to-peso exchange rate at the end of 2001. Prior to that decision, commercial transactions were freely entered into in either pesos or dollars because the two currencies operated in parity and both could move out of the country freely. In December 2001, the Argentine government imposed restrictions that severely limited dollar withdrawals and exchanges, with the result that as of December 31, 2001, no Argentine commercial transactions could be conducted in dollars and there was no exchangeability between the peso and the dollar. In January 2002, the Argentine government announced the creation of a dual exchange rate system in which limited transactions would be settled at an official/preferential rate. When this system proved to be non-operational in practice, the government abandoned it in early February 2002 and adopted a free-market rate system for all new transactions. The government also mandated that all existing U.S. dollar commercial transactions be redenominated into pesos at the rate of one peso to one dollar. As a result of this conversion, which followed the earlier devaluation of the peso, we recorded a charge in the fourth quarter of 2001 of $10.7 million before estimated income taxes, and $6.9 million net of estimated income taxes, to reduce the carrying values of our net monetary assets in Argentina, which included our bank accounts, receivables, prepaid expenses, deposits, payables and accrued liabilities. This amount is reflected as other income (expense).

During the first quarter of 2002, we engaged in discussions with all of our Argentine customers regarding recovery of losses sustained from the devaluation of accounts receivable and the basis on which new business would be contracted. We restructured most of our contracts on a basis that we believe limits our exposure to further devaluations. Activity levels have recovered steadily from mid-2002 as high oil prices positively impacted our customers' cash flows. The average rate of utilization of our available rig fleet in Argentina was 83.5% in 2003 as compared with 68% in 2002. As of March 1, 2004, 132 rigs, or 86% of our total fleet of 154 rigs, in Argentina were under contract.

Venezuela also has been experiencing political, economic and social instability. A prolonged strike by PDVSA employees that ended in February 2003 led to the dismissal of more than 18,000 employees by the government. The recent turmoil in Venezuela led to a reduction in our level of operations in that country during the first quarter of 2003. Since the conclusion of the strike, our rig activity has recovered and currently exceeds the level that existed before the strike. As of March 1, 2004, we had 31 rigs, or 86%, of our total land-based rigs and all four of our offshore rigs in Venezuela under contract as compared with only seven rigs at the end of the strike. Exchange controls, together with employee dismissals and reorganization within PDVSA, initially led to a slower rate of collection of our trade receivables, but the rate of collection has improved since early 2003.

In Kazakhstan, the first of two of our large land rigs, which had been earning a standby rate since being accepted by the customer in November 2002, commenced operations on an artificial island in the Caspian Sea in April 2003, and the second rig commenced operations in July 2003. The related contracts required substantial engineering, logistics and construction work to modify, enhance and deploy our rigs in accordance with the customer's specifications. We received up-front fees that we recognized over the rigs' respective contract periods, of which $6.0 million was recognized in 2002 and $42.9 million in 2003. Both of the rigs were stacked at the onset of the winter period in November 2003 and are currently being reactivated. One of the rigs is expected to work throughout the 2004 drilling season. Activity for the second rig depends upon the results of testing of the well it drilled in 2003.

In Africa, activity increased due to a full year of operation for five newly constructed mobile land rigs that started work in Chad between December 2001 and April 2002 under contracts with a unit of ExxonMobil with initial terms ranging from five to seven years.

E&P Services

Our E&P services activity is generated predominately in South America and has benefited from the improved political and economic environment in 2003. Revenues and gross margins have improved during 2003 in Argentina due to the commencement of additional integrated services contracts. Activity in this sector has also improved due to the commencement of directional, measurement-while-drilling and other services onshore Brazil and the provision of cementing services offshore Mexico, where the services are complementary to our existing drilling operations.

Technical Services

Our technical services group has major projects ongoing to design, engineer, manage construction of and commission four deepwater platform drilling rigs, which are being constructed on behalf of two major oil company customers for installation on spars and tension-leg platforms. We also are to provide drilling operations management of the rigs once they have been installed on the platforms. The first platform drilling rig has been mated with the customer's platform and towed to Angola, where it commenced drilling operations in November 2003. Two of the other deepwater platform rigs are expected to enter into service in the second half of 2004 and the remaining rig is expected to enter into service in early 2005.

During 2003, we recorded loss provisions, included in operating costs, totaling $98.4 million, or $64.0 million net of taxes at the U.S. statutory rate, relating to the construction of these deepwater platform rigs. On all four of these projects, costs are now expected to substantially exceed revenues. We do not currently intend to enter into any additional lump-sum construction contracts for rigs to be owned by others.

Much of the increased costs are related to difficulties experienced with two different shipyards. We terminated our contract with the initial shipyard prior to the completion of the first two rigs. As a result, we have incurred substantial unplanned costs in completing the construction of the first unit. We have engaged another shipyard to complete construction of the second rig, and the aggregate costs paid to the initial shipyard and committed and paid to the second shipyard have greatly exceeded budgeted expenditures for the rigs. In addition, because of the difficulties with the initial shipyard, we are now utilizing shipyards in the Asia Pacific region for the third and fourth deepwater rig projects. As a result, the lump sum contracts and anticipated freight costs for these two projects are higher than originally budgeted. A U.S. shipyard building one of the primary components for the third rig encountered significant financial difficulties, and we have paid costs in excess of amounts initially agreed to provide financial capacity for it to complete a reduced scope of work. The aggregate costs paid to that shipyard, in addition to the costs associated with the completion of the remaining tasks by newly contracted third parties, as well as transportation and other costs necessitated by the revisions to the project completion plan, have significantly exceeded the budgeted expenditures for the third deepwater rig. Furthermore, based on our experience from the start-up of the first rig and on revisions of estimates, we have included increased costs for construction, transportation, commissioning, training and warranties in our estimates of costs to complete the three remaining rigs.

We have commenced arbitration proceedings against the initial shipyard claiming damages of approximately $5.8 million, and the shipyard has asserted counterclaims against us for damages of approximately $13.8 million. We also are in commercial disputes and negotiations with certain equipment vendors and major sub-contractors. We intend to vigorously pursue equitable resolutions with these other parties.

Our technical services segment is performing these deepwater platform rig construction projects under lump sum contracts with our customers. In pricing these contracts, we attempted to accurately estimate our cost to perform the work, including the cost of labor, material and services. Despite these efforts, however, the revenue, cost and gross profit or loss we now expect to realize on these lump-sum contracts vary from the originally estimated amounts. We have experienced cost overruns on these contracts that have adversely impacted our financial results. Currently unforeseen events may result in further cost overruns to complete these projects, which could be material and which would require us to record additional loss provisions in future periods. Such events could include variations in labor and equipment productivity over the remaining term of the contract, unanticipated cost increases, engineering changes, shipyard or systems problems, project management issues, shortages of equipment, materials or skilled labor, unscheduled delays in the delivery of ordered materials and equipment, work stoppages, shipyard unavailability or delays.

We recognize revenues and related costs from our rig construction contracts under the percentage-of-completion method of accounting using measurements of progress toward completion appropriate for the work performed, such as man-hours, costs incurred or physical progress. Accordingly, we review contract price and cost estimates periodically as the work progresses and reflect adjustments in income (1) to recognize income proportionate to the percentage of completion in the case of projects showing an estimated profit at completion and (2) to recognize the entire amount of the loss in the case of projects showing an estimated loss at completion. To the extent these adjustments result in an increase in previously reported losses or a reduction in or an elimination of previously reported profits with respect to a project, we would recognize a charge against current earnings, which could be material. Although we continually strive to improve our ability to estimate our contract costs and profitability associated with our construction projects, our current estimates may be revised in future periods, and those revisions may be material. Currently, all four of our lump-sum construction projects are in a loss position.

Please read "– Liquidity and Capital Resources" beginning on page 26 of this annual report.

Results of Operations

The following table presents selected consolidated financial information by operating segment for the periods indicated.

	Year Ended December 31,					
	2003		2002[1]		2001[1]	
(Dollars in thousands)						
Revenues:						
Gulf of Mexico	$ 271,490	16.1%	$ 165,419	13.0%	$ 418,850	27.7%
International offshore	683,058	40.4	642,319	50.6	507,139	33.5
International land	482,832	28.6	299,278	23.6	444,405	29.4
E&P services	122,052	7.2	73,000	5.7	142,501	9.4
Technical services	130,288	7.7	89,758	7.1	—	0.0
Total revenues	$1,689,720	100.0%	$1,269,774	100.0%	$1,512,895	100.0%
Operating Costs:						
Gulf of Mexico	$ 185,476	15.5%	$ 141,766	17.8%	$ 212,401	23.9%
International offshore	347,398	29.0	310,071	39.0	237,758	26.7
International land	341,847	28.5	204,018	25.7	330,492	37.2
E&P services	88,318	7.4	52,176	6.6	108,910	12.2
Technical services	234,806	19.6	86,708	10.9	—	0.0
Total operating costs	$1,197,845	100.0%	$ 794,739	100.0%	$ 889,561	100.0%
Segment Profit (Loss):						
Gulf of Mexico	$ 86,014	17.5%	$ 23,653	5.0%	$ 206,449	33.1%
International offshore	335,660	68.2	332,248	69.9	269,381	43.2
International land	140,985	28.7	95,260	20.1	113,913	18.3
E&P services	33,734	6.9	20,824	4.4	33,591	5.4
Technical services	(104,518)	(21.3)	3,050	0.6	—	0.0
Total segment profit	$ 491,875	100.0%	$ 475,035	100.0%	$ 623,334	100.0%
Depreciation and amortization	$ 249,222		$ 230,204		$ 202,710	
General and administrative	121,259		94,241		100,309	
Pooling and merger costs	(824)		—		35,766	
Earnings from operations	$ 122,218		$ 150,590		$ 284,549	

[1] *The consolidated financial information by operating segment for 2002 and 2001 has been restated to reflect the retroactive adoption of FIN No. 46R, "Consolidation of Variable Interest Entities."*

2003 Compared with 2002

Revenues. Revenues for 2003 were $419.9 million, or 33.1%, higher than in 2002, due primarily to increased activity for our offshore rigs in Mexico, an increase in land drilling and E&P services activity due to the recovery in Argentina and Venezuela, increased activity in Kazakhstan, and an increase in revenues recognized related to the design, engineering and construction of deepwater platform rigs by our technical services group. Additionally, one of our international deepwater rigs, the *Pride South Pacific*, worked throughout 2003, but was idle from April 2002 to November 2002. These increases in revenues were partially offset by a decrease in activity in the U.S. sector of the Gulf of Mexico.

Operating Costs. Operating costs for 2003 were $403.1 million, or 50.7%, higher than in 2002 due to increased costs, including loss provisions of $98.4 million, incurred on contracts related to the construction of deepwater platform rigs and costs associated with rigs that operated during 2003 that were stacked or being upgraded during 2002. Additionally, certain operating costs denominated in euros increased due to the strengthening of that currency relative to the dollar. These increases in costs were partially offset by the favorable impact of the devaluation in Venezuela on expenses denominated in its local currency. Operating costs for 2002 were reduced by $1.5 million as a result of changes in estimates of costs accrued in prior periods primarily for contractually required maintenance costs that were not expected to be incurred on two rigs managed by us.

Depreciation and Amortization. Depreciation expense increased by $19.0 million, or 8.3%, to $249.2 million in 2003, from $230.2 million in 2002, due to incremental depreciation on newly acquired and constructed rigs and other rig refurbishments and upgrades.

General and Administrative. General and administrative expenses increased by $27.1 million, or 28.7%, to $121.3 million for 2003, from $94.2 million for 2002, due primarily to executive retirement costs of $5.3 million, increased overhead related to higher activity in Argentina, Mexico and Venezuela, the impact of the decline in the value of the dollar relative to the euro on certain expenses denominated in euros and higher professional fees, insurance and staffing costs.

Other Income (Expense). Other expense for 2003 decreased by $13.3 million, or 9.5%, as compared to 2002. Interest expense decreased by $7.6 million due principally to a reduction in the weighted average interest rate of our debt as a result of recent debt refinancings, partly offset by an increase in the average amount of outstanding debt. Additionally, the effective interest rate applicable to our *Pride Angola* drillship loan declined after January 2003 from the swapped rate of 6.52% to a rate based on LIBOR plus a margin of 1.25%.

Other income in 2003 was comprised of mostly net foreign exchange gains, primarily in Venezuela, partly offset by expenses related to the redemption of $150 million principal amount of our 9⅜% senior notes due 2007, including a redemption premium of $4.7 million and the recognition of $1.5 million of unamortized deferred financing costs. Other expense in 2002 principally comprised a loss of $1.2 million related to the early extinguishment of approximately $244.2 million accreted value, net of offering costs, of our zero coupon convertible senior and subordinated debentures.

Income Tax Provision. Our consolidated effective income tax rate for 2003 was 26.3% as compared to 27.7% for 2002. The lower rate for the current period was principally a result of increased income in foreign jurisdictions with low or zero effective tax rates, partly offset by a true-up of the provision relating to tax returns for prior periods.

Minority Interest. Minority interest in 2003 increased $4.7 million, or 29.0%, as compared to 2002, primarily due to an increase in income from a reduction in interest expense on the *Pride Angola* drillship loan.

2002 Compared with 2001

Revenues. Revenues in 2002 decreased $243.1 million, or 16.1%, as compared to 2001, primarily due to reduced activity and day rates for our jackup and platform rigs in the U.S. Gulf of Mexico and a reduction in revenues in Argentina and Venezuela due to reduced activity levels for our land drilling and E&P services operations and the devaluation of their currencies. Additionally, one of our seven high-specification deepwater rigs, the *Pride South Pacific*, which worked throughout 2001, was idle from April 2002 to November 2002. These decreases were partially offset by a full year of operations for two of our semisubmersible rigs, the *Pride Carlos Walter* and *Pride Brazil*, which commenced working for Petrobras under five-year contracts in June and July 2001, increased jackup activity in Mexico, the commencement of land drilling operations in Chad and in Kazakhstan and the start-up of operations for our technical services division.

Operating Costs. Operating costs in 2002 decreased $94.8 million, or 10.7%, as compared to 2001 due to decreased costs associated with rigs that were stacked or being upgraded during 2002 that operated during 2001 and a reduction in operating costs in Argentina and Venezuela due to reduced activity levels in those countries and the devaluation of their local currencies. These reductions in costs were partially offset by a full year of operating costs for the *Pride Carlos Walter* and *Pride Brazil* placed into service in June and July 2001, costs related to the commencement of operations in Chad and Kazakhstan and to the start-up of operations of our technical services division.

Depreciation and Amortization. Depreciation and amortization expense increased $27.5 million, or 13.6%, in 2002 as compared with 2001, due to incremental depreciation on newly acquired and constructed rigs and other rig refurbishments and upgrades. This increase was partially offset by the impact of a reassessment of residual values and estimated remaining useful lives of certain rigs during the third quarter of 2001 and the elimination of amortization of goodwill beginning in January 2002.

General and Administrative. General and administrative expenses for 2002 decreased $6.1 million, or 6.0%, as compared with 2001, primarily due to cost savings associated with the closure of duplicate facilities and staffing reductions following our September 2001 acquisition of Marine. Additionally, the devaluation of the currencies in Argentina and Venezuela favorably impacted expenses denominated in their local currencies.

Pooling and Merger Costs. Costs totaling $35.8 million were incurred in connection with the acquisition of Marine in September 2001. The costs consisted of investment advisory, legal and other professional fees totaling $24.4 million and costs associated with the closure of duplicate office facilities and employee terminations of $11.4 million.

Other Income (Expense). Other expense in 2002 increased $12.3 million, or 9.6%, as compared to 2001. Interest expense increased by $15.5 million, principally due to interest on indebtedness added in the March 2001 acquisition of the remaining 73.6% ownership of the *Pride Carlos Walter* and *Pride Brazil* and interest on construction financing for the rigs that had been capitalized during their construction. During 2002, we capitalized $1.9 million of interest expense in connection with construction projects, as compared to $19.0 million of interest capitalized in 2001. Interest income declined $9.1 million due to lower cash balances available for investment and to a reduction in interest rates. Other expense in 2002 principally comprised a loss of $1.2 million related to the early extinguishment of approximately $244.2 million accreted value, net of offering costs, of our zero coupon convertible senior and subordinated debentures. Other expense in 2001 included foreign exchange losses of $13.1 million and a $5.1 million charge in connection with the settlement of a wage-related antitrust lawsuit, partially offset by a gain from the sale of surplus assets and a gain of $2.0 million related to the early extinguishment of approximately $59.5 million accreted value, net of offering costs, of our zero coupon convertible subordinated debentures due 2018. The 2001 foreign exchange losses included a pre-tax charge of $10.7 million (or $6.9 million net of estimated income taxes) to reduce the carrying value of our net monetary assets in Argentina following devaluation of the Argentine currency.

Income Tax Provision. Our consolidated effective income tax rate for 2002 decreased to 27.7% from 31.8% in 2001. The higher rate in 2001 was principally a result of approximately $19.0 million of the pooling and merger costs being estimated to be non-deductible for U.S. federal income tax purposes.

Minority Interest. Minority interest in 2002 increased $0.6 million, or 3.8%, as compared to 2001, primarily due to an increase in net income generated by our 51% owned drillships, the *Pride Africa* and *Pride Angola*, as a result of decreased downtime and increased performance bonuses received from our customer.

Liquidity and Capital Resources

We had net working capital of $83.1 million and $152.4 million as of December 31, 2003 and December 31, 2002, respectively. The decrease in net working capital was attributable primarily to the use of cash to upgrade rigs being contracted to Mexico and other international markets from our U.S. Gulf of Mexico fleet and other capital expenditures in excess of cash generated from operating activities, an increase in the current portion of long-term debt as a result of the reclassification of approximately $86 million of senior convertible notes that mature in December 2004 from long-term to current liabilities and net cash outlays on deepwater platform rig construction projects.

Rig Construction Projects

In 2003, we recorded a provision for expected losses on deepwater platform rig construction projects of $98.4 million. Of this amount, approximately $80.0 million corresponds to the excess of expected cash outlays after December 31, 2003 to complete the projects over estimated future cash receipts from the projects, which will negatively impact liquidity in 2004 and the first six months of 2005.

Capital Expenditures

Additions to property and equipment during 2003 totaled $217.0 million, including $23.4 million for the upgrade of one large land rig to work in Kazakhstan, $12.2 million for the acquisition of a conventionally moored semisubmersible rig, now the *Pride Mexico*, $85.1 million for the upgrading of five jackup rigs, one platform rig and the *Pride Mexico* for contracts in Mexico, $10.0 million for other rig upgrades, refurbishments and reactivations, and approximately $86.3 million for sustaining capital projects. Since early 2002, we have obtained long-term contracts in Mexico for 14 jackup rigs, two platform rigs and two semisubmersible rigs. Most of these rigs came from our U.S. Gulf of Mexico rig fleet and required substantial upgrades to meet international standards and Pemex's specific requirements. The upgrades included expanding the living quarters and adding additional equipment such as extra mud pumps, top-drives and higher load capacity cranes. Although we currently expect our capital expenditures in 2004 to decrease as our program to upgrade rigs in our U.S. Gulf of Mexico fleet for international markets winds down, we may be required to upgrade a number of rigs whose contracts expire in 2004 in connection with their working under new contracts. These upgrades could require significant investments of our working capital.

Rig Mobilization Fees

Mobilization fees received from customers and the costs incurred to mobilize a rig from one geographic area to another, as well as up-front fees to modify a rig to meet a customer's specifications, are deferred and amortized over the term of the related drilling contracts. Additionally, we defer costs associated with obtaining special periodic survey certificates from various regulatory bodies in order to operate our offshore rigs. We amortize these costs over the period of validity of the related certificate. These up-front fees and costs impact liquidity in the period in which the fees are received or the costs incurred, whereas they will impact our statement of operations in the periods during which the deferred revenues and costs are amortized. Deferred revenues and costs that are expected to be amortized in the twelve-month period following each balance sheet date are included in other accrued liabilities and current assets, respectively, and deferred revenues and costs that are expected to be amortized after more than twelve months from each balance sheet date are included in other long-term liabilities and other assets, respectively.

The amount of up-front fees received and the related costs vary from period to period depending upon the nature of new contracts entered into and market conditions then prevailing. Generally, contracts for drilling services in remote locations or contracts that require specialized equipment will provide for higher up-front fees than contracts for readily available equipment in major markets. In 2003, up-front fees received included $13.5 million related to the mobilization of rigs to Mexico. In 2002, up-front fees received included $48.9 million in respect of engineering, logistics and construction work to modify, enhance and deploy two large land rigs for Kazakhstan, in accordance with the customer's specifications, and $18.8 million related to the mobilization of rigs to Mexico.

Credit Facilities

In June 2002, we entered into senior secured credit facilities with a group of banks providing for aggregate availability of up to $450.0 million, consisting of a five-year $200.0 million term loan and a three-year $250.0 million revolving credit facility. In December 2003, we replaced the term loan with a new $197.0 million term loan expiring in January 2009 and extended the period of the revolving credit agreement until January 2007. Borrowings under the revolving credit facility are available for general corporate purposes. We may issue up to $50.0 million of letters of credit under the facility. As of December 31, 2003, $189.0 million of borrowings and an additional $27.8 million of letters of credit were outstanding under the revolving credit facility. The facilities are collateralized by two deepwater semisubmersible rigs, the *Pride North America* and the *Pride South Pacific*, and 28 jackup rigs. Borrowings under the facilities currently bear interest at variable rates based on LIBOR plus a spread based on the credit rating of the facility or, if unrated, index debt. As of December 31, 2003, the interest rates on the term loan and revolving credit facility were 3.66% and 3.20%, respectively. The credit facilities contain provisions that limit our ability and the ability of our subsidiaries, with certain exceptions, to pay dividends or make other restricted payments and investments; incur additional debt; create liens; incur dividend or other payment restrictions affecting subsidiaries; consolidate, merge or transfer all or substantially all of our assets; sell assets or subsidiaries; enter into speculative hedging arrangements outside the ordinary course of business; enter into transactions with affiliates; make maintenance capital expenditures and incur long-term operating leases. The credit facilities also require us to comply with specified financial tests, including a ratio of net debt to EBITDA, an interest coverage ratio, a ratio of net debt to total capitalization and a minimum net worth.

In 2003, in order to reduce the potential impact of fluctuations in LIBOR, we entered into interest rate agreements that effectively cap the interest rate on $194.0 million of borrowings under our senior secured term loan at rates from 3.58% to 5.0%, plus the applicable spread, and provide a lower limit on rates from 0.72% to 0.91%, plus the applicable spread, to March 2007. If interest rates fall below the lower limits, interest rates payable increase to rates from 2.0% to 3.94%, plus the applicable spread. The interest rate agreements are marked-to-market quarterly with the change in fair value recorded as a component of interest expense. At December 31, 2003, the net value of the instruments was a liability of $0.6 million. Marking these instruments to market each quarter may increase short-term earnings volatility as market perceptions of future interest rate movements change.

We amended our $95.0 million senior secured revolving credit facility with non-U.S. banks in October 2003. The amended facility provides aggregate availability of up to $180.0 million, including up to $10.0 million of letters of credit, and is collateralized by three semisubmersible rigs, two jackup rigs and a tender-assisted rig. Borrowings under the amended credit facility bear interest at variable rates based on LIBOR plus a spread ranging from 1.2% to 2.1%. As of December 31, 2003, $99.0 million of borrowings and an additional $10.0 million of letters of credit were outstanding under this credit facility.

As of March 10, 2004, the undrawn portion of our senior secured revolving credit facilities was approximately $107 million. Indentures governing our outstanding 9 3/8% senior notes due 2007 and our 10% senior notes due 2009 limit our ability to draw under these facilities to a percentage of consolidated net tangible assets, which, as of March 10, 2004, effectively restricted our ability to borrow approximately $76 million of undrawn capacity under these facilities. Accordingly, only $31 million of these facilities were available to meet our short-term liquidity needs.

Outstanding Debt Securities

In April and May 2003, we issued $300 million aggregate principal amount of 3.25% convertible senior notes due 2033. Substantially all of the net proceeds of approximately $294.8 million were used to repay amounts outstanding under our senior secured revolving credit facilities, which included borrowings used to fund a portion of the purchase price of our zero coupon convertible subordinated debentures due 2018, described below. The notes bear interest at a rate of 3.25% per annum. We also will pay contingent interest during any six-month interest period commencing on or after May 1, 2008 for which the trading price of the notes for each of the five trading days immediately preceding such period equals or exceeds 120% of the principal amount of the notes. Beginning May 5, 2008, we may redeem any of the notes at a redemption price of 100% of the principal amount redeemed plus accrued and unpaid interest. In addition, noteholders may require us to repurchase the notes on May 1 of 2008, 2010, 2013, 2018, 2023 and 2028 at a repurchase price of 100% of the principal amount redeemed plus accrued and unpaid interest. We may elect to pay all or a portion of the repurchase price in common stock instead of cash, subject to certain conditions. The notes are convertible under specified circumstances into shares of our common stock at a conversion rate of 38.9045 shares per $1,000 principal amount of notes (which is equal to a conversion price of $25.704), subject to adjustment. Upon conversion, we will have the right to deliver, in lieu of shares of common stock, cash or a combination of cash and common stock.

In March 2002, we issued $300.0 million principal amount of 2 ½% convertible senior notes due 2007. Net proceeds, after deducting underwriting discounts and offering costs, were $291.5 million. The notes are convertible into approximately 18.2 million shares of our common stock (equal to a conversion rate of 60.5694 shares of common stock per $1,000 principal amount, or $16.51 per share). Interest on the notes is payable semiannually. In connection with the issuance of the notes, a private equity fund related to First Reserve Corporation purchased 7.9 million shares of our common stock from third parties. First Reserve manages private equity funds that specialize in the energy industry.

In 1997 and 1999, respectively, we issued $325.0 million of 9 ⅜% senior notes due 2007 and $200.0 million of 10% senior notes due 2009. The notes contain provisions that limit our ability and the ability of our subsidiaries, with certain exceptions, to pay dividends or make other restricted payments; incur additional debt or issue preferred stock; create or permit to exist liens; incur dividend or other payment restrictions affecting subsidiaries; consolidate, merge or transfer all or substantially all our assets; sell assets; enter into transactions with affiliates and engage in sale and leaseback transactions. In July 2003, we redeemed $150.0 million principal amount of our 9 ⅜% senior notes due 2007 at a redemption price of 103.125% of the principal amount, plus accrued and unpaid interest to the redemption date. We paid a total of $157.6 million in connection with the redemption, including $2.9 million of accrued and unpaid interest and a $4.7 million premium. The call premium in respect of any additional redemptions reduces to 101.563% of the principal amount redeemed on or after May 1, 2004.

In January 2003, we repurchased substantially all of our outstanding zero coupon convertible senior debentures due 2021 for $98.2 million, which was equal to their accreted value on the date of purchase. In April 2003, we repurchased $226.5 million face amount of our zero coupon convertible subordinated debentures due 2018 for $112.0 million, which was equal to their accreted value on the date of purchase. The purchase price was funded through borrowings under our senior secured revolving credit facilities and available cash. Convertible subordinated debentures with a face amount of $2.1 million, and an accreted value of $1.1 million as of December 31, 2003, remain outstanding.

Drillship Loans

We have a 51% ownership interest in and operate the ultra-deepwater drillships *Pride Africa* and *Pride Angola*, which are contracted to work for Total Exploration & Production Angola SA under contracts which were extended, in December 2003, by an aggregate of ten years, commencing at the end of the contracts' current terms in June 2005 and May 2005, respectively, each with two one-year extension options. Financing for approximately $400 million of the drillships' total construction cost of $495 million was provided by a group of banks. The loans are collateralized by the two drillships and the proceeds from the related drilling contracts and are non-recourse to us and the joint owner. As of December 31, 2003, a total of $182.7 million was outstanding under these loans. As a condition of the drillship loans, we entered into interest rate swap and cap agreements. The agreements effectively fixed the interest rate on the *Pride Africa* loan at 7.34% through December 2006, effectively fixed the interest rate on the *Pride Angola* loan at 6.52% through January 2003 and effectively capped the interest rate on the *Pride Angola* loan at 6.52% from February 2003 to January 2007. After January 2003, the effective interest rate applicable to our *Pride Angola* drillship loan declined from the swapped rate of 6.52% to a rate based on six-month LIBOR plus a margin of 1.25%. Interest expense was approximately $4.8 million lower, and minority interest was approximately $2.4 million higher, in 2003 than it would have been if we had continued to pay interest on this debt at the swapped rate.

Following the extension of the contracts for our two drillships, we are in the process of finalizing an approximate $128 million expansion of the drillship loans. We expect to complete the increase of the facility early in the second quarter of 2004. We expect that approximately $103 million of the proceeds and approximately $15 million of currently restricted cash will be used by the joint venture to repay indebtedness due from the joint venture company to Pride and that the balance of the proceeds will be used by the joint venture to repay indebtedness to our joint venture partner and to increase future working capital in the joint venture. If the transaction is completed, the funds paid to us will be available to reduce our other outstanding debt, including the $86 million of senior convertible notes described below, and for other working capital purposes.

Semisubmersible Rig Financings

In March 2001, we increased from 26.4% to 100% our ownership in a joint venture that constructed two dynamically-positioned, deepwater semisubmersible drilling rigs. The *Pride Carlos Walter* commenced operations in June 2001, and the *Pride Brazil* commenced operations in July 2001. These rigs are operating for Petrobras under charter and service rendering contracts expiring in June and July 2006, respectively, each with two one-year extension options. The purchase consideration for the interests we did not previously own consisted of approximately $86 million aggregate principal amount of senior convertible notes, which were issued to the Brazilian participant in the joint venture, and 519,468 shares of our common stock valued at approximately $14.0 million, which were issued to two investment funds managed by First Reserve Corporation pursuant to the funds' original investment in the joint venture. The acquisition added to our consolidated balance sheet approximately $443 million of assets represented by the two rigs, approximately $287 million of indebtedness incurred to finance the construction of the rigs and approximately $86 million of senior convertible notes issued to the Brazilian participant. The notes mature in December 2004, bear interest at 9% per annum and are convertible into approximately 4.0 million shares of our common stock. The holder of the notes has the right to require us to prepay the notes at any time (1) after July 1, 2004 or (2) before July 1, 2004 to the extent of the amount of any required capital contributions by such holder with respect to the joint venture for the *Pride Portland* and the *Pride Rio de Janeiro* described below under "– Investments." We have the option to prepay the notes any time after June 1, 2004.

In July 2001, we entered into a credit agreement with a group of foreign banks to provide loans totaling up to $250.0 million to refinance the construction loans for the *Pride Carlos Walter* and *Pride Brazil*. Borrowings under the facility bear interest at rates based on LIBOR plus an applicable margin of 1.50% to 1.85%. Principal and interest on the loans are payable semi-annually from March 2002 through 2008. Funding under the facility and repayment of the construction loans (which had interest rates of 11% per annum) was completed in November 2001. The loans are collateralized by, among other things, a first priority mortgage on the drilling rigs and assignment of the charters for the rigs. As required by the lenders under the facility, we entered into interest rate swap and cap agreements with the lenders that capped the interest rate on $50.0 million of the debt at 7% and which fixed the interest rate on the remainder of the debt at 5.58% from March 2002 through September 2006. As of December 31, 2003, there were borrowings of $178.2 million outstanding under this facility.

In February 1999, we completed the sale and leaseback of the *Pride South America* semisubmersible drilling rig with an unaffiliated leasing trust pursuant to which we received $97.0 million. Since that time we have been recording activity associated with this transaction as an operating lease in accordance with the provisions of Statement of Financial Accounting Standards No. 13 "Accounting for Leases". Upon evaluation of the provisions of the recently issued Financial Accounting Standards Board ("FASB") Interpretation No. 46R "Consolidation of Variable Interest Entities" ("FIN No. 46R"), issued in December 2003, it was determined that the leasing trust would qualify for consolidation as a variable interest entity and that we were the primary beneficiary, as defined. Pursuant to the recommendation of the FASB, in the fourth quarter of 2003 we adopted the consolidation provisions of FIN No. 46R retroactively by restating previously issued financial statements for comparability purposes to consolidate the leasing trust's assets and liabilities, which comprise the *Pride South America* rig and the associated note payable, from inception of the lease. As of December 31, 2003, the carrying amount of the note payable was approximately $82.3 million.

Contractual Obligations

As of December 31, 2003, we had approximately $4.4 billion in total assets and $2.0 billion of long-term debt and capital lease obligations. Although we do not expect that our level of total indebtedness will have a material adverse impact on our financial position, results of operations or liquidity in future periods, it may limit our flexibility in certain areas. The following table summarizes our contractual obligations at December 31, 2003.

		Payments Due by Period			
Contractual Cash Obligations[1]	Total	Less than 1 Year	1–3 Years	4–5 Years	After 5 Years
(In millions)					
Principal payments on long-term debt	$ 1,993.8	$ 188.7	$ 297.6	$ 963.7	$ 543.8
Interest payments on long-term debt	417.3	102.4	179.0	100.3	35.6
Capital lease obligations	12.7	2.7	9.7	0.2	0.1
Operating leases obligations	39.2	12.1	13.7	6.5	6.9
Deepwater platform rig construction obligations	186.9	178.9	8.0	—	—
Retirement obligations	3.6	1.2	1.4	0.9	0.1
Total	$ 2,653.5	$ 486.0	$ 509.4	$ 1,071.6	$ 586.5

[1] *Does not include unconditional purchase commitments to third parties for materials, goods and services incurred in the normal course of business.*

Investments in Joint Ventures

We own a 30.0% equity interest in a joint venture company that is currently completing construction of two dynamically-positioned, deepwater semisubmersible drilling rigs, the *Pride Portland* and the *Pride Rio de Janeiro* (formerly referred to as *Amethyst 4* and *Amethyst 5*). The *Pride Rio de Janeiro* is undergoing sea trials in the Caribbean Sea and the *Pride Portland* is expected to exit the shipyard in Maine in May 2004. The joint venture company has financed 87.5% of the cost of construction of these rigs through credit facilities, with repayment of the borrowings under those facilities guaranteed by the United States Maritime Administration ("MARAD"). Advances under the credit facilities, which totaled approximately $342 million as of March 1, 2004, are being provided without recourse to any of the joint venture owners at a weighted average fixed interest rate of 4.31%. The remaining 12.5% of the cost of construction is being provided by the joint venture company from equity contributions that have been made by the joint venture partners. In addition, the joint venture partners have agreed to provide equity contributions to finance all of the estimated $5.2 million of incremental costs associated with upgrading both rigs to a water depth capability of 1,700 meters from the original design of approximately 1,500 meters, of which our 30% share would be approximately $1.6 million. We expect that the joint venture partners will have to make additional capital contributions to fund the project through the sea trial stage for each rig or, alternatively, will have to provide acceptable guarantees to MARAD to permit the required further draws to become available under the MARAD-guaranteed credit facilities. If the funding is made by additional capital contributions, we expect that our proportionate share would be approximately $8.0 million. The capital contributions are likely to be required during the second quarter of 2004. Through December 31, 2003, our equity contributions to the joint venture totaled $33.7 million, including capitalized interest of $7.3 million and contributions of $0.8 million in connection with the water depth upgrades. If either joint venture partner failed to make its capital contribution and the other joint venture partner failed to cover the obligations, a default would occur under the fixed rate obligations guaranteed by MARAD. MARAD would be entitled to foreclose on the mortgages related to the *Pride Portland* and the *Pride Rio de Janeiro* and take possession of the two rigs.

The *Pride Portland* and *Pride Rio de Janeiro* are being built to operate under long-term contracts with Petrobras; however, Petrobras has given notice of cancellation of those contracts for late delivery. Based on current demand for deepwater drilling rigs, we believe that Petrobras or another customer will employ the *Pride Portland* and *Pride Rio de Janeiro* under new or amended contracts. There can be no assurance, however, that either the *Pride Portland* or the *Pride Rio de Janeiro* will be contracted to Petrobras or to any other customer. If no contract is obtained before the rigs complete their sea trials, the rigs will be stacked. In this case, the joint venture partners would need to advance further funds to the joint venture company to allow it to pay stacking costs as well as principal and interest payments on the debt as they become due since the joint venture company would have no alternative source of funds to allow it to make such payments. Initial interest and debt service payments in respect of construction debt for the two rigs are expected to total approximately $22.0 million during 2004, of which our 30% share would be $6.6 million.

We have a 12.5% interest in Basafojagu (HS) Inc., a company incorporated in Liberia that has capital lease obligations in respect of the *Al Baraka 1* tender-assisted drilling rig. The majority shareholder is a subsidiary of a major Saudi Arabian banking and industrial group, and the two lessor banks are members of that same group. We entered into a long-term management agreement with Basafojagu to manage and operate the rig. We also provided guarantees for our 12.5% share, or approximately $5.0 million at December 31, 2003, of Basafojagu's lease obligations. Basafojagu is in arrears in payment of its lease obligations. In January 2004, we entered into a purchase option that expires on May 15, 2004 to acquire the tender barge and associated derrick set for aggregate consideration of $15.3 million. If we exercise our option, we will be released of all obligations under the guarantees and under the lease and management agreements. We currently expect that we will exercise our purchase option.

Other Sources and Uses of Cash

We have a Direct Stock Purchase Plan, which provides a means for investors to purchase shares of our common stock without paying brokerage commissions or service charges. During 2001 and 2003, we sold approximately 2.6 million and 830,000 shares, respectively, of common stock under this plan for net proceeds of $62.0 million and $15.0 million, respectively. No shares were sold under the plan in 2002.

As of December 31, 2003, $38.8 million of our cash balances, which amount is included in restricted cash, consisted of funds held in trust in connection with our drillship and semisubmersible loans and our limited-recourse collateralized term loans and, accordingly, was not available for our use. The amount as of March 10, 2004 was approximately $27 million.

Management believes that the cash and cash equivalents on hand, together with the cash generated from our operations and borrowings under our credit facilities, will be adequate to fund normal ongoing capital expenditures, working capital and debt service requirements for the foreseeable future.

We may redeploy additional assets to more active regions in 2004 if we have the opportunity to do so on attractive terms; however, we expect fewer opportunities for redeployments than in 2002 and 2003. From time to time, we have one or more bids outstanding for contracts that could require significant capital expenditures and mobilization costs. We expect to fund project opportunities primarily through a combination of working capital, cash flow from operations and full or limited recourse debt or equity financing. In addition, we may consider from time to time opportunities to dispose of certain assets when we believe the capital could be more effectively deployed to reduce debt or for other purposes, and we continue to discuss with potential buyers the possible sale of certain assets.

Tax Matters

We have a U.S. deferred tax asset of $244.7 million relating to U.S. net operating loss ("NOL") carryforwards. Due to the acquisition of Marine in September 2001, certain NOL carryforwards are subject to limitation under Sections 382 and 383 of the U.S. Internal Revenue Code. We have determined that such limitations should not affect our ability to realize the benefits associated with such NOL carryforwards. The U.S. NOL carryforwards total $699.3 million and expire in 2019 through 2023. We estimate that we will generate sufficient U.S. taxable income of approximately $699.3 million prior to the expiration dates of these NOL carryforwards to fully utilize them.

Historically, the difference between financial income (loss) and taxable income (loss) is primarily due to accelerated tax depreciation. Tax depreciation in excess of book depreciation for the years ended December 31, 2003, 2002, and 2001 was $66.4 million, $89.5 million, and $78.5 million, respectively.

The Argentine NOL carryforwards were utilized in the current year due to a merger between the entity with the losses and our profitable Argentine entity. The profitable entity had sufficient income to utilize the entire amount of the deferred tax asset.

We provide an allowance for the deferred tax assets in certain taxing jurisdictions because the benefits of the net operating losses will be realized only if we enter into additional profitable contracts in those jurisdictions. In 2003 we had an increase of 14.8% in the U.S. statutory rate for foreign taxes due to the following: (34.9)% for an adjustment to prior year deferred tax assets for foreign losses, and 49.7% for current year foreign taxes in excess of U.S. statutory rate. In 2003 we had an increase of 34.9% in the U.S. statutory rate for the change in valuation allowance due to an adjustment to prior year allowances on the deferred tax asset for foreign losses as explained above that will not be utilized in future years. We also had a decrease in the U.S. statutory rate for the following: 55.2% tax increase due to estimated U.S. tax at December 31, 2002 below the actual tax expense on the U.S. tax return as filed and a 3.1% increase to U.S. tax for other permanent items.

In 2002 we had a decrease of (126.1)% in the U.S. statutory rate for foreign taxes due to the following: (112.0)% for previously omitted deferred tax assets for foreign losses, (51.7)% for current year deferred tax assets created by Mexico losses, and 37.6% for current year foreign taxes in excess of U.S. statutory rate. In 2002 we had an increase of 115.2% in the U.S. statutory rate for the change in valuation allowance due to the following: 112.0% for previously omitted allowances on the deferred tax asset for foreign losses as explained above that will not be utilized in future years, 51.7% for the current year allowance on Mexico tax losses described above that will not be utilized in future years, and (48.5)% decrease for the partial reversal of the allowance on French tax losses from rig rental income in France from Russia and Kazakhstan contracts that extend into 2003.

Management's assumptions regarding these tax provisions, as described herein, were consistent with those of prior periods.

Critical Accounting Policies

We consider policies concerning property and equipment and rig construction contracts to have the most significant impact on our consolidated financial statements.

Property and equipment are carried at original cost or adjusted net realizable value, as applicable. Property and equipment held and used by us are reviewed for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. Indicators of possible impairment include extended periods of idle time and/or an inability to contract specific assets or groups of assets, such as a specific type of drilling rig, or assets in a specific geographical region. However, the drilling, workover and related service industries in which we operate are highly cyclical and it is not unusual to find that assets that were idle, underutilized or contracted at sub-economic rates for significant periods of time resume activity at economic rates when market conditions improve. Additionally, most of our assets are mobile, and we may mobilize rigs from one market to another to improve utilization or realize higher day rates. We estimate the future undiscounted cash flows of the affected assets to determine the recoverability of carrying amounts. In general, analyses are based on expected costs, utilization and day rates for the estimated remaining useful lives of the asset or group of assets being assessed.

Asset impairment evaluations are by, nature, highly subjective. They involve expectations about future cash flows generated by our assets, and reflect management's assumptions and judgments regarding future industry conditions and their effect on future utilization levels, day rates and costs. The use of different estimates and assumptions could result in materially different carrying values of our assets and could materially affect our results of operations.

We account for rig construction contracts using the percentage-of-completion method. In applying this method we estimate periodically for each project the profit or loss at completion. This involves estimating future costs and revenues as well as determining the amount of costs incurred and revenues earned to date. Although estimating future revenues may require the exercise of a high degree of judgment, for example where there have been changes to the scope of work that have not been approved by the customer, the most judgmental areas often involve estimates of future costs. This judgment is most critical in construction projects that are expected to show a loss at completion since any change in estimate will immediately effect the amount of the recorded loss provision. In projects that are expected to show a profit, the judgment would only impact the results in proportion to the estimate of percentage complete. With our current construction projects, we have had to make particularly difficult judgments and estimates concerning the likely outcome, or range of outcomes, of a number of commercial disputes with shipyards, equipment vendors, major sub-contractors and others. Certain of these disputes involve claims and counterclaims and may involve either binding arbitration or legal proceedings.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. These risks arise primarily as a result of potential changes in the fair market value of financial instruments that would result from adverse fluctuation in interest rates and foreign currency exchange rates as discussed below. We entered into these instruments other than for trading purposes. We incorporate by reference in response to this item the information set forth in Note 7 of the Notes to Consolidated Financial Statements included on page 51 of this annual report.

Interest Rate Risk. We are exposed to interest rate risk through our convertible and fixed rate long-term debt. We have entered into agreements as required by the lenders under our drillship and semisubmersible loan agreements that effectively fixed or capped the interest rate on such debt. Additionally, during 2003, we entered into interest rate agreements that effectively capped the interest rate on $194 million of borrowings under our senior secured term loan. These latter interest rate agreements are marked-to-market quarterly with the change in fair value recorded as a component of interest expense. As of December 31, 2003, the net value of these instruments was a liability of $0.6 million. As of December 31, 2003, we held interest rate swap and cap agreements covering $557.9 million of our long-term debt.

The fair market value of fixed rate debt will increase as prevailing interest rates decrease. The fair value of our long-term debt is estimated based on quoted market prices where applicable, or based on the present value of expected cash flows relating to the debt discounted at rates currently available to us for long-term borrowings with similar terms and maturities. The estimated fair value of our long-term debt as of December 31, 2003 and 2002 was approximately $2,095 million and $2,065 million, respectively, which is more than its carrying value as of December 31, 2003 and 2002 of $1,994 million and $1,973 million, respectively. A hypothetical 10% decrease in interest rates relative to market interest rates at December 31, 2003 would increase the fair market value of our long-term debt at December 31, 2003 by approximately $34 million.

Foreign Currency Exchange Rate Risk. We operate in a number of international areas and are involved in transactions denominated in currencies other than U.S. dollars, which expose us to foreign exchange rate risk. We utilize forward exchange and option contracts, local currency borrowings and the payment structure of customer contracts to selectively reduce our exposure to exchange rate fluctuations in connection with monetary assets, liabilities and cash flows denominated in certain foreign currencies. We had no unrealized losses as of December 31, 2003 on forward exchange contracts and option contracts based on quoted market prices of comparable instruments. The estimated unrealized loss on our forward exchange and option contracts as of December 31, 2002 was approximately $1.0 million. We do not hold or issue forward exchange contracts, option contracts or other derivative financial instruments for speculative purposes.

Forward-Looking Statements

This annual report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, included in this annual report that address activities, events or developments that we expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These include such matters as:

- market conditions, expansion and other development trends in the contract drilling industry
- utilization rates and contract rates for rigs
- future capital expenditures and investments in the construction, acquisition and refurbishment of rigs (including the amount and nature thereof and the timing of completion thereof)
- estimates of profit or loss from performance of lump-sum rig construction contracts
- future asset sales
- completion and employment of rigs under construction
- repayment of debt
- utilization of net operating loss carryforwards
- business strategies
- expansion and growth of operations
- future exposure to currency devaluations
- expected outcomes of legal and administrative proceedings and their expected effects on our financial position, results of operations and cash flows
- future operating results and financial condition and
- the effectiveness of our disclosure controls and procedures and internal control over financial reporting

We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. These statements are subject to a number of assumptions, risks and uncertainties, including the following:

- general economic business conditions
- prices of oil and gas and industry expectations about future prices
- cost overruns in our lump-sum construction and other turnkey contracts
- adjustments in estimates affecting our revenue recognition under percentage-of-completion accounting
- foreign exchange controls and currency fluctuations
- political stability in the countries in which we operate
- the business opportunities (or lack thereof) that may be presented to and pursued by us
- changes in laws or regulations
- the validity of the assumptions used in the design of our disclosure controls and procedures and
- our ability to implement in a timely manner internal control procedures necessary to allow our management to report on the effectiveness of our internal control over financial reporting

Most of these factors are beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in these statements.

Report of Independent Accountants

To the Stockholders and Board of Directors of Pride International, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the consolidated financial position of Pride International, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements give retroactive effect to the acquisition of Marine Drilling Companies, Inc. on September 13, 2001 in a transaction accounted for as a pooling of interests, as described in Note 1 to the consolidated financial statements. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, effective in 2003, the Company changed its policies for consolidation of variable interest entities and for presentation of gains and losses on debt retirement and in 2002, changed the manner in which it accounts for goodwill.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 11, 2004

Consolidated Balance Sheet

	December 31, 2003	December 31, 2002
(In thousands, except par values)		
Assets		
CURRENT ASSETS		
Cash and cash equivalents	$ 69,134	$ 133,986
Restricted cash	38,840	52,700
Trade receivables, net	371,510	265,885
Parts and supplies, net	73,763	64,920
Deferred income taxes	3,371	3,332
Other current assets	170,306	176,912
Total current assets	726,924	697,735
PROPERTY AND EQUIPMENT, net	3,446,331	3,473,636
OTHER ASSETS		
Investments in and advances to affiliates	33,984	29,620
Goodwill	69,014	72,014
Other assets	102,177	129,852
Total other assets	205,175	231,486
	$ 4,378,430	$ 4,402,857
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES		
Accounts payable	$ 163,707	$ 186,657
Accrued expenses	260,098	238,061
Deferred income taxes	957	985
Short-term borrowings	27,555	17,724
Current portion of long-term debt	188,737	99,265
Current portion of long-term lease obligations	2,749	2,679
Total current liabilities	643,803	545,371
OTHER LONG-TERM LIABILITIES	54,423	88,572
LONG-TERM DEBT, net of current portion	1,805,099	1,873,936
LONG-TERM LEASE OBLIGATIONS, net of current portion	9,979	12,511
DEFERRED INCOME TAXES	59,378	100,966
MINORITY INTEREST	102,969	82,204
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 50,000 shares authorized; none issued	—	—
Common stock, $.01 par value; 400,000 shares authorized; 135,769 and 134,453 shares issued; 135,400 and 134,084 shares outstanding	1,358	1,344
Paid-in capital	1,261,073	1,237,146
Treasury stock, at cost	(4,409)	(4,409)
Accumulated other comprehensive loss	(124)	(3,598)
Retained earnings	444,881	468,814
Total stockholders' equity	1,702,779	1,699,297
	$ 4,378,430	$ 4,402,857

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Operations

(In thousands, except per share amounts)

	Year Ended December 31, 2003	2002	2001
REVENUES			
Services	$ 1,565,806	$1,168,196	$1,512,895
Sales	123,914	101,578	—
Total revenues	1,689,720	1,269,774	1,512,895
OPERATING COSTS, excluding depreciation and amortization:			
Services	975,489	696,841	889,561
Sales	222,356	97,898	—
Total operating costs	1,197,845	794,739	889,561
DEPRECIATION AND AMORTIZATION	249,222	230,204	202,710
GENERAL AND ADMINISTRATIVE, excluding depreciation and amortization	121,259	94,241	100,309
POOLING AND MERGER COSTS	(824)	—	35,766
EARNINGS FROM OPERATIONS	122,218	150,590	284,549
OTHER INCOME (EXPENSE)			
Interest expense	(133,227)	(140,863)	(125,394)
Interest income	3,182	2,084	11,148
Other income (expense), net	3,529	(1,072)	(13,326)
Total other expense, net	(126,516)	(139,851)	(127,572)
EARNINGS (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	(4,298)	10,739	156,977
INCOME TAX PROVISION (BENEFIT)	(1,130)	2,977	49,948
MINORITY INTEREST	20,765	16,097	15,508
NET EARNINGS (LOSS)	$ (23,933)	$ (8,335)	$ 91,521
NET EARNINGS (LOSS) PER SHARE			
Basic	$ (0.18)	$ (0.06)	$ 0.70
Diluted	$ (0.18)	$ (0.06)	$ 0.68
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	134,704	133,305	131,630
Diluted	134,704	133,305	142,778

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Stockholders' Equity

(In thousands)

	Common Shares	Stock Amount	Paid-In Capital	Treasury Shares	Stock Amount	Accumulated Other Comprehensive Gain (Loss)	Retained Earnings	Total Stockholders' Equity
BALANCE – DECEMBER 31, 2000	126,250	$ 1,263	$ 1,056,206	—	$ —	$ (1,102)	$ 385,628	$ 1,441,995
Net earnings	—	—	—	—	—	—	91,521	91,521
Foreign currency translation	—	—	—	—	—	87	—	87
Total comprehensive income								91,608
Issuance of common stock in connection with Direct Stock Purchase Plan	2,596	26	62,000	—	—	—	—	62,026
Issuance of common stock in connection with private investments	3,555	35	92,971	—	—	—	—	93,006
Other issuance of common stock	43	1	996	—	—	—	—	997
Exercise of stock options	349	3	6,364	—	—	—	—	6,367
Tax benefit on non-qualified stock options	—	—	87	—	—	—	—	87
BALANCE – DECEMBER 31, 2001	132,793	1,328	1,218,624	—	—	(1,015)	477,149	1,696,086
Net loss	—	—	—	—	—	—	(8,335)	(8,335)
Foreign currency translation	—	—	—	—	—	(2,583)	—	(2,583)
Total comprehensive loss								(10,918)
Issuance of common stock in connection with private investments	528	5	6,295	369	(4,409)	—	—	1,891
Other issuance of common stock	37	—	476	—	—	—	—	476
Exercise of stock options	1,095	11	9,069	—	—	—	—	9,080
Tax benefit on non-qualified stock options	—	—	2,682	—	—	—	—	2,682
BALANCE – DECEMBER 31, 2002	134,453	1,344	1,237,146	369	(4,409)	(3,598)	468,814	1,699,297
Net loss	—	—	—	—	—	—	(23,933)	(23,933)
Foreign currency translation	—	—	—	—	—	3,474	—	3,474
Total comprehensive loss								(20,459)
Issuance of common stock in connection with Direct Stock Purchase Plan	830	8	14,992	—	—	—	—	15,000
Other issuance of common stock	104	1	1,264	—	—	—	—	1,265
Exercise of stock options	382	5	3,759	—	—	—	—	3,764
Tax benefit on non-qualified stock options	—	—	516	—	—	—	—	516
Stock option compensation	—	—	3,396	—	—	—	—	3,396
BALANCE – DECEMBER 31, 2003	135,769	$ 1,358	$ 1,261,073	369	$ (4,409)	$ (124)	$ 444,881	$ 1,702,779

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(In thousands)	Year Ended December 31, 2003	2002	2001
OPERATING ACTIVITIES			
Net earnings (loss)	$ (23,933)	$ (8,335)	$ 91,521
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities –			
Depreciation and amortization	249,222	230,204	202,710
Discount amortization on zero coupon convertible debentures	1,808	11,062	16,204
Amortization of deferred loan costs	8,191	7,836	6,604
(Gain) loss on sale of assets	453	(438)	(1,393)
Deferred income taxes	(41,139)	(30,856)	7,252
(Gain) loss on early extinguishment of debt	—	1,228	(2,049)
Minority interest	20,765	16,097	15,508
Stock option compensation	3,396	—	—
Changes in assets and liabilities, net of effects of acquisitions –			
Trade receivables	(112,346)	53,436	(43,370)
Parts and supplies	(8,843)	(5,108)	(4,152)
Other current assets	6,043	(48,192)	(57,910)
Other assets	25,029	(18,795)	(28,230)
Accounts payable	(7,951)	(43,271)	(18,061)
Accrued expenses	37,394	5,735	51,223
Other liabilities	(41,654)	(15,302)	20,706
Net cash provided by operating activities	116,435	155,301	256,563
INVESTING ACTIVITIES			
Purchase of net assets of acquired entities, including acquisition costs, less cash acquired	—	(2,414)	(8,934)
Purchases of property and equipment	(232,497)	(215,490)	(307,714)
Proceeds from dispositions of property and equipment	1,277	1,256	2,737
Investments in and advances to affiliates	(4,364)	(1,205)	(17,788)
Net cash used in investing activities	(235,584)	(217,853)	(331,699)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	16,265	476	63,023
Proceeds from exercise of stock options	3,764	9,080	6,367
Proceeds from issuance of convertible senior debentures, net of issue costs	294,800	291,515	254,500
Proceeds from debt borrowings	188,016	385,000	194,039
Reduction of debt	(462,408)	(551,221)	(456,083)
Decrease (increase) in restricted cash	13,860	2,700	(4,900)
Net cash provided by financing activities	54,297	137,550	56,946
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(64,852)	74,998	(18,190)
CASH AND CASH EQUIVALENTS, beginning of year	133,986	58,988	77,178
CASH AND CASH EQUIVALENTS, end of year	$ 69,134	$ 133,986	$ 58,988

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation and Reporting

The consolidated financial statements include the accounts of Pride International, Inc. and its wholly-owned and majority-owned subsidiaries (the "Company" or "Pride"). All significant intercompany transactions and balances have been eliminated in consolidation. Investments in which the Company owns less than 50% and exercises significant influence are accounted for using the equity method of accounting, and investments in which the Company does not exercise significant influence are accounted for using the cost method of accounting. Certain reclassifications have been made to prior years' amounts to conform with the current year presentation. Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 145, which eliminates the requirements that gains and losses from the extinguishment of debt be aggregated and classified as extraordinary items. Accordingly, the consolidated statement of operations for the years ended December 31, 2002 and 2001 reflect reclassifications of the gross effect of $798,000 and $1.3 million, respectively, from extraordinary item into other income (expense), net and income tax provision.

In September 2001, Pride acquired Marine Drilling Companies, Inc. ("Marine") pursuant to a merger of Marine into a wholly owned subsidiary of Pride. Approximately 58.7 million shares of Pride common stock were issued to the former shareholders of Marine, which equaled approximately 44% of the outstanding common shares of the combined company immediately following the acquisition. The Marine merger was followed by a merger that changed Pride's state of incorporation from Louisiana to Delaware. The acquisition of Marine was accounted for as a pooling-of-interests for accounting and financial reporting purposes. Under this method of accounting, the recorded historical carrying amounts of the assets and liabilities of Pride and Marine are carried forward to the financial statements of the combined company at recorded amounts, results of operations of the combined company include the income and expenses of Pride and Marine for the entire fiscal period in which the combination occurred, and the historical results of operations of the separate companies for fiscal periods prior to the combination are combined and reported as the historical results of operations of the combined company. The results of operations of Pride and Marine for periods prior to the combination that are included in the combined company's recorded amounts are as follows:

(in thousands)	Pride	Marine	Combined
Six Months Ended June 30, 2001			
Revenues	$ 561,414	$ 182,639	$ 744,053
Net earnings	30,071	52,562	82,633

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (revised December 2003)". FIN No. 46R requires a company to consolidate a variable interest entity, as defined, when the company will absorb a majority of the variable interest entity's expected losses, receive a majority of the variable interest entity's expected residual returns, or both. FIN No. 46R also requires certain disclosures relating to consolidated variable interest entities and unconsolidated variable interest entities in which a company has a significant variable interest. With respect to variable interest entities in which a company holds a variable interest that was acquired before February 1, 2003, the consolidation provisions are required to be applied no later than the company's first fiscal year or interim period ending after December 15, 2003. Upon evaluation of the provisions of FIN No. 46R, it was determined that the unaffiliated trust with which the Company completed the sale and leaseback of the *Pride South America* semisubmersible drilling rig in February 1999 would qualify for consolidation as a variable interest entity in which the Company is the primary beneficiary, as defined. Pursuant to the recommendation of FIN No. 46R, the Company has elected to retroactively adopt the provisions and restate previously issued financial statements for the applicable years for comparability purposes. The effect on the Company's consolidated statement of operations for the years ended December 31, 2002 and 2001 was as follows:

	Year Ended December 31,	
(in thousands, except per share amounts)	2002	2001
Net earnings (loss) – as reported	$ (8,947)	$ 91,206
Add:		
Lease rental expenses included in reported net earnings (loss)	12,706	12,706
Deduct:		
Depreciation expense	(3,782)	(3,782)
Interest expense	(8,312)	(8,609)
Net earnings (loss) – as adjusted	(8,335)	91,521
Net earnings (loss) per share:		
Basic – as reported	$ (0.07)	$ 0.69
Basic – as adjusted	$ (0.06)	$ 0.70
Diluted – as reported	$ (0.07)	$ 0.68
Diluted – as adjusted	$ (0.06)	$ 0.68

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates and adjustments on historical experience and on other information and assumptions that are believed to be reasonable under the circumstances. Estimates and judgments about future events and their effects cannot be perceived with certainty; accordingly, these estimates may change as additional information is obtained, as more experience is acquired, as the Company's operating environment changes and as new events occur. While it is believed that such estimates are reasonable, actual results could differ from those estimates. Estimates are used for, but not limited to, determining the realization of customer and insurance receivables, recoverability of long-lived assets, useful lives for depreciation and amortization, determination of income taxes, contingent liabilities, insurance and legal accruals and costs to complete construction projects.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments having maturities of three months or less at the date of purchase to be cash equivalents.

Parts and Supplies

Parts and supplies consist of spare rig parts and supplies held for use in operations and are valued at weighted average cost.

Property and Equipment

Property and equipment are carried at original cost or adjusted net realizable value, as applicable. Major renewals and improvements are capitalized and depreciated over the respective asset's remaining useful life. Maintenance and repair costs are charged to expense as incurred. When assets are sold or retired, the remaining costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in results of operations.

For financial reporting purposes, depreciation of property and equipment is provided using the straight-line method based upon expected useful lives of each class of assets. Estimated useful lives of the assets for financial reporting purposes are as follows:

	Years
Rigs and rig equipment	5–25
Transportation equipment	3–7
Buildings and improvements	10–20
Furniture and fixtures	5

Rigs and rig equipment have salvage values not exceeding 20% of the cost of the rig or rig equipment.

Interest is capitalized on construction-in-progress at the interest rate on debt incurred for construction or at the weighted average cost of debt outstanding during the period of construction.

Goodwill

Effective January 1, 2002, the Company adopted SFAS No. 142, which eliminates the amortization of goodwill and requires that goodwill be reviewed annually for impairment. The Company ceased amortizing goodwill on January 1, 2002, which was previously amortized using the straight-line method over ten to fifteen years. The Company performed impairment tests of goodwill in the fourth quarters of 2003 and 2002 and determined that the fair value exceeded the recorded cost as of December 31, 2003 and 2002, respectively; accordingly, no impairment was recorded.

The change in the carrying value of goodwill for the years ended December 31, 2003 and 2002 was as follows (in thousands):

(in thousands)	Gulf of Mexico	International Land	E&P Services	Total
Balance as of December 31, 2001	$ 1,472	$ 17,435	$ 45,749	$ 64,656
Goodwill acquired	—	—	7,358	7,358
Balance as of December 31, 2002	1,472	17,435	53,107	72,014
Earn out payment	—	—	(3,000)	(3,000)
Balance as of December 31, 2003	$ 1,472	$ 17,435	$ 50,107	$ 69,014

In March 2003, the Company reduced by $3.0 million the carrying amount of goodwill recorded in its April 2000 acquisition of Services Especiales San Antonio S.A. ("San Antonio"). The seller of San Antonio was entitled to four "earn out" payments of up to $3 million each on the first four anniversary dates of the closing if San Antonio's revenues from services provided to the seller and its affiliates exceeded specified levels during the 12 calendar months ending immediately prior to the relevant anniversary date. The specified revenue level was not achieved for the third anniversary earn-out payment.

The Company recorded goodwill of $16.7 million in the year ended December 31, 2001, in connection with certain acquisitions during those periods.

The Company's net earnings and net earnings per share, adjusted to exclude goodwill amortization expense, for the year ended December 31, 2001, were as follows:

(in thousands, except per share amounts)

Net earnings – as reported	$ 91,521
Goodwill amortization, net of tax	2,737
Net earnings – as adjusted	$ 94,258
Net earnings per share:	
Basic – as reported	$ 0.70
Goodwill amortization, net of tax	0.02
Basic – as adjusted	$ 0.72
Net earnings per share:	
Diluted – as reported	$ 0.68
Goodwill amortization, net of tax	0.02
Diluted – as adjusted	$ 0.70

Long-Lived Asset Impairment

Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 and the basic requirements of APB No. 30; however, it establishes a single accounting model to be used for long-lived assets to be disposed of by sale and it expands the presentation of discontinued operations to include more disposal transactions.

The Company performed an impairment test on certain specific rigs and groups of rigs in the fourth quarter of 2003 and determined that the undiscounted future cash flows based on expected day rates and utilization rates exceeded the recorded cost of the specific rigs and group of rigs as of December 31, 2003; accordingly, no impairment was recorded.

Revenue Recognition

The Company recognizes revenue as services are performed based upon contracted day rates and the number of operating days during the period. Revenue from turnkey contracts is recognized upon completion. Mobilization fees received and costs incurred to mobilize a rig in connection with a customer contract from one geographic area to another are deferred and recognized on a straight-line basis over the term of such contract, excluding any option periods. Costs incurred to mobilize a rig without a contract are expensed as incurred. Fees received for capital improvements to rigs are deferred and recognized on a straight-line basis over the period of the related drilling contract. The costs of such capital improvements are capitalized and depreciated over the useful lives of the assets.

Rig Construction Contracts

The Company has historically constructed drilling rigs only for its own use. However, at the request of some of its significant customers, the Company has entered into lump sum contracts to design, construct and mobilize specialized drilling rigs through the Company's technical services group. The Company also has entered into contracts to operate the rigs on behalf of the customers. Construction contract revenues and related costs are recognized under the percentage-of-completion method of accounting using measurements of progress toward completion appropriate for the work performed, such as man-hours, costs incurred or physical progress. Accordingly, the Company reviews contract price and cost estimates periodically as the work progresses and reflects adjustments in income (i) to recognize income proportionate to the percentage of completion in the case of projects showing an estimated profit at completion and (ii) to recognize the entire amount of the loss in the case of projects showing an estimated loss at completion. To the extent these adjustments result in an increase in previously reported losses or a reduction in or an elimination of previously reported profits with respect to a project, the Company would recognize a charge against current earnings. See Note 2.

Rig Certifications

The Company is required to obtain certifications from various regulatory bodies in order to operate its offshore drilling rigs and must maintain such certifications through periodic inspections and surveys. The costs associated with obtaining and maintaining such certifications, including inspections and surveys, drydock costs and remedial structural work to the rigs are deferred and amortized over the corresponding certification periods.

The Company expended $20.2 million, $13.6 million and $5.5 million during 2003, 2002 and 2001, respectively, in obtaining and maintaining such certifications. As of December 31, 2003 and 2002, the deferred and unamortized portion of such costs on the Company's balance sheet were $31.6 million and $19.1 million, respectively. The portion of the costs that are expected to be amortized in the 12-month periods following each balance sheet date are included in other current assets on the balance sheet and the costs expected to be amortized after more than 12 months from each balance sheet date are included in other assets. The costs are amortized on a straight-line basis over the period of validity of the certifications obtained. These certifications are typically for five years, but in some cases are for shorter periods. Accordingly, the remaining useful lives for these deferred costs are up to five years.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the asset is recovered or the liability is settled.

Foreign Currency Translation

The Company accounts for translation of foreign currency in accordance with SFAS No. 52, "Foreign Currency Translation". In those countries where the U.S. dollar is the functional currency, certain assets and liabilities of foreign operations are translated at historical exchange rates, revenues and expenses in these countries are translated at the average rate of exchange for the period, and all translation gains or losses are reflected in the period's results of operations. In those countries where the U.S. dollar is not the functional currency, revenues and expenses are translated at the average rate of exchange for the period, assets and liabilities are translated at end-of-period exchange rates and all translation gains and losses are included in accumulated other comprehensive loss within stockholders' equity.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its cash and cash equivalents in U.S. government securities and other high-quality financial instruments. The Company limits the amount of credit exposure to any one financial institution or issuer. The Company's customer base consists primarily of major integrated and government-owned international oil companies, as well as smaller independent oil and gas producers. Management believes the credit quality of its customers is generally high. The Company has in place insurance to cover certain exposure in its foreign operations and provides allowances for potential credit losses when necessary.

Conditions Affecting Ongoing Operations

The Company's current business and operations are substantially dependent upon conditions in the oil and gas industry and, specifically, the exploration and production expenditures of oil and gas companies. The demand for contract drilling and related services is influenced by oil and gas prices, expectations about future prices, the cost of producing and delivering oil and gas, government regulations and local and international political and economic conditions. There can be no assurance that current levels of exploration and production expenditures of oil and gas companies will be maintained or that demand for the Company's services will reflect the level of such activities.

Stock-Based Compensation

The Company uses the intrinsic value based method of accounting for stock-based compensation prescribed by APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Under this method, the Company records no compensation expense for stock options granted when the exercise price for options granted is equal to the fair market value of the Company's stock on the date of the grant.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. The disclosure provisions of SFAS No. 148 are effective immediately and require revised disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company has adopted the new disclosure requirements, as reflected below.

Under SFAS No. 123, the fair value of stock-based awards is calculated using option pricing models. The Company's calculations were made using the Black-Sholes option pricing model with the following significant assumptions:

	2003	2002	2001
Dividend yield	0.00%	0.00%	0.00%
Volatility	62.57%	59.45%	56.05%
Risk free interest rate	2.95%	4.73%	4.87%
Expected term	5 years	5 years	5 years

The weighted average fair values per share of options granted during the years ended December 31, 2003, 2002 and 2001 were $8.53, $7.94 and $9.31, respectively.

If the fair value based method of accounting prescribed by SFAS No. 123 had been applied, the Company's pro forma net earnings (loss), net earnings (loss) per share and stock-based compensation cost would approximate the amounts indicated below. The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts.

	Year Ended December 31,		
(In thousands, except per share amounts)	2003	2002	2001
Net earnings (loss) – as reported	$ (23,933)	$ (8,335)	$ 91,521
Add: Stock-based compensation included in reported net earnings (loss), net of tax	2,081	—	—
Deduct: Stock-based employee compensation expense determined under the intrinsic value method, net of tax	(10,784)	(8,538)	(18,197)
Pro forma net earnings (loss)	$ (32,636)	$ (16,873)	$ 73,324
Net earnings (loss) per share:			
Basic – as reported	$ (0.18)	$ (0.06)	$ 0.70
Basic – pro forma	$ (0.24)	$ (0.13)	$ 0.56
Diluted – as reported	$ (0.18)	$ (0.06)	$ 0.68
Diluted – pro forma	$ (0.24)	$ (0.13)	$ 0.56

New Accounting Pronouncements

The FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" during the second quarter of 2003. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including those embedded in other contracts, and for hedging activities and is effective for contracts entered into or modified after June 30, 2003. SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with both liability and equity characteristics. The adoption of SFAS Nos. 149 and 150 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

2. Construction Projects

At the request of two major international oil company customers, the Company entered into lump-sum contracts to design, engineer, manage construction of and commission four deepwater platform drilling rigs for installation on spars and tension-leg platforms. The Company also entered into contracts to provide drilling operations management of the rigs once they have been installed on platforms. The first rig has been mated to the customers' platform and towed to Angola, where it commenced operations in November 2003. The other rigs are expected to enter into service in late 2004 and early 2005. In 2003, the Company recorded loss provisions, included in operating costs, totaling $98.4 million relating to the construction of these deepwater platform rigs as the costs are expected to substantially exceed revenues on all four projects.

Much of the increased costs are related to difficulties experienced with two different shipyards. The Company terminated its contract with the initial shipyard prior to the completion of the first two rigs. As a result, the Company has incurred substantial unplanned costs in completing the construction of the first unit. The Company engaged another shipyard to complete construction of the second rig, and the aggregate costs paid to the initial shipyard and committed and paid to the second shipyard have greatly exceeded budgeted expenditures for the rig. The Company is now utilizing shipyards in the Asia Pacific region for the third and fourth deepwater rig projects. As a result, the lump-sum contracts and anticipated freight costs for these two projects are higher than were originally budgeted. A U.S. shipyard building one of the primary components for the third rig project encountered significant financial difficulties, and the Company has paid costs in excess of amounts initially agreed to provide financial capacity for it to complete a reduced scope of work. The aggregate costs paid to that shipyard, in addition to the costs associated with the completion of the remaining tasks by newly contracted third parties, as well as transportation and other costs necessitated by revisions to the project completion plan, have significantly exceeded the budgeted expenditures for the third deepwater platform rig. Based on the experience from the start-up of the first rig and on revisions of estimates, increased costs for construction, transportation, commissioning, training and warranties have been included in the Company's estimates of costs to complete the remaining three rigs.

The Company has commenced arbitration proceedings against the initial shipyard claiming damages of approximately $5.8 million, and the shipyard has asserted counterclaims against the Company for damages of approximately $13.8 million. The Company is also in commercial disputes and negotiations with certain equipment vendors and major sub-contractors. While the Company intends to vigorously pursue equitable resolutions with the other parties, the Company has provided for additional cost estimates to resolve some of these disputes.

The Company's technical services segment is performing these deepwater platform rig construction projects under lump-sum contracts with its customers. Revenues and costs realized on these lump sum contracts vary from the originally estimated amounts. Unforeseen events may result in further cost overruns to complete these projects, which could be material and which would require the Company to record additional loss provisions in future periods. Such events could include variations in labor and equipment productivity over the remaining term of the contract, unanticipated cost increases, engineering changes, shipyard or systems problems, project management issues, shortages of equipment, materials or skilled labor, unscheduled delays in the delivery of ordered materials and equipment, work stoppages, shipyard unavailability or delays.

3. Property and Equipment

Property and equipment consists of the following:

	December 31,	
(In thousands)	2003	2002
Rigs and rig equipment	$ 4,455,736	$ 4,225,928
Transportation equipment	31,340	28,125
Buildings	37,966	35,866
Other	46,888	44,102
Construction-in-progress	43,199	63,065
Land	8,323	8,752
	4,623,452	4,405,838
Accumulated depreciation and amortization	(1,177,121)	(932,202)
Net property and equipment	$ 3,446,331	$ 3,473,636

The Company capitalizes interest applicable to the construction of significant additions to property and equipment. For the years ended December 31, 2003, 2002 and 2001, total interest incurred was $134.4 million, $142.8 million and $144.4 million, respectively, of which $1.2 million, $1.9 million and $19.0 million, respectively, was capitalized.

During the years ended December 31, 2003, 2002 and 2001, maintenance and repair costs included in operating costs on the accompanying consolidated statement of operations were $97.6 million, $81.6 million and $85.2 million, respectively.

4. Acquisitions

In March 2001, the Company increased from 26.4% to 100% its ownership in a joint venture that constructed two dynamically-positioned, deepwater semisubmersible drilling rigs, the *Pride Carlos Walter* and the *Pride Brazil*. The purchase consideration for the interests the Company did not previously own consisted of approximately $86 million aggregate principal amount of senior convertible notes, convertible into approximately 4.0 million shares of the Company's common stock, which were issued to the Brazilian participant in the joint venture, and 519,468 shares of the Company's common stock valued at approximately $14 million, which were issued to two investment funds managed by First Reserve Corporation pursuant to the funds' original investment in the joint venture. The acquisition added to the Company's consolidated balance sheet approximately $443 million of assets represented by the two rigs, approximately $287 million of indebtedness incurred to finance the construction of the rigs ($178 million of which was outstanding as of December 31, 2003) and approximately $86 million of convertible senior notes issued to the Brazilian participant. See Note 5.

In September 2001, the Company acquired Marine in a stock-for-stock transaction. Marine owned and operated a fleet of 17 offshore drilling rigs consisting of two semisubmersible units and 15 jackup units. Additionally, Marine owned one jackup rig configured as an accommodation unit. The acquisition of Marine was accounted for as a pooling-of-interests for accounting and financial reporting purposes. In connection with the acquisition, the estimated remaining useful lives and residual values of certain rigs were reassessed and, as a result, net income for 2001 increased $6.7 million (or $.05 per share on a basic and diluted basis). The Company incurred pooling and merger costs totaling $35.8 million associated with this acquisition, which consisted of investment advisory, legal and other professional fees of $24.4 million and costs associated with the closure of duplicate office facilities and employee terminations of $11.4 million. During 2002 and 2001, the Company paid $12.0 million and $22.9 million, respectively, of such fees and acquisition costs. During 2003, the Company reversed the remaining pooling and merger cost accrual.

5. Debt

Short-Term Borrowings

The Company has agreements with several banks for unsecured short-term lines of credit primarily denominated in U.S. dollars. The facilities are renewable annually and bear interest at variable rates based on LIBOR. The weighted average interest rate on such borrowings as of December 31, 2003 was 2.8%. As of December 31, 2003, $27.6 million was outstanding under these facilities and $25.2 million was available.

Long-Term Debt

Long-term debt consists of the following:

	December 31,	
(In thousands)	2003	2002
Senior secured term loan	$ 197,000	$ 198,500
Senior secured revolving credit facilities	288,000	110,000
9⅜% Senior Notes due 2007	175,000	325,000
10% Senior Notes due 2009	200,000	200,000
Drillship loans	182,674	231,966
Semisubmersible loans	260,558	301,343
2½% Convertible Senior Notes due 2007	300,000	300,000
3¼% Convertible Senior Notes due 2033	300,000	—
Zero Coupon Convertible Senior Debentures Due 2021	4	98,220
Zero Coupon Convertible Subordinated Debentures Due 2018	1,098	111,481
Senior convertible notes payable	85,853	85,853
Limited-recourse collateralized term loans	3,649	10,263
Other notes payable	—	575
	1,993,836	1,973,201
Current portion of long-term debt	188,737	99,265
Long-term debt, net of current portion	$ 1,805,099	$1,873,936

Senior Secured Term Loan and Senior Secured Revolving Credit Facilities

The Company entered into senior secured credit facilities with a group of banks providing for aggregate availability of up to $450.0 million, consisting of a $197.0 million term loan maturing in January 2009 and a $250.0 million revolving credit facility maturing in January 2007. Borrowings under the revolving credit facility are available for general corporate purposes. The Company may issue up to $50.0 million of letters of credit under the facility. As of December 31, 2003, $189.0 million of borrowings and an additional $27.8 million of letters of credit were outstanding under the revolving credit facility.

Borrowings under the facilities currently bear interest at variable rates based on LIBOR plus a spread based on the credit rating of the facility or, if unrated, index debt. The interest rate was 3.66% for the term loan and 3.20% for the revolving credit facility as of December 31, 2003. In 2003, in order to reduce the potential impact of fluctuations in LIBOR, the Company entered into interest rate agreements that effectively cap the interest rate on total outstanding borrowings under the term loan at rates from 3.58% to 5.0% and provide a lower limit on rates from 0.72% to 0.91%, plus the applicable spread, to March 2007. The Company accounts for these interest rate agreements at market value, with changes reflected in current earnings.

The facilities are collateralized by two deepwater semisubmersible rigs, the *Pride North America* and the *Pride South Pacific*, and 28 jackup rigs. The facilities contain provisions that limit the ability of the Company and its subsidiaries, with certain exceptions, to pay dividends or make other restricted payments and investments; incur additional debt; create liens; incur dividend or other payment restrictions affecting subsidiaries; consolidate, merge or transfer all or substantially all of its assets; sell assets or subsidiaries; enter into speculative hedging arrangements outside the ordinary course of business; enter into transactions with affiliates; make certain capital expenditures and incur long-term operating leases. The credit facilities also require the Company to comply with specified financial tests, including a ratio of net debt to EBITDA, an interest coverage ratio, a ratio of net debt to total capitalization and a minimum net worth.

As of December 31, 2003, the Company had a senior secured revolving credit facility with non-U.S. banks that provides aggregate availability of up to $180.0 million, including $10.0 million of letters of credit, and is collateralized by three semisubmersible rigs, two jackup rigs and a tender-assisted rig. Borrowings under the credit facility bear interest at variable rates based on LIBOR plus a spread ranging from 1.2% to 2.1%. As of December 31, 2003, $99.0 million of borrowings and an additional $10.0 million of letters of credit were outstanding under this credit facility.

As of December 31, 2003, the Company had $104.2 million in aggregate availability under its senior secured revolving credit facilities.

Indentures governing our outstanding 9⅜% and 10% senior notes limit the Company's ability to borrow under these facilities to a percentage of consolidated net tangible assets.

9⅜% Senior Notes due 2007

In May 1997, the Company issued $325.0 million principal amount of 9⅜% Senior Notes due May 1, 2007 (the "9⅜% Senior Notes"). Interest on the 9⅜% Senior Notes is payable semi-annually on May 1 and November 1 of each year. The 9⅜% Senior Notes are redeemable, in whole or in part, at the option of the Company at redemption prices declining in annual increments from 103.125% at May 1, 2003 to 100% by May 1, 2005. The indenture governing the 9⅜% Senior Notes contains provisions that limit the ability of the Company and its subsidiaries, with certain exemptions, to pay dividends or make other restricted payments; incur additional debt or issue preferred stock; create or permit to exist liens; incur dividend or other payment restrictions affecting subsidiaries; consolidate, merge or transfer all or substantially all of its assets; sell assets; enter into transactions with affiliates and engage in sale and leaseback transactions.

In July 2003, the Company redeemed $150 million principal amount of the 9⅜% Senior Notes at a redemption price of 103.125% of the principal amount, plus accrued and unpaid interest to the redemption date. The Company paid a total of $157.6 million in connection with the redemption, including $2.9 million of accrued and unpaid interest and a $4.7 million premium. In addition, the Company expensed $1.5 million, before income taxes, of deferred financing costs, which amount is included in other income (expense), net in the consolidated statement of operations.

10% Senior Notes due 2009

In May 1999, the Company issued $200.0 million principal amount of 10% Senior Notes due June 1, 2009 (the "10% Senior Notes"). Interest on the 10% Senior Notes is payable semi-annually on June 1 and December 1 of each year. The 10% Senior Notes are not redeemable prior to June 1, 2004, after which they will be redeemable, in whole or in part, at the option of the Company at redemption prices starting at 105% of the principal amount and declining to 100% by June 1, 2007. The indenture governing the 10% Senior Notes contains provisions that limit the ability of the Company and its subsidiaries, with certain exemptions, to pay dividends or make other restricted payments; incur additional debt or issue preferred stock; create or permit to exist liens; incur dividend or other payment restrictions affecting subsidiaries; consolidate, merge or transfer all or substantially all of its assets; sell assets; enter into transactions with affiliates and engage in sale and leaseback transactions.

Drillship Loans

In connection with the construction of two ultra-deepwater drillships, the *Pride Africa* and the *Pride Angola*, the Company and the two joint venture companies in which the Company has a 51% interest entered into financing arrangements with a group of banks that provided $400 million of the drillships' total cost of $495 million. The loans with respect to the *Pride Africa* and the *Pride Angola* are non-recourse to the Company and the joint owner and are collateralized by the drillships. As of December 31, 2003, $67.6 million was outstanding under the loans for the *Pride Africa* and $115.1 million was outstanding under the loans for the *Pride Angola*. The loans are being repaid from the proceeds of the related charter contracts in semi-annual installments of principal and interest through December 2006 and July 2007 for the *Pride Africa* and *Pride Angola*, respectively. The payment terms of the *Pride Angola* loan were extended from July 2005 to July 2007 when the customer extended the drilling contract to five years in February 2002. The drillship loans bear interest at LIBOR plus 1.10% to 1.25%. As a condition of the drillship loans, the Company entered into interest rate swap and cap agreements with the lenders that fixed the interest rate on the *Pride Africa* loan at 7.34% through December 2006, fixed the interest rate on the *Pride Angola* loan at 6.52% through January 2003 and capped the interest rate on the *Pride Angola* loan at 6.52% from February 2003 to January 2007. As a result, the drillship loans had a weighted average interest rate of 6.8% as of December 31, 2003. Such swap and cap agreements are not considered derivatives because (1) the swap and cap agreements were required by the lenders under the drillship loans; (2) the Company believes that such loans would not have been available to the Company without the related swap and cap agreements; and (3) the drillship loans prohibit the Company from selling or transferring the swap and cap agreements without the consent of the lenders, and the Company does not believe that the lenders would grant such consent as long as any principal amounts are outstanding. In accordance with the debt agreements, certain cash balances are held in trust to assure that timely interest and principal payments are made. As of December 31, 2003 and 2002, $26.7 million and $34.3 million, respectively, of such cash balances, which amount is included in restricted cash, was held in trust and is not available for use by the Company.

Semisubmersible Loans

In July 2001, the Company entered into a credit agreement with a group of foreign banks to provide loans totaling up to $250.0 million to refinance the construction loans for the *Pride Carlos Walter* and *Pride Brazil*. Borrowings under the facility bear interest at rates based on LIBOR plus an applicable margin of 1.50% to 1.85%. Principal and interest on the loans are payable semi-annually from March 2002 through 2008. Funding under the facility and repayment of the construction loans (which had interest rates of 11% per annum) was completed in November 2001. As required by the lenders under the facility, the Company entered into interest rate swap and cap agreements with the lenders that capped the interest rate on $50.0 million of the debt at 7% and which fixed the interest rate on the remainder of the debt at 5.58% through September 2006. Such swap and cap agreements are not considered derivatives because (1) the swap and cap agreements were required by the lenders under the facility agreement; (2) the Company believes that such credit facility would not have been available to the Company without the related swap and cap agreements; and (3) the credit facility prohibits the Company from selling or transferring the swap and cap agreements without the consent of the lenders, and the Company does not believe that the lenders would grant such consent as long as any principal amounts are outstanding. The loans are collateralized by, among other things, a first priority mortgage on the drilling rigs and assignment of the charters for the rigs. The debt agreement requires certain cash balance to be held in trust to assure that timely interest and principal payments are made. As of December 31, 2003 and 2002, $11.4 million and $16.0 million, respectively, of such cash balances, which amount is included in restricted cash, was held in trust and is not available for use by the Company.

In February 1999, the Company completed the sale and leaseback of the *Pride South America* semisubmersible drilling rig with an unaffiliated trust pursuant to which it received $97.0 million. The lease was classified as an operating lease for financial statement purposes. With the adoption of FIN No. 46R in December 2003, it was determined that the Company was the primary beneficiary, as defined, of the unaffiliated trust, and accordingly, the Company should consolidate said trust as a variable interest entity. The Company elected to adopt the provisions of FIN No. 46R retroactively and restate previously issued financial statements. Debt in the amount of $82.3 million and $86.0 million and property and equipment, net of $74.1 million and $77.9 million were recorded as of December 31, 2003 and 2002, respectively, in connection with the retroactive adoption of FIN No. 46R. See Note 1.

2½% Convertible Senior Notes Due 2007

In March 2002, the Company issued $300.0 million principal amount of 2½% convertible senior notes due March 1, 2007. The net proceeds to the Company, after deducting underwriting discounts and offering costs, were $291.5 million. The notes are convertible into approximately 18.2 million shares of common stock of the Company (equal to a conversion rate of 60.5694 shares of common stock per $1,000 principal amount, or $16.51 per share). Interest on the notes is payable semiannually on March 1 and September 1 of each year. On or after March 4, 2005, the notes are redeemable at the Company's option, in whole or in part, for cash at redemption prices starting at 101% and declining to 100% by March 1, 2007, in each case plus accrued and unpaid interest. The Company may redeem some or all of

the notes at any time prior to March 4, 2005 at 100% of the principal amount, plus accrued and unpaid interest and an amount equal to 7.5% of the principal amount, less the amount of any interest actually paid on the notes on or prior to the redemption date, if the closing price of the Company's common stock has exceeded 150% of the conversion price per share then in effect for at least 20 trading days within a period of 30 consecutive trading days. In connection with the issuance of the notes, a private equity fund related to First Reserve Corporation purchased 7.9 million shares of the Company's common stock from third parties. First Reserve manages private equity funds that specialize in the energy industry.

3¼% Convertible Senior Notes Due 2033

In April and May 2003, the Company issued $300 million aggregate principal amount of 3.25% convertible senior notes due 2033. Substantially all of the net proceeds (after expenses) of approximately $294.8 million were used to repay amounts outstanding under the Company's senior secured revolving credit facilities, which included borrowings used to fund a portion of the purchase price of the zero coupon convertible subordinated debentures due 2018 discussed below. The notes bear interest at a rate of 3.25% per annum. The Company also will pay contingent interest during any six-month interest period commencing on or after May 1, 2008 for which the trading price of the notes for each of the five trading days immediately preceding such period equals or exceeds 120% of the principal amount of the notes. Beginning May 5, 2008, the Company may redeem any of the notes at a redemption price of 100% of the principal amount redeemed plus accrued and unpaid interest. In addition, noteholders may require the Company to repurchase the notes on May 1 of 2008, 2010, 2013, 2018, 2023 and 2028 at a repurchase price of 100% of the principal amount redeemed plus accrued and unpaid interest. The Company may elect to pay all or a portion of the repurchase price in common stock instead of cash, subject to certain conditions. The notes are convertible under specified circumstances into shares of the Company's common stock at a conversion rate of 38.9045 shares per $1,000 principal amount of notes (which is equal to a conversion price of $25.704), subject to adjustment. Upon conversion, the Company will have the right to deliver, in lieu of shares of its common stock, cash or a combination of cash and common stock.

Zero Coupon Convertible Senior Debentures Due 2021

In January 2001, the Company issued zero coupon convertible senior debentures due January 16, 2021 with a face amount of $431.5 million. The net proceeds to the Company in connection with the sale, after deducting underwriting discounts and offering expenses, amounted to approximately $254.5 million. The issue price of $608.41 for each debenture represents a yield to maturity of 2.50% per annum (computed on a semiannual bond equivalent basis) calculated from the issue date. The difference between the issue price and face amount of the debentures is recorded as a discount and amortized to interest expense using the effective interest method over the term of the debentures.

During 2002, the Company purchased on the open market and then extinguished $277.9 million face amount of the debentures for $172.8 million. In January 2003, the Company repurchased substantially all of the remaining outstanding zero coupon convertible senior debentures for $98.2 million.

Zero Coupon Convertible Subordinated Debentures Due 2018

In April 1998, the Company issued zero coupon convertible subordinated debentures due April 24, 2018 with a face amount of $588.1 million. The net proceeds to the Company in connection with the sale, after deducting underwriting discounts and offering expenses, amounted to approximately $222.6 million. The issue price of $391.06 for each debenture represents a yield to maturity of 4.75% per annum (computed on a semiannual bond equivalent basis) calculated from the issue date. The difference between the issue price and face amount of the debentures is recorded as a discount and amortized to interest expense using the effective interest method over the term of the debentures. The debentures are convertible into shares of common stock of the Company at a conversion rate of 13.794 shares of common stock per $1,000 principal amount at maturity.

During 2001, the Company purchased on the open market and then extinguished $129.1 million face amount of the debentures for $56.2 million. During 2002, the Company purchased on the open market and then extinguished $153.3 million face amount of the debentures for $72.7 million. In April 2003, the Company repurchased $226.5 million face amount of the outstanding debentures for $112.0 million, which was equal to their accreted value on the date of purchase. The purchase price was funded through borrowings under the Company's senior secured revolving credit facilities and available cash. Debentures with a face amount of $2.1 million, and an accreted value of $1.1 million as of December 31, 2003, remain outstanding.

Senior Convertible Notes Payable

In March 2001, in connection with the acquisition of the interests the Company did not previously own in the *Pride Carlos Walter* and the *Pride Brazil*, the Company issued approximately $86 million aggregate principal amount of senior convertible notes. See Note 4. The notes, which mature in December 2004, bear interest at 9% per annum and are convertible into approximately 4.0 million shares of the

Company's common stock. The holder of the notes has the right to require the Company to prepay the notes at any time (1) after July 1, 2004 or (2) before July 1, 2004 to the extent of the amount of any required capital contributions by such holder with respect to the joint venture for the *Pride Portland* and the *Pride Rio de Janeiro* described in Note 13. The Company has the option to prepay the notes any time after June 1, 2004.

Limited-Recourse Collateralized Term Loans

The limited-recourse collateralized term loans are collateralized by two of the Company's drilling/workover barge rigs, the *Pride I* and the *Pride II*, and related charter contracts. The loans are being repaid from the proceeds of the related charter contracts in equal monthly installments of principal and interest through July 2004. These loans are non-interest bearing and have implied interest rates of 9.61%. In addition, a portion of contract proceeds is being held in trust to assure that timely payment of future debt service obligations is made. As of December 31, 2003 and 2002, $0.7 million and $2.4 million, respectively, of such contract proceeds, which amount is included in restricted cash, was being held in trust as collateral for the lenders and is not available for use by the Company.

Future Maturities

Future maturities of long-term debt as of December 31, 2003 are as follows:

(In thousands)	Amount
2004	$ 188,737
2005	188,611
2006	108,955
2007	926,254
2008	37,449
Thereafter	543,830
Total long-term debt	$1,993,836

As of December 31, 2003, the fair value of long-term debt was approximately $2.1 billion.

6. Leases

The Company has lease obligations pursuant to sale and leaseback agreements or financing arrangements with unaffiliated entities for three platform rigs and offices in France that are accounted for as capital leases. The obligations are payable in semiannual installments through June 2006 and bear interest at a weighted average rate of 7.8% per annum.

Future maturities of capital lease obligations as of December 31, 2003 are as follows:

(In thousands)	Amount
2004	$ 3,645
2005	8,180
2006	2,180
2007	124
2008	123
Thereafter	61
Total minimum lease obligations	$ 14,313
Less: interest portion	1,585
	12,728
Less: current portion	2,749
Long-term portion	$ 9,979

Rental expense for operating leases for equipment, vehicles and various facilities of the Company for the years ended December 31, 2003, 2002 and 2001 were $49.4, $28.4 million and $36.1 million, respectively.

7. Financial Instruments

The Company's operations are subject to foreign exchange risks, including the risks of adverse foreign currency fluctuations and devaluations and of restrictions on currency repatriation.

The Company attempts to limit the risks of adverse currency fluctuations and restrictions on currency repatriation by obtaining contracts providing for payment in U.S. dollars or freely convertible foreign currency. To the extent possible, the Company seeks to limit its exposure to local currencies by matching its acceptance thereof to its expense requirements in such currencies. Moreover, the Company enters into forward exchange contracts and option contracts to manage foreign currency exchange risk principally associated with its Euro-denominated expenses. These forward exchange contacts and option contracts have not been designated as hedging instruments under SFAS No. 133, as the forward or option contracts are not systematically identified as being the hedge of specific expenditures at inception.

Currency option contracts existing as of December 31, 2003 consist of U.S. dollar calls/Euro puts with a notional amount of $2.6 million sold by the Company, U.S. dollar puts/Euro calls with a notional amount of $1.1 million purchased by the Company and South African Rand calls/U.S. dollar puts with a notional amount of 5 million Rand, equivalent to $0.8 million at the year end exchange rate, purchased by the Company. The counterparties to these contracts are all major European banks.

The Company had no unrealized losses as of December 31, 2003 on forward exchange contracts and option contracts based on quoted market prices of comparable instruments. The unrealized loss as of December 31, 2002 was approximately $1.0 million. The net realized and unrealized gains (losses) on all forward and option contracts, included in other income (expense), net for the years ended December 31, 2003, 2002 and 2001, were approximately $1.2 million, $4.8 million and $(0.1) million, respectively.

The Company is subject to the risk of variability in interest payments on its floating rate debt. In 2003, in order to reduce the potential impact of fluctuations in LIBOR, the Company entered into interest rate agreements that effectively cap the interest rate on $194.0 million of borrowings under its senior secured term loan at rates from 3.58% to 5.0%, plus the applicable spread, and provide a lower limit on rates from 0.72% to 0.91%, plus the applicable spread, to March 2007. If interest rates fall below the lower limits, interest rates payable increase to rates from 2.0% to 3.94%, plus the applicable spread. The interest rate agreements are marked-to-market quarterly with the change in fair value recorded as a component of interest expense. As of December 31, 2003, the net value of the instruments was a liability of $0.6 million.

8. Income Taxes

The components of the income tax provision (benefit) were as follows:

	Year Ended December 31,		
(In thousands)	2003	2002	2001
United States:			
Federal:			
Current	$ —	$ —	$ 15,694
Deferred	(78,127)	(38,675)	9,664
Total – Federal	(78,127)	(38,675)	25,358
Foreign:			
Current	42,487	33,833	27,002
Deferred	34,510	7,819	(2,412)
Total – Foreign	76,997	41,652	24,590
Income tax provision	$ (1,130)	$ 2,977	$ 49,948

The difference between the effective federal income tax amounts and rate reflected in the income tax provision (benefit) and the amount and rate which would be determined by applying the U.S. statutory federal tax rate to earnings (loss) before income taxes and minority interest is summarized as follows:

	Year Ended December 31,					
	2003		2002		2001	
(In thousands)	Amount	Rate	Amount	Rate	Amount	Rate
U.S. statutory rate	$(1,504)	35.0%	$ 3,759	35.0%	$ 54,942	35.0%
Foreign:						
Tax on foreign earnings	(635)	14.8	(13,541)	(126.1)	(7,207)	(4.6)
Change in valuation allowance	(1,498)	34.8	12,372	115.2	(2,821)	(1.8)
Net effect of foreign income taxes	(2,133)	49.6	(1,169)	(10.9)	(10,028)	(6.4)
Change in estimate	2,372	(55.2)	291	2.7	5,034	3.2
Other	135	(3.1)	96	0.9	—	—
Effective tax rate	$(1,130)	26.3%	$ 2,977	27.7%	$ 49,948	31.8%

In 2003, the Company had an increase of 14.8% in the U.S. statutory rate for foreign taxes due to the following: (34.8)% for an adjustment to prior year deferred tax assets for foreign losses, and 49.6% for current year foreign taxes in excess of U.S. statutory rate. In 2003, the Company had an increase of 34.8% in the U.S. statutory rate for the change in valuation allowance due to an adjustment to prior year allowances on the deferred tax asset for foreign losses as explained above that will not be utilized in future years. The change in estimate for 2003 relates primarily to the difference between the Company's estimate of U.S. income tax on approximately $153 million of 2002 foreign earnings and the actual amount on the 2002 U.S. tax return as filed.

In 2002, the Company had a decrease of (126.1)% in the U.S. statutory rate for foreign taxes due to the following: (112.0)% for previously omitted deferred tax assets for foreign losses, (51.7)% for current year deferred tax assets created by Mexico losses, and 37.6% for current year foreign taxes in excess of U.S. statutory rate. In 2002, the Company had an increase of 115.2% in the U.S. statutory rate for the change in valuation allowance due to the following: 112.0% for previously omitted allowances on the deferred tax asset for foreign losses as explained above that will not be utilized in future years, 51.7% for the current year allowance on Mexico tax losses described above that will not be utilized in future years, and (48.5)% decrease for the partial reversal of the allowance on French tax losses from rig rental income in France from Russia and Kazakhstan contracts that extend into 2003.

The domestic and foreign components of earnings (losses) before income taxes and minority interest were as follows:

	Year Ended December 31,		
(In thousands)	2003	2002	2001
Domestic	$ (257,512)	$ (142,044)	$ 22,297
Foreign	253,214	152,783	134,680
Earnings (losses) before income taxes and minority interest	$ (4,298)	$ 10,739	$ 156,977

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets were as follows:

	December 31,	
(In thousands)	2003	2002
Deferred tax liabilities:		
Depreciation	$ 320,284	$ 312,215
Other	21,286	16,962
Total deferred tax liabilities	341,570	329,177
Deferred tax assets:		
Net operating loss carryforwards	(272,698)	(217,114)
Alternative Minimum Tax credits	(27,958)	(27,958)
Other	(10,285)	(9,271)
Total deferred tax assets	(310,941)	(254,343)
Valuation allowance for deferred tax assets	22,287	23,785
Net deferred tax assets	(288,654)	(230,558)
Net deferred tax liability	$ 52,916	$ 98,619

Applicable U.S. deferred income taxes and related foreign dividend withholding taxes have not been provided on approximately $507.8 million of undistributed earnings and profits of the Company's foreign subsidiaries. The Company considers such earnings to be permanently reinvested outside the United States. It is not practicable to estimate the amount of deferred income taxes associated with these unremitted earnings.

As of December 31, 2003, the Company had deferred tax assets of $272.7 million relating to $783.2 million of net operating loss ("NOL") carryforwards and had $28.0 million of non-expiring Alternative Minimum Tax ("AMT") credits. The NOL carryforwards and AMT credits can be used to reduce the Company's federal and foreign income taxes payable in future years. The Company's ability to realize the entire benefit of its deferred tax assets requires that the Company achieve certain future earnings levels prior to the expiration of its NOL carryforwards. U.S. NOL carryforwards total $699.2 million and expire in 2019 through 2023. Foreign NOL carryforwards include $41.6 million that do not expire and $42.3 million that expire in 2003 through 2013. The Company has recognized a partial allowance due to the uncertainty of realizing certain foreign NOL carryforwards. The Company could be required to record an additional valuation allowance against certain or all of its remaining deferred tax assets if market conditions deteriorate or future earnings are below current estimates.

In connection with the acquisition of Marine, the Company determined that certain NOL carryforwards and AMT credits are subject to limitation under Sections 382 and 383 of the U.S. Internal Revenue Code as a result of the greater than 50% cumulative change in the Company's ownership. However, the Company has determined that such limitations should not affect its ability to realize the benefits of the deferred tax assets associated with such NOL carryforwards and AMT credits.

9. Net Earnings (Loss) Per Share

Basic net earnings (loss) per share has been computed based on the weighted average number of shares of common stock outstanding during the applicable period. Diluted net earnings (loss) per share has been computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during the applicable period, as if stock options, convertible debentures and other convertible debt were converted into common stock, after giving retroactive effect to the elimination of interest expense, net of income tax effect.

The following table presents information necessary to calculate basic and diluted net earnings (loss) per share:

(In thousands, except per share amounts)	Year Ended December 31, 2003	2002	2001
Net earnings (loss)	$ (23,933)	$ (8,335)	$ 91,521
Interest expense on convertible debentures and notes	—	—	9,171
Income tax effect	—	—	(3,210)
Net earnings (loss) – as adjusted	$ (23,933)	$ (8,335)	$ 97,482
Weighted average shares outstanding	134,704	133,305	131,630
Convertible debentures and notes	—	—	9,437
Stock options	—	—	1,711
Weighted average shares outstanding – as adjusted	134,704	133,305	142,778
Net earnings (loss) per share:			
Basic	$ (0.18)	$ (0.06)	$ 0.70
Diluted	$ (0.18)	$ (0.06)	$ 0.68

The calculation of diluted weighted average shares outstanding excludes 35.9 million, 34.3 million and 13.2 million common shares issuable pursuant to convertible debt and outstanding options for the years ended December 31, 2003, 2002 and 2001, respectively, because their effect was antidilutive or the exercise price of stock options exceeded the average price of the Company's common stock for the applicable period.

10. Employee Benefits

The Company has a 401(k) defined contribution plan for its employees, which allows eligible employees to defer up to 15% of their eligible annual compensation, with certain limitations. The Company may at its discretion match up to 100% of the first 6% of compensation. The Company's contributions to the plan for the years ended December 31, 2003, 2002 and 2001 were $2.5 million, $1.6 million and $3.5 million, respectively.

The Company has a deferred compensation plan, which provides its officers and key employees with the opportunity to participate in an unfunded, non-qualified plan. Eligible employees may defer up to 100% of compensation, including bonuses and net proceeds from the exercise of stock options.

11. Stockholders' Equity

Preferred Stock

The Company is authorized to issue 50 million shares of preferred stock, par value $0.01 per share. The Company's board of directors has the authority to issue shares of preferred stock in one or more series and to fix the number of shares, designations and other terms of each series. The board of directors has designated 4.0 million shares of preferred stock to constitute the Series A Junior Participating Preferred Stock in connection with the Company's stockholders' rights plan. As of December 31, 2003, no shares of preferred stock are outstanding.

Common Stock

The Company has established the Pride International, Inc. Direct Stock Purchase Plan, which provides a convenient way for investors to purchase shares of its common stock without paying brokerage commissions or service charges. For the years ended December 31, 2003 and 2001, the Company sold 0.8 million shares for $15.0 million and 2.6 million shares for $62.0 million, respectively. There were no shares sold under the plan in 2002.

In January 2000, Marine completed a public offering of 1.0 million shares of its common stock, for net proceeds of $18.5 million. The proceeds were used to fund the acquisition, upgrade and mobilization of the *Pride South Carolina*, formerly the *Marine 202,* a jackup drilling rig.

In February 2001, the Company issued 3.0 million shares of common stock valued at $78.9 million in connection with the acquisition of the *Pride North Sea* and the *Pride Venezuela*.

In March 2001, the Company issued 519,468 shares of common stock valued at approximately $14.0 million to investment funds managed by First Reserve Corporation in connection with the Company's acquisition of the funds' equity ownership interest in the *Pride Carlos Walter* and *Pride Brazil*. See Note 4.

In October 2002, the Company issued 527,652 shares of common stock to two funds managed by First Reserve in exchange for an additional 11.9% investment in the Amethyst joint venture. Subsequently, in November 2002 the other joint venture partner exercised its option to acquire up to 70% of the interest acquired by the Company, in exchange for 369,356 shares of the Company's common stock. The shares of Company common stock acquired in the exchange are currently held as treasury shares.

Stockholders' Rights Plan

The Company has a preferred share purchase rights plan. Under the plan, each share of common stock includes one right to purchase preferred stock. The rights will separate from the common stock and become exercisable (1) ten days after public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% of the Company's outstanding common stock or (2) ten business days following the start of a tender offer or exchange offer that would result in a person's acquiring beneficial ownership of 15% of the Company's outstanding common stock. A 15% beneficial owner is referred to as an "acquiring person" under the plan. Certain investment funds managed by First Reserve Corporation, their affiliates and certain related parties currently have the right to acquire beneficial ownership of up to 19% of the Company's common stock without becoming an acquiring person under the plan.

The Company's board of directors can elect to delay the separation of the rights from the common stock beyond the ten-day periods referred to above. The plan also confers on the board the discretion to increase or decrease the level of ownership that causes a person to become an acquiring person. Until the rights are separately distributed, the rights will be evidenced by the common stock certificates and will be transferred with and only with the common stock certificates.

After the rights are separately distributed, each right will entitle the holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock for a purchase price of $50. The rights will expire at the close of business on September 30, 2011, unless the Company redeems or exchanges them earlier as described below.

If a person becomes an acquiring person, the rights will become rights to purchase shares of the Company's common stock for one-half the current market price, as defined in the rights agreement, of the common stock. This occurrence is referred to as a "flip-in event" under the plan. After any flip-in event, all rights that are beneficially owned by an acquiring person, or by certain related parties, will be null and void. The Company's board of directors has the power to decide that a particular tender or exchange offer for all outstanding shares of the Company's common stock is fair to and otherwise in the best interests of its stockholders. If the board makes this determination, the purchase of shares under the offer will not be a flip-in event.

If, after there is an acquiring person, the Company is acquired in a merger or other business combination transaction or 50% or more of the Company's assets, earning power or cash flow are sold or transferred, each holder of a right will have the right to purchase shares of the common stock of the acquiring company at a price of one-half the current market price of that stock. This occurrence is referred to as a "flip-over event" under the plan. An acquiring person will not be entitled to exercise its rights, which will have become void.

Until ten days after the announcement that a person has become an acquiring person, the Company's board of directors may decide to redeem the rights at a price of $0.01 per right, payable in cash, shares of common stock or other consideration. The rights will not be exercisable after a flip-in event until the rights are no longer redeemable.

At any time after a flip-in event and prior to either a person's becoming the beneficial owner of 50% or more of the shares of common stock or a flip-over event, the Company's board of directors may decide to exchange the rights for shares of common stock on a one-for-one basis. Rights owned by an acquiring person, which will have become void, will not be exchanged.

Stock Option Plans

The Company has a long-term incentive plan which provides for the granting or awarding of stock options, restricted stock, stock appreciation rights and stock indemnification rights to officers and other key employees. The number of shares authorized and reserved for issuance under the long-term incentive plan is limited to 10% of total issued and outstanding shares, subject to adjustment in the event of certain changes in the Company's corporate structure or capital stock. Stock options may be exercised in whole or in part within 60 days of termination of employment or one year after retirement, total disability or death of an employee.

Options granted under the long-term incentive plan prior to 1998 were vested 25% immediately, 50% after one year, 75% after two years and 100% after three years. Options granted in 1998 were vested 20% after one year, 40% after two years, 60% after three years, 80% after four years and 100% after five years. Options granted in 1999 through 2003 were vested 40% after six months, 60% after 18 months, 80% after two years and 100% after 30 months.

In 1993, the shareholders of the Company approved and ratified the 1993 Directors' Stock Option Plan. The purpose of the plan is to afford the Company's directors who are not full-time employees of the Company or any subsidiary of the Company an opportunity to acquire a greater proprietary interest in the Company. A maximum of 400,000 shares of the Company's common stock has been reserved for issuance upon the exercise of options granted pursuant to the plan. The exercise price of options is the fair market value per share on the date the option is granted. Directors' stock options vest over two years at the rate of 50% per year and expire ten years from date of grant.

Pursuant to the merger agreement with Marine, all options to acquire Marine common stock under various Marine stock option plans were deemed to be options to acquire the same number of shares of the Company's common stock and all Marine options became fully vested and exercisable pursuant to the "change of control" provisions of the Marine stock option plans.

Employee and director stock option transactions for the last three years are summarized as follows:

	Employee Stock Options		Director Stock Options	
	Price	Shares	Price	Shares
Outstanding as of December 31, 2000		7,998,362		308,165
Granted	$14.65 – $29.63	2,159,500	$14.65 – $28.10	66,500
Exercised	$ 2.50 – $22.75	(322,689)	$ 4.00 – $ 8.38	(26,000)
Forfeited	$ 8.00 – $29.63	(39,488)	—	—
Outstanding as of December 31, 2001		9,795,685		348,665
Granted	$14.35 – $19.14	1,225,000	$ 14.35	52,500
Exercised	$ 6.25 – $16.50	(1,095,005)	—	—
Forfeited	$ 8.00 – $29.63	(1,208,650)	—	—
Outstanding as of December 31, 2002		8,717,030		401,165
Granted	$15.40 – $16.10	2,700,000	$ 15.40	52,500
Exercised	$ 6.19 – $19.56	(364,395)	$ 8.38 – $15.50	(18,000)
Forfeited	$ 8.00 – $29.63	(500)	$ 8.38 – $29.25	(33,000)
Outstanding as of December 31, 2003		11,052,135		402,665
Exercisable as of December 31, 2003		8,485,435		323,915

The following table summarizes information on stock options outstanding and exercisable at December 31, 2003 pursuant to the employee stock option plans:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.00 – $ 14.81	5,823,760	5.7	$11.85	5,031,060	$11.44
$ 14.81 – $ 29.63	5,228,375	6.9	$18.59	3,454,375	$20.11
$ 0.00 – $ 29.63	11,052,135	6.3	$15.04	8,485,435	$14.97

The following table summarizes information on stock options outstanding and exercisable at December 31, 2003 pursuant to the directors' stock option plan:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.00 – $ 14.81	124,500	5.1	$12.78	98,250	$12.36
$ 14.81 – $ 29.63	278,165	3.5	$19.31	225,665	$20.22
$ 0.00 – $ 29.63	402,665	4.0	$17.29	323,915	$17.83

During 2003, the Company recognized $3.4 million of stock option compensation in connection with the modification of the terms of certain key employees' stock option grants.

12. Commitments and Contingencies

The Company is routinely involved in other litigation, claims and disputes incidental to its business, which at times involves claims for significant monetary amounts, some of which would not be covered by insurance. In the opinion of management, none of the existing litigation will have a material adverse effect on the Company's financial position, results of operations or cash flows. However, a substantial settlement payment or judgment in excess of the Company's accruals could have a material adverse effect on its consolidated results of operations or cash flows.

13. Investments in Joint Ventures

As of December 31, 2003, the Company had a 30.0% equity interest in a joint venture company that is currently completing construction of two dynamically-positioned, deepwater semisubmersible drilling rigs, the *Pride Portland* and *Pride Rio de Janeiro*. The *Pride Rio de Janeiro* is undergoing sea trials in the Caribbean Sea and the *Pride Portland* is expected to leave the shipyard in Maine in May 2004. The joint venture company has financed 87.5% of the cost of construction of these rigs through credit facilities, with repayment of the borrowings under those facilities guaranteed by the United States Maritime Administration ("MARAD"). Advances under the credit facilities are being provided without recourse to any of the joint venture owners. The remaining 12.5% of the cost of construction is being provided by the joint venture company from equity contributions that have been made by the joint venture partners. In addition, the joint venture partners have agreed to provide equity contributions to finance all of the estimated $5.2 million of incremental costs associated with upgrading both rigs to a water depth capability of 1,700 meters from the original design of approximately 1,500 meters, of which the Company's 30% share would be approximately $1.6 million. The Company expects that the joint venture partners will have to make additional capital contributions to fund the project through the sea trial stage for each rig or, alternatively, will have to provide acceptable guarantees to MARAD to permit the required further draws to become available under the MARAD-guaranteed credit facilities. If the funding is made by additional capital contributions, the Company expects that its proportionate share would be approximately $8.0 million. The capital contributions are likely to be required during the second quarter of 2004. Through December 31, 2003, the Company's equity contributions to the joint venture totaled $33.7 million, including capitalized interest of $7.3 million and contributions of $0.8 million in connection with the water depth upgrades. Initial interest and debt service payments in respect of construction debt for the two rigs are expected to total approximately $22.0 million during 2004, of which the Company's 30% share would be $6.6 million.

The Company has a 12.5% interest in Basafojagu (HS) Inc. ("Basafojagu"), a company incorporated in Liberia that has capital lease obligations in respect of the *Al Baraka 1* tender-assisted drilling rig. The majority shareholder is a subsidiary of a major Saudi Arabian banking and industrial group, and the two lessor banks are also members of that same group. The Company entered into a long-term management agreement with Basafojagu to manage and operate the rig. The Company also provided guarantees for its 12.5% share, or approximately $5.0 million as of December 31, 2003, of Basafojagu's lease obligations. Basafojagu is in arrears in payment of its lease obligations. In January 2004, the Company entered into a purchase option that expires on May 15, 2004 to acquire the tender barge and associated derrick set for aggregate consideration of $15.3 million. If the Company exercises its option, it will be released of all obligations under the guarantees and under the lease and management agreements. The Company considers it likely that the purchase option will be exercised and, therefore, has not provided for any amounts contingently payable under its guarantee.

The Company has a 30.0% ownership in United Gulf Energy Resource Co. SAOC-Sultanate of Oman, which owns 99.9% of National Drilling and Services Co. LLC ("NDSC"), an Omani company. NDSC owns and operates four land drilling rigs. The Company accounts for this investment under the equity method, which as of December 31, 2003 was $300,000.

14. Supplemental Financial Information

Other Current Assets

Other current assets consisted of the following:

(In thousands)	December 31, 2003	2002
Deferred mobilization and inspection costs	$ 46,406	$ 59,753
Insurance receivables	5,975	33,982
Prepaid expenses	34,059	27,549
Other receivables	8,129	13,266
Construction project costs	48,262	28,351
Deferred financing costs	11,949	11,121
Other	15,526	2,890
Total other current assets	$ 170,306	$ 176,912

Other Assets

Other assets consisted of the following:

(In thousands)	December 31, 2003	2002
Deferred mobilization and inspection costs	$ 40,576	$ 55,882
Deferred financing costs	34,055	38,860
Deferred compensation plan	12,996	11,670
Deferred income taxes	4,048	—
Other	10,502	23,440
Total other assets	$ 102,177	$ 129,852

Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	December 31, 2003	2002
Deferred mobilization	$ 48,894	$ 90,302
Construction project costs	64,496	—
Payroll and benefits	44,809	42,830
Interest	17,370	26,398
Current income taxes	24,263	22,334
Taxes, other than income	21,256	21,705
Insurance	9,746	7,147
Earn-out payment, current portion	3,000	3,000
Foreign currency contracts	—	1,116
Pooling and merger costs	—	886
Other	26,264	22,343
Total accrued expenses	$ 260,098	$ 238,061

Other Long-Term Liabilities

Other long-term liabilities consisted of the following:

(In thousands)	December 31, 2003	2002
Deferred mobilization revenue	$ 26,190	$ 47,457
Deferred compensation	12,996	14,621
Deferred revenue, other	1,176	14,712
Earn-out payment, net of current portion	—	3,000
Other	14,061	8,782
Total other long-term liabilities	$ 54,423	$ 88,572

Other Income (Expense), Net

Other income (expense), net consisted of the following:

(In thousands)	Year Ended December 31, 2003	2002	2001
Argentina writedown	$ —	$ —	$ (10,679)
Foreign exchange gain (loss)	9,592	(1)	(2,375)
Gain (loss) on extinguishment of debt	(6,142)	(1,228)	2,049
Insurance gains	—	—	1,299
Litigation settlement	—	—	(5,100)
Other, net	79	157	1,480
Total other income (expense), net	$ 3,529	$ (1,072)	$ (13,326)

Cash Flow Information

Supplemental cash flows and non-cash transactions were as follows:

(In thousands)	Year Ended December 31, 2003	2002	2001
Cash paid during the year for:			
Interest	$89,354	$ 111,576	$ 97,970
Income taxes – U.S., net	—	—	13,165
Income taxes – foreign, net	33,233	22,728	25,704
Change in capital expenditures in account payable	(7,078)	35,863	55,346

15. Financial Data of Domestic and International Operations

The following table sets forth certain consolidated information with respect to the Company by operating segment:

(In thousands)	Gulf of Mexico	International Offshore	International Land	E&P Services	Technical Services	Other	Total
2003							
Revenue	$ 271,490	$ 683,058	$ 482,832	$ 122,052	$ 130,288	$ —	$ 1,689,720
Earnings (loss) from operations	9,272	215,283	33,388	10,351	(104,856)	(41,220)	122,218
Total assets	1,028,071	2,157,692	821,390	182,138	68,359	120,780	4,378,430
Capital expenditures, including acquisitions	73,305	84,951	22,761	9,154	—	26,801	216,972
Depreciation and amortization	62,720	100,808	70,213	11,138	92	4,251	249,222
2002							
Revenue	$ 165,419	$ 642,319	$ 299,278	$ 73,000	$ 89,758	$ —	$ 1,269,774
Earnings (loss) from operations	(36,664)	247,466	(42,338)	(1,614)	3,217	(19,477)	150,590
Total assets	726,832	2,578,901	721,843	159,695	37,887	177,699	4,402,857
Capital expenditures, including acquisitions	95,879	17,363	135,485	10,709	508	(4,118)	255,826
Depreciation and amortization	46,041	98,385	71,557	10,345	10	3,866	230,204
2001							
Revenue	$ 418,850	$ 507,139	$ 444,405	$ 142,501	$ —	$ —	$ 1,512,895
Earnings (loss) from operations	112,490	186,279	15,723	7,547	—	(37,490)	284,549
Total assets	929,550	2,296,297	767,769	147,967	—	149,624	4,291,207
Capital expenditures, including acquisitions	45,596	708,433	151,451	22,895	—	3,898	932,273
Depreciation and amortization	57,860	79,847	47,745	13,566	—	3,692	202,710

The following table sets forth certain information with respect to the Company by geographic area:

(In thousands)	North America	South America	Other International	Total
2003				
Revenue	$ 398,680	$ 662,172	$ 628,868	$ 1,689,720
Earnings (loss) from operations	(137,725)	65,239	194,704	122,218
Long-term assets	521,006	718,059	2,412,441	3,651,506
Capital expenditures, including acquisitions	100,106	30,826	86,040	216,972
Depreciation and amortization	66,654	88,213	94,355	249,222
2002				
Revenue	$ 252,127	$ 515,045	$ 502,602	$ 1,269,774
Earnings (loss) from operations	(43,016)	69,333	124,273	150,590
Long-term assets	508,411	702,166	2,494,545	3,705,122
Capital expenditures, including acquisitions	46,923	38,554	170,349	255,826
Depreciation and amortization	49,917	91,702	88,585	230,204
2001				
Revenue	$ 418,850	$ 716,572	$ 377,473	$ 1,512,895
Earnings from operations	75,000	86,360	123,189	284,549
Long-term assets	953,619	1,235,863	1,465,712	3,655,194
Capital expenditures, including acquisitions	49,494	612,741	270,038	932,273
Depreciation and amortization	61,552	86,339	54,819	202,710

Revenue is classified in geographic areas based on the physical location of the rigs. Transactions between reportable segments are accounted for consistent with revenue and expense of external customers and are eliminated in consolidation.

Significant Customers

Two customers each accounted for approximately 13% of consolidated revenues for the year ended December 31, 2003, which amounts are included in South America and Other International geographic segments, respectively. Two customers accounted for approximately 16% and 12%, respectively, of consolidated revenues for the year ended December 31, 2002, which amounts are included in South America and Other International geographic segments, respectively. One customer accounted for approximately 11% of consolidated revenues for the year ended December 31, 2001, which amount is included in the South America geographic segment.

16. Quarterly Results of Operations (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2003 and 2002 were as follows:

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2003				
Revenue	$ 395,421	$ 408,615	$ 450,834	$ 434,850
Earnings (losses) from operations [(1)]	50,414	11,888	82,947	(23,031)
Net earnings (loss)	3,980	(18,173)	28,712	(38,452)
Net earnings (loss) per share:				
Basic	$ 0.03	$ (0.14)	$ 0.21	$ (0.28)
Diluted	$ 0.03	$ (0.14)	$ 0.19	$ (0.28)
Weighted average common shares and equivalents outstanding:				
Basic	134,131	134,246	135,131	135,291
Diluted	134,840	134,246	155,466	135,291
2002				
Revenue	$ 298,557	$ 309,484	$ 312,750	$ 348,983
Earnings from operations [(1)]	35,283	37,489	35,458	42,360
Net earnings (loss)	263	(4,155)	(5,586)	1,143
Net earnings (loss) per share:				
Basic	$ —	$ (0.03)	$ (0.04)	$ 0.01
Diluted	$ —	$ (0.03)	$ (0.04)	$ 0.01
Weighted average common shares and equivalents outstanding:				
Basic	132,863	133,094	133,212	134,041
Diluted	133,816	133,094	133,212	134,838

(1) *Results previously reported for interim periods have been restated to reflect the retroactive adoption of FIN No. 46R, "Consolidation of Variable Interest Entities". See Note 1.*

Reconciliation of Non-GAAP Financial Measures

We use EBITDA (as defined below), which is a "non-GAAP financial measure" under Regulation G of the Securities Exchange Act, as a supplemental disclosure because our management believes that it provides investors an additional measure of operating cash flow and ability to service debt. It is also useful for comparing our operating performance with the performance of other companies that have different financing and capital structures and tax rates.

EBITDA as defined consists of net earnings before minority interest, income taxes, net other expense, depreciation and amortization expense and merger and pooling costs. EBITDA is not a measure of financial performance under generally accepted accounting principles. You should not consider it in isolation from or as a substitute for net income or cash flow measures prepared in accordance with generally accepted accounting principles or as a measure of profitability or liquidity. Additionally, EBITDA as defined may not be comparable to other similarly titled measures of other companies.

The following table reconciles EBITDA as defined with our net earnings, as derived from our audited financial information: [1]

	Year Ended December 31,				
	2003	2002	2001	2000	1999
Net earnings (loss)	$ (23,933)	$ (8,335)	$ 91,521	$ 48,922	$ (59,269)
Plus: Minority interest	20,765	16,097	15,508	10,812	3,996
Plus: Income tax provision (benefit)	(1,130)	2,977	49,948	34,928	(23,889)
Less: Total other income (expense), net	(126,516)	(139,851)	(127,572)	(94,775)	(47,601)
Plus: Depreciation and amortization	249,222	230,204	202,710	178,352	128,534
Pus: Merger/pooling costs (benefit)	(824)	—	35,766	—	—
EBITDA, as defined	$ 370,616	$ 380,794	$ 523,025	$ 367,789	$ 96,973
Less: Construction project income (loss)	(98,442)	3,680	—	—	—
Adjusted EBITDA	$ 469,058	$ 377,114	$ 523,025	$ 367,789	$ 96,973

[1] *Please refer to "Selected Financial Data" on page 17 of this annual report.*

Corporate Information

Independent Auditors

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Houston, Texas 77002

Registrar and Transfer Agent

American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005
(212) 936-5100

Common Stock

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "PDE." As of March 8, 2004, there were 1,507 stockholders of record. The following table sets forth the range of high and low sales prices of the Common Stock for the periods shown.

	High	Low
2002		
First Quarter	$ 16.25	$ 11.70
Second Quarter	19.70	15.00
Third Quarter	15.66	10.80
Fourth Quarter	16.15	12.25
2003		
First Quarter	$ 15.48	$ 12.75
Second Quarter	20.09	13.15
Third Quarter	19.08	15.75
Fourth Quarter	18.95	15.75

Annual Meeting

The Annual Meeting of Stockholders will be held on Tuesday, May 18, 2004, at 9:00 a.m. (CDT) at the St. Regis Hotel, 1919 Briar Oaks Lane, Houston, Texas.

Form 10-K

A copy of the Company's Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission, is available without charge to stockholders who request it by writing to the Investor Relations Department at the address below or through our website at www.prideinternational.com.

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