

Diamond Offshore

Annual Report

2002



Financial Highlights

(Dollars in millions)

	2002	2001	2000
Revenues	\$ 753	\$ 924	\$ 685
Depreciation and Amortization	177	170	146
Operating Expenses	701	699	627
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	229	395	203
Net Income	63	174	72
Capital Expenditures	340	269	324
Cash and Investments	\$ 812	\$ 1,147	\$ 862
Drilling and Other Property and Equipment, Net	2,164	2,003	1,931
Total Assets	3,259	3,503	3,080
Long-term Debt	924	921	857
Shareholders' Equity	1,808	1,853	1,768
Number of Offshore Active Rigs	47	45	45

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About the Cover

The *Ocean Valiant* is shown mobilizing to a deepwater location in the Gulf of Mexico. The *Valiant* is one of the Company's ten deepwater rigs.

About the Company

Diamond Offshore Drilling, Inc. provides comprehensive drilling services to the energy industry around the globe.

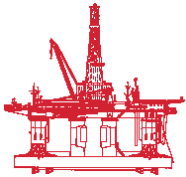

Diamond Offshore owns and operates one of the world's largest fleets of offshore drilling rigs, consisting of 32 semisubmersibles, 14 jack-up rigs, and one drillship.

The Company's headquarters are in Houston, Texas. Regional offices are in Louisiana, Australia, Brazil, Indonesia, Scotland, Vietnam, Singapore, Netherlands, and Norway. Approximately 3,700 people work for Diamond Offshore on board our rigs and in our offices.

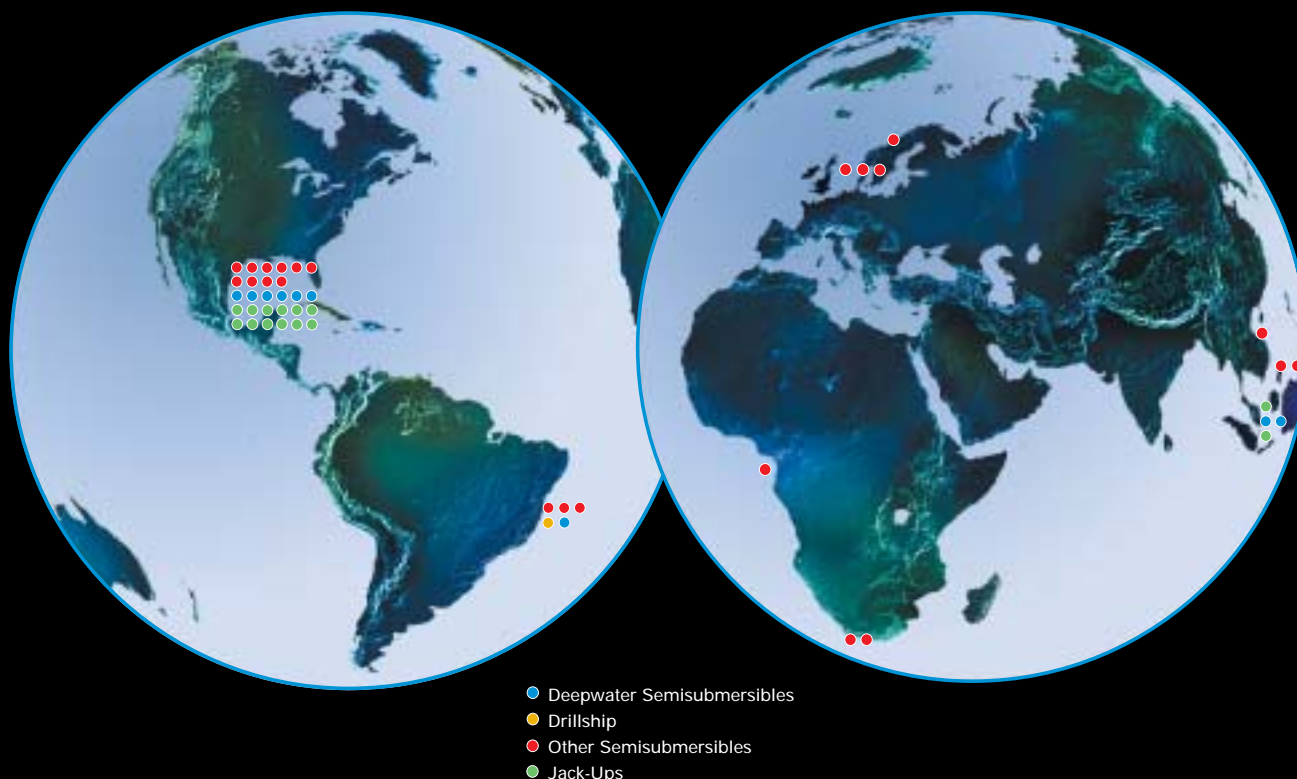
Diamond Offshore's common stock is listed on the New York Stock Exchange under the symbol "DO."

Fleet List

As of March 17, 2003

	Type and Name	Water Depth Capability(ft.)	Description	Location
	HIGH SPECIFICATION FLOATERS			
	Deepwater Semisubmersibles (8)			
	Ocean Confidence	7,500	Dynamically positioned	Gulf of Mexico
	Ocean Baroness	7,000		Indonesia
	Ocean America	5,500		Gulf of Mexico
	Ocean Valiant	5,500		Gulf of Mexico
	Ocean Victory	5,500		Gulf of Mexico
	Ocean Star	5,500		Gulf of Mexico
	Ocean Alliance	5,000	Dynamically positioned	Brazil
	Ocean Quest	3,500		Gulf of Mexico
	Drillship (1)			
	Ocean Clipper	7,500	Dynamically positioned drillship	Brazil
	Under Construction (1):			
	Ocean Rover	7,000	Upgrade to 7,000 feet	Singapore
	Other Semisubmersibles (22):			
	Ocean Winner	3,500		Brazil
	Ocean Worker	3,500		Gulf of Mexico
	Ocean Yatzy	3,300	Dynamically positioned	Brazil
	Ocean Voyager	3,300		Gulf of Mexico
	Ocean Patriot	3,000		South Africa
	Ocean Yorktown	2,850		Brazil
	Ocean Concord	2,200		Gulf of Mexico
Ocean Lexington	2,200		Gulf of Mexico	
Ocean Saratoga	2,200		Gulf of Mexico	
Ocean Endeavor	2,000		Gulf of Mexico	
Ocean Epoch	2,000		Australia	
Ocean General	2,000		Vietnam	
Ocean Prospector	1,700		Gulf of Mexico	
Ocean Bounty	1,500		Australia	
Ocean Guardian	1,500		North Sea	
Ocean New Era	1,500		Gulf of Mexico	
Ocean Princess	1,500		North Sea	
Ocean Vanguard	1,500		Norway	
Ocean Whittington	1,500		Ghana	
Ocean Nomad	1,200		North Sea	
Ocean Ambassador	1,100		Gulf of Mexico	
Ocean Century	800		Gulf of Mexico	
Ocean Liberator	600		South Africa	
	Jack-ups (14):			
	Ocean Titan	350	Independent-leg slot	Gulf of Mexico
	Ocean Tower	350	Independent-leg slot	Gulf of Mexico
	Ocean King	300	Independent-leg cantilever	Gulf of Mexico
	Ocean Nugget	300	Independent-leg cantilever	Gulf of Mexico
	Ocean Summit	300	Independent-leg cantilever	Gulf of Mexico
	Ocean Warwick	300	Independent-leg cantilever	Gulf of Mexico
	Ocean Heritage	300	Independent-leg cantilever	Indonesia
	Ocean Spartan	300	Independent-leg cantilever	Gulf of Mexico
	Ocean Spur	300	Independent-leg cantilever	Gulf of Mexico
	Ocean Champion	250	Mat-supported slot	Gulf of Mexico
	Ocean Columbia	250	Independent-leg cantilever	Gulf of Mexico
	Ocean Sovereign	250	Independent-leg cantilever	Singapore
	Ocean Crusader	200	Mat-supported cantilever	Gulf of Mexico
Ocean Drake	200	Mat-supported cantilever	Gulf of Mexico	

FLEET LOCATIONS



Our Markets

Our fleet operates in three key water depth ranges: deepwater (over 3,500 feet), mid-water (350 to 3,500 feet) and jack-ups (under 350 feet). Each sector is also impacted by its geographical market.

DEEPWATER MARKET

Gulf of Mexico Significant deepwater discoveries have been made in recent years. However, this development drilling activity of these discoveries has been slow to occur. Nonetheless, our six deepwater semisubmersibles located in the Gulf of Mexico have been fully employed, albeit at lower dayrates. Dayrates for fourth-generation rigs began the year near \$100,000 and ended it in the mid-\$60,000 to mid-\$80,000 range. The Company continues to believe, however, that opportunities in the deepwater Gulf of Mexico market will result in a high utilization of this fleet in the future at improved dayrates. Our semisubmersible upgrade program not only adds water depth capacity, but also

focuses on extending drilling depth, which will expand opportunities for future work.

Brazil Brazil remains a strong market and an area of focus for Diamond Offshore. We are pleased to have continued our long-standing relationship with the state-owned oil company, Petrobras. Additionally, Brazil has invited international oil companies to participate in the exploration and development of its offshore oil fields, thus creating further opportunities for increased drilling. This market has employed a number of deepwater dynamically positioned rigs and the *Ocean Yatzy*, *Ocean Clipper*, and *Ocean Alliance* continue to work under term contracts, which will last into 2004 or late 2003.

Southeast Asia Historically a mid-water depth market, Southeast Asia has developed into a productive deepwater market for Diamond Offshore. The *Ocean Baroness*, an upgraded fifth-generation semisubmersible delivered in the

first quarter of 2002, was under contract for the majority of the year and is currently working under a one year contract offshore Indonesia. The deepwater upgrade of the *Ocean Rover* – built to similar specifications as the *Baroness* – is scheduled for completion in the third quarter of 2003. Immediately upon delivery, the *Rover* is committed to begin work offshore Malaysia. The average dayrate for both rigs will exceed \$100,000.

MID-WATER SEMISUBMERSIBLE MARKET

Gulf of Mexico Diamond Offshore has ten mid-water semisubmersible rigs located in the Gulf of Mexico, which represents 50 percent of this market. The beginning of the year saw dayrates in the low \$30,000 range with poor utilization. In the face of continued market weakness, the Company cold stacked five of its rigs that participate in this market. Removing this excess capacity helped push dayrates to around \$40,000 and enabled Diamond Offshore to increase its utilization to nearly 100 percent for its remaining active rigs. The Company will continue to monitor capacity, but expects the market to remain depressed through 2003.

Brazil The Brazilian mid-water market continued to offer stable work for offshore drilling companies in 2002. Diamond Offshore operates two semisubmersibles in this market and both of these rigs experienced 100 percent utilization during the past year. The *Ocean Winner* continues to work for Petrobras while the *Ocean Yorktown* is under contract to Shell Oil.

Southeast Asia and Australia Southeast Asia and Australia remain steady markets for Diamond Offshore, but work continues to be on a well-to-well basis for the three rigs we have located in the area. The *Ocean Bounty* has completed work in New Zealand and will begin work in Australia under a five-well program following its special survey. As of the beginning of 2003, the *Ocean General* was working offshore Vietnam while the *Ocean Epoch*, which had been under contract for all but seven days in 2002, was idle in Australia.

North Sea In addition to customer uncertainties regarding the sustainability of oil and natural gas prices, a change in tax laws in the U.K. contributed to North Sea dayrates and utilization decreasing dramatically during 2002. While dayrates were in the \$70,000 to \$90,000 range early in 2002, by the end of the year rates had decreased to \$40,000 per day. Despite this downturn, all four of our mid-water semisubmersibles in this market are currently under contract or have letters of intent committing them to future work.

Africa Like the deepwater Gulf of Mexico market, the African market has been slower to develop than previously forecast. However, also like the deepwater Gulf of Mexico market, long-term prospects are encouraging. Diamond Offshore is prepared for increased demand in the African market with our new acquisition, the *Ocean Patriot*.

JACK-UP MARKET

Gulf of Mexico Diamond Offshore's Gulf of Mexico jack-up fleet consists of twelve rigs and represents nearly 10 percent of this market. High utilization rates are the key to success in this competitive area, which focuses primarily on natural gas. While natural gas prices rose considerably during the second half of 2002, demand and dayrates for jack-up drilling rigs did not improve. The Company took advantage of these depressed conditions to upgrade several rigs in our jack-up fleet, which improved our competitive position. Despite an industry-wide utilization rate of 72 percent at the end of 2002, all eleven of the Company's marketed jack-ups were contracted or had commitments at the beginning of 2003.

Indonesia While both the *Ocean Heritage* and the *Ocean Sovereign* have worked steadily in this market, dayrates have softened in recent years. Upon completing its water depth upgrade in 2002, the *Heritage* assumed the remaining commitment of a one-year term program being performed by the *Sovereign*. The *Sovereign*, currently undergoing the same upgrade as the *Heritage*, will return to work in the second quarter of 2003. These upgrades should improve the long-term marketability of these rigs.

Letter to Shareholders

To our Shareholders:

Oil and gas prices during 2002 were at levels that should have justified an increase in exploration and production activity. However, because of general wariness about future price volatility, our customers reined in their drilling budgets. As a result, dayrates declined for almost every type of rig in our fleet and the number of rig workdays recorded by Diamond Offshore fell to a level lower than in any year since 1999. These realities, in turn, caused a 22 percent reduction in contract drilling revenues and a decrease in net income to \$63 million.

Companies that participate in the offshore drilling market must be able to respond quickly to its highly cyclical nature. Given the current downturn, Diamond Offshore has taken a number of measures to reduce its operating expenses. At present, seven of the Company's rigs are cold stacked. However, because Diamond Offshore also has one of the strongest balance sheets in the industry, it is in a position to take advantage of the opportunities that present themselves in difficult market conditions. Our financial strength has allowed us to upgrade our fleet during this period where opportunity costs are otherwise low and to acquire equipment at depressed prices from competitors struggling to conserve cash. The following projects carried out during the adverse market conditions that prevailed in 2002 should enhance our earnings potential for years to come:

- Victory-class upgrades of the *Ocean Baroness* and the *Ocean Rover*
- The acquisition of two high-capability third generation semisubmersible rigs
- The commencement of a six jack-up rig enhancement program
- The repurchase of Diamond Offshore common stock at low market prices

The *Ocean Baroness* upgrade project was completed in the first quarter at a cost of \$169 million – on time and \$10 million under budget. The upgrade included replacing substantially all drilling components with new state-of-the-art equipment and increasing the rig's rated water depth to 7,000 feet from an original design depth of 600 feet. The *Baroness's* overall capability now meets or exceeds that of many fifth-generation semi-submersibles. Because the cost of the upgrade was less than half the cost of a comparable newbuild, the *Baroness* is positioned to earn a substantially higher return on investment.

The *Baroness* is the most automated and sophisticated of all Victory-class rigs that have undergone upgrades, and has been extremely well received by customers. It began working in Malaysia in the first quarter of 2002, and drilled most of the year for a subsidiary of Murphy Oil Corporation. In February 2003, it will begin a 13-month contract in Indonesia for an affiliate of Unocal Corporation.

The *Ocean Rover* is in Singapore for an upgrade similar to the one performed on the *Baroness*. The *Rover* is on schedule for delivery in the third quarter of 2003. When finished, it will work in Malaysia under a multi-well contract with Murphy Oil. This upgrade project will be the fifth Victory-class upgrade completed by Diamond Offshore. All four of the prior upgrades have proven highly successful. Diamond Offshore owns three other Victory-class rigs that are candidates for future upgrades.

In the fourth quarter of 2002, Diamond Offshore signed letters of intent to purchase two high-capability third generation semisubmersible rigs. The *Ocean Vanguard*, which was purchased for \$68 million and is presently working off the coast of Norway, has been bareboat chartered to its previous owner until mid-2003. The second rig, a sister unit of the *Vanguard*,



James S. Tisch



Lawrence R. Dickerson

was originally named the *Omega*, but has been renamed the *Ocean Patriot*. The *Patriot*, which was purchased for \$65 million, is presently undergoing survey and upgrade work in South Africa, and will be in a shipyard in Cape Town until the latter part of March 2003. The *Patriot* has already been contracted to work for an affiliate of its previous owner when it is released from the shipyard.

We believe that the prices that we paid for these new additions to our fleet presented a great bargain – comparable rigs sold for more than \$100 million a piece in the last two years. Notably, soon after they were purchased, both rigs were contracted to work at profitable dayrates without having to be relocated.

Diamond Offshore had previously announced that a plan to invest \$100 million in water depth and class upgrades to six jack-up rigs. Three of these rig upgrades are now complete, two others are scheduled to be finished in the second quarter of 2003, and the last upgrade is expected to be completed in the fourth quarter of 2003.

The decline in the price of our common stock late in the year gave us an opportunity to repurchase our shares at attractive prices. During the third and fourth quarters, we spent more than \$23 million to buy back about 1.2 million shares on the open market. Since 1998, we have repurchased 9.3 million shares, which has reduced our shares outstanding by seven percent.

We constantly evaluate various uses for our capital. At times, rig acquisitions or upgrades may offer the best potential returns, while at other times share repurchases are a better means to create value for our shareholders. If none of these options are attractive, we are not afraid to let our cash balance grow. Discipline, patience, and a countercyclical mindset are

some of the elements we view as critical to creating value in the offshore drilling market.

Also important is the efficient and safe operation of our rigs. It gives us great pride to note that in May, the Mineral Management Service of the U. S. Department of the Interior presented us with its National SAFE award for drilling contractors. This prestigious award recognizes outstanding performance in safety and environmental protection, and is evidence of the Company's dedication to excellence. Diamond Offshore has received the SAFE award three times in the last ten years. No other contractor has received this award more than once during that same period.

We realize that this achievement is the result of the hard work of all of our employees. We would like to take this opportunity to thank them for their dedication and professionalism. A debt of gratitude is also owed to our shareholders for their commitment to Diamond Offshore. We hope to see our relationship flourish as we work towards a rewarding future together.

A handwritten signature in black ink, appearing to read "James S. Tisch".

James S. Tisch
Chairman of the Board and
Chief Executive Officer
March 2003

A handwritten signature in black ink, appearing to read "Lawrence R. Dickerson".

Lawrence R. Dickerson
President and Chief
Operating Officer



Our Fleet

We believe the progression of oil and gas exploration to deeper waters offers the greatest long-term prospects for growth and income. Deepwater rigs generally achieve higher utilization rates and significantly higher dayrates than shallow and mid-water rigs. Diamond Offshore remains dedicated to positioning our fleet for operations in these more lucrative markets. In 1996, our fleet, with the exception of three of our rigs, lacked deepwater capabilities. Now, through our upgrade program, Diamond Offshore has the second largest deepwater fleet in the world. Nine of our rigs are able to work in ultra-deepwater depths of more than 5,000 feet. Our transformation has not been about depth alone – we have also upgraded the Diamond Offshore fleet with heavier-duty drilling machinery to enhance our customers' productivity.

Our most recent Victory-class upgrades have been built at a tremendous discount to new construction costs. Because our upgrades were completed during weaker market periods, we also sacrificed little opportunity cost. The *Ocean Baroness* was delivered in the first quarter of 2002, on time, \$10 million under budget, and at significantly less cost than a comparable newbuild. The rig now possesses overall design capabilities that meet or exceed other fifth-generation semisubmersibles. The deepwater conversion of the *Ocean Rover* to same specifications as the *Baroness* is slated to be completed in the third quarter of 2003 – again, in half the time and for roughly half the cost of a new construction.

The *Ocean Rover* is expected to be the fifth in a series of highly successful Victory-class upgrades that has performed well

OUR TRANSFORMATION WAS NOT ABOUT DEPTH ALONE; WE HAVE ALSO UPGRADED THE DIAMOND OFFSHORE FLEET WITH HEAVIER DUTY DRILLING MACHINERY FOR EXTENDED DRILLING CAPABILITIES TO PROVIDE OUR CUSTOMERS WITH ENHANCED PRODUCTIVITY.

in the marketplace. Because we have been able to limit our investment per rig, we are able to earn acceptable returns at lower dayrates. And, because we own three Victory-class rigs that have not yet been upgraded, we have the ability to continue to add additional deepwater capacity to our fleet – which, of course, will be determined by market conditions.

We have also utilized this proven strategy of cost-effective upgrades to enhance our jack-up fleet. Our current upgrade program is expanding the performance capabilities of six of our 14 jack-up rigs. The *Ocean Heritage*, *Ocean Spartan* and *Ocean Spur* have all completed leg extensions that will enable them to work in deeper water depths and increase our future earnings potential. The *Ocean Sovereign* is currently undergoing a similar upgrade, which is expected to be completed during the first half of 2003. Both the *Ocean Titan* and the *Ocean Tower*, currently 350-foot slot jack-up rigs, are undergoing cantilever upgrades that will permit a 65-foot extension of the drilling package over the rig's hull. Upon completion, this upgrade will add capabilities for additional drilling operations over platforms and at well sites adjacent to pipelines, expanding each rig's earning power. These improvements will also have been achieved with very little opportunity cost given the market conditions that have prevailed during the period the rigs have been out of service.

Diamond Offshore has also complemented its upgrade efforts by targeting profitable acquisitions that would enhance shareholder value. Historically, Diamond Offshore has been a value buyer, seeking quality assets at discount prices. However, in the past several years we had not been able to find suitably attractive opportunities. But in late in 2002, market prices

compelled us to buy two rigs that strategically fit our fleet.

In December of 2002, Diamond Offshore completed the purchase of a third-generation semisubmersible, the *West Vanguard*, for \$68 million. The rig, renamed the *Ocean Vanguard*, was built in 1982 and is outfitted with the high specification equipment and safety features required in the Norwegian market. The *Vanguard* is currently working offshore Norway under a bareboat charter to an affiliate of the rig's previous owner for a period anticipated to extend into the second quarter of 2003. This transaction provides both immediate cash flow and time for us to re-contract the rig later in 2003.

In March of 2003, Diamond Offshore completed the purchase of another third generation semisubmersible, the *Omega*, for \$65 million. The *Omega*, which was renamed the *Ocean Patriot*, was built in 1983 and is capable of working in water depths of up to 3,000 feet. Prior to delivery, the rig underwent its regularly scheduled special survey as well as certain upgrades to its equipment – all of which were paid for by the seller. The *Patriot* has worked in the North Sea, West Africa and the Gulf of Mexico, and is currently working off the coast of South Africa. Both of these purchases, just like our upgrades, were made at bargain prices. On average, they cost approximately half as much as similar rigs sold in the late 1990s.

Our customers contract both a rig and our crews to perform drilling assignments. Our goals are not only to deliver first class capability but also first class financial returns. Our upgrades and acquisitions help us to achieve both goals.





In the South China Sea on August 30, 2002, Diamond Offshore Crane Operator Billy Ainsworth on the *Ocean Baroness* spotted a piece of floating fishing net with two sea turtles trapped inside. Noticing that some sharks had begun to circle the turtles, a rescue was quickly organized to pull the turtles safely onboard. Eventually the sea turtles were freed from their mesh prison and lowered by the personnel basket to just above the water's surface. Two of our crew assisted the turtles back to freedom. Both sea turtles were in good condition and quickly swam away after their brief visit aboard the *Baroness*.

Our Environment

It is not often that a Diamond Offshore rig operates within sight of such beauty as Mount Taranaki, seen here off the North Island of New Zealand.

Nonetheless, we strive to apply the same high standards of environmental protection at all locations to ensure minimal impact on the marine environments in which we operate.

Diamond's Global Excellence Management System (GEMS) has been recognized world wide for the high standard to which our company strives. The United States Minerals Management Service has recognized Diamond Offshore Drilling at both local and national levels with the coveted SAFE Award for outstanding performance in safety and environmental awareness. Clean Galveston, a non-profit organization in Galveston, Texas dedicated to preserving the beauty of Galveston and its beaches, presented Diamond Offshore with their "Special Friend Award" for support of their Adopt-A-Beach and Walk-About programs. Customers have also recognized individual rig achievement. Most recently, ChevronTexaco awarded the *Ocean Drake* with its President's Recognition for Accomplishment in Safety and Environment or PRAISE Award.

GEMS also contains an Environmental Management System that prescribes standards for operations. Criteria are uniform, regardless of a rig's location or the lack of local environmental protection standards.

Our employees recognize that their ability to harvest natural gas and petroleum from beneath the sea floor is closely related to their efforts to preserve the integrity of the marine environment. All of our drilling activities are designed to meet the energy needs of today without compromising the environment of tomorrow.

Diamond Offshore rig employees are encouraged to assist in returning sick or injured animals to their natural habitat. Often migrating birds are blown off course by the weather or become lost at sea and a Diamond Offshore rig is an inviting refuge. Because some birds are too weak to return to shore, Diamond Offshore coordinates with a network of wildlife organizations to have the birds picked up, rehabilitated and returned to the wild. Several rigs have rescued such species as blue winged teal, owls, and peregrine falcons.



Corporate Information

Board of Directors

James S. Tisch

Chairman of the Board and
Chief Executive Officer
Diamond Offshore Drilling, Inc.
Chief Executive Officer
Loews Corporation

Lawrence R. Dickerson

President and
Chief Operating Officer
Diamond Offshore Drilling, Inc.

Herbert C. Hofmann

Senior Vice President
Loews Corporation

Arthur L. Rebell

Senior Vice President
Loews Corporation

Alan Batkin

Kissinger Associates, Inc.

Michael H. Steinhardt

Steinhardt Management Company

Raymond S. Troubh

Financial Consultant

Executive Officers

James S. Tisch

Chairman of the Board and
Chief Executive Officer

Lawrence R. Dickerson

President and
Chief Operating Officer

David W. Williams

Executive Vice President

Rodney W. Eads

Senior Vice President –
Worldwide Operations

John L. Gabriel

Senior Vice President –
Contracts and Marketing

John M. Vecchio

Senior Vice President –
Technical Services

Gary T. Krenek

Vice President and Chief Financial
Officer

William C. Long

Vice President, General Counsel and
Secretary

Beth G. Gordon

Controller

Senior Management

Mark F. Baudoïn

Vice President –
Administration and Operations Support

Robert G. Blair

Vice President –
Contracts and Marketing

R. Lynn Charles

Vice President –
Human Resources

Lyndol L. Dew

Vice President –
North American Operations

Stephen G. Elwood

Vice President – Tax

Vance T. Greene

Vice President –
Contracts and Marketing

Glen E. Merrifield

Vice President –
Operations
(Management Systems)

Steven A. Nelson

Vice President –
International Operations

Morrison R. Plaisance

Vice President –
Team Solutions

Karl S. Sellers

Vice President –
Technical Services

Bodley P. Thornton

Vice President – Marketing

Lester L. Thomas

Treasurer

Corporate Headquarters

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Investor Relations

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Notice of Annual Meeting

The Annual Meeting of Stockholders
will be held at The Regency Hotel,
540 Park Avenue, New York, NY 10021
on Tuesday, May 20, 2003 at
11:30 a.m. local time

Transfer Agent and Registrar

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Stock Exchange Listing

New York Stock Exchange

Trading Symbol

“DO”

Independent Auditors

Deloitte & Touche LLP



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