

# DEEPWATER TECHNOLOGIES



Our people made things happen in a Deepwater market where activity was literally frozen in 1999 by the double whammy of \$10 oil and the mega-mergers. We converted small subcontract positions into awards for two major projects, *Diana* and *Cooper*, both of which were highlighted in the technology section of the October and November issues of *Offshore* magazine. Other significant Deepwater projects included tying in production from the world's first deployment of a 15,000 psi subsea tree (at *Gyrfalcon*) and *Penn State* production into the *Baldpate* compliant tower (see table). Even with this outstanding performance the decline in rates occasioned by the influx of competitive vessels caused revenues generated by our DP fleet to decline by 20%.

The largest contract in CDI history, decommissioning the *Cooper* field in water depths ranging from 2,000 to 2,200 fsw, was a tribute to Cal Dive's ability to manage a wide array of services while utilizing CDI's specialized fleet of DP vessels. EEX Corporation cited our position as a dominant player in the shallow water salvage market and capacity to take on complex Deepwater projects in announcing the award. Early activity proceeded smoothly as we removed an 1,800-foot production riser (the largest freestanding riser in the world), the 12-point mooring system and the floating production unit while decommissioning the associated pipelines.



During the fourth quarter, we encountered complex and unanticipated downhole well-bore conditions: Paraffin blockages required the full use of coiled tubing, several of the subsea trees would not release, hydrates caused stuck high-pressure caps, etc. While the resulting margins on *Cooper* were less than expected, we were able to work effectively with EEX and key suppliers to overcome these technical problems while accomplishing a feat never before attempted in the Deepwater GOM.

Although similar technical challenges had caused the industry to retrench in water depths of less than 3,000 feet in 1998, Exxon led the move back out to 5,000 fsw last year with completion of the *Diana/Hoover* prospect. The *MSV Uncle John* shattered all Deepwater records for a subsea construction vessel at this high-pro-

file field by installing two 50-ton suction piles, 70 and 92-ton manifolds and five subsea trees, each weighing approximately 40 tons. We believe this is the first time that any work platform other than a drilling unit has been used to set the customer's most precious asset, the subsea trees.

Most assets currently working the Deepwater Gulf (competitors and ours) were designed in the 1970's and 1980's for work to a maximum depth of approximately 1,000 fsw. These assets have been modified, in many cases inefficiently, to apply new technologies out to 4,000 feet. This runs counter to the goal shared between the producer and contractor of redefining the economics of Deepwater through technological advancements and efficiencies. We believe that the new dynamics of Deepwater require a "clean sheet of paper," one available to us since CDI is not hampered by the need to deploy and utilize a large, dated asset base. As a result, we designed the *Q4000* to replace the drilling rig at that point when it transitions to become a completion vessel (i.e. the 30 to 45 days it typically takes to work on down-hole completion, set the tree and test the well). We have applied for patents covering over 100 specific aspects of the vessel, including the 54-meter three-faced derrick, the underslung cassette for pipelay, and a hull structure that does not require cross-bracing. Construction of the vessel is progressing on schedule for a July 2001 launch date.

In a related step we acquired the *Sea Sorceress* as a DP conversion candidate given her ice class hull (3-inch thick steel) and a massive deck capable of carrying a 10,000 metric ton load. Once converted to

full DP-2, the *Sea Sorceress* will be a world class construction vessel. Alternatively we will assess whether it is more cost efficient to acquire a vessel having similar construction capabilities on the open market. We believe such a vessel and the *Q4000*, working in tandem, will revolutionize the economics of developing ultra-deepwater fields.

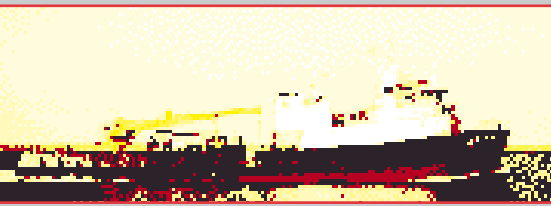
The impact of industry personnel cut-backs and mergers will have a lingering effect upon the year 2000. The good news is that many of the 90 announced yet undeveloped Deepwater projects have rolled over into the next year. We are now tracking at least 20 Deepwater fields that are scheduled to come into completion and production during 2001. This doubling of recent activity levels reflects not only oil prices well above the average of the 1990's, but also the need to develop Deepwater natural gas reserves to meet anticipated demand. While CDI could simply tread water and wait for this acceleration in demand, we have again challenged our people to make the aggressive list of 2000 Deepwater goals a reality.



FIELD	CUSTOMER	DESCRIPTION	DEPTH (fsw)
<i>Diana</i>	Exxon Mobil	Deepest installation work by non-drilling rig	4,700
<i>Mars</i>	Shell	Installation of expansion joints	3,000
<i>Cooper</i>	EEX	First ever decommissioning of GOM Deepwater field	2,200
<i>Typhoon</i>	Chevron	Geotechnical coring	2,100
<i>Troika</i>	BP/Amoco	Establish flange connection on rigid jumpers	1,800
<i>Baldpate</i>	Amerada Hess	Tie-in production from <i>Penn State</i> field	1,650
<i>Pompano</i>	Exxon Mobil	Pig J tube and pull test umbilical	1,300
<i>Gyrfalcon</i>	Shell	Tie-in production from the deployment of 15,000 psi subsea tree	1,000



## SUBSEA SERVICES



It was a tough year for service companies trying to make a living on the Outer Continental Shelf. The revenues of CDI vessels that work the OCS were down 26% while those of Aquatica were off 22%. There was a particular dearth of work in the mid-water Gulf (300 to 1,000 fsw) where CDI has a dominant presence in the saturation diving market. This is not to imply the end of the world, however, as profit margins on the OCS were still a more than respectable 37%.

We were pleased with the launch of our new full field development product line to assist cash-constrained customers on the OCS. Because there are over 4,200 platforms and production facilities already in place in the Gulf, we are convinced that each new field need not be reengineered. Adapting industry standard designs, Cal Dive now stocks subsea trees, prefabricated modules, well panels with associated controls and umbilicals for immediate assembly. This new service led to five full field/pipelay projects in 1999, including installations for Santa Fe Snyder Corporation, Tana Oil and Gas, and ATP Oil & Gas Corporation. This work also

highlights the flexibility of our fleet: the Deepwater DP vessel, the *Witch Queen*, is extremely efficient laying small diameter pipe at rates up to 1,000 feet per hour. While CDI does not seek to be a pipelay contractor for large transmission lines, we laid 184,000 feet of 4 1/2 inch diameter flowline pipe during 1999, principally in support of full field development projects. The new spool base built in Morgan City to accommodate the *Q4000* will enable us to expand this capacity to 8 inch pipe in 2000.

We expect that CDI's flexibility in our asset base, range of services, ability to manage complex projects, and corporate culture will place the company among those whose growth will be least affected by people constraints. Oil industry employment during the 1990's averaged just under 350,000,





down 50% from the high established in the early 1980's. The 50,000 people downsized out of the domestic energy industry last year took employment to 290,000, the lowest level in more than 30 years. Many observers believe that the oil and oil service companies will be able to restock personnel, as was the case following the industry compressions of 1985/86, 1992 and 1995. We would not bet the farm on that premise. What is certain is that the industry lost a significant amount of experience in 1999 and that the future will require people with a different set of technical skills.

Recent experience suggests that Cal Dive will retain existing personnel and compete successfully in the hiring of those possessing the new technical skills required. In 1999, our offshore people and

those working at the Operations base in Morgan City realized approximately 90% of what they earned in 1998, a record year for CDI direct labor. Among other things this was due to our consolidated corporate strategy where over \$2 million of salvage and repair work was performed by our Subsea services group for Energy Resource Technology, most of that coming in the particularly slow first half of 1999. In contrast, it is our understanding that offshore hands working for competitors in the Gulf of Mexico saw compensation fall by 50% to 60% from the prior year.

Effective August 1, 1999 we acquired the 55% of Aquatica, Inc. we did not already own. Aquatica was created in 1997 to take advantage of a void that opened in the shallow water market (from the beach to 300 fsw). Sonny Freeman, formerly the Chief Operating Officer of American Oilfield Divers, has attracted an experienced management team which has developed a reputation for customer service far beyond that normally rendered in this market segment. We have now consolidated all shallow water assets under Aquatica management. The number of vessels which Aquatica operates will double from three to six DSVs in 2000: CDI has transferred its remaining utility vessel, the *Cal Diver III* to Aquatica, a new-build 120-foot vessel should be available in the second half of the year and Aquatica has just purchased a 160-foot vessel which is being upgraded to a four-point anchor mode.

To reduce costs and improve customer support, Cal Dive created a Supply Chain organization in late 1998 in the face of the market downturn. This organization maintains a cost control philosophy which emphasizes volume discounts from a select number of quality vendors, and longer term, negotiated contracts which minimize paperwork processing costs. We estimate that the new supply chain process, which clearly sets Cal Dive apart from our OCS competitors, saved approximately \$6 million of costs in 1999 compared to the prior year. This group is now aggressively pursuing e-commerce applications with an objective of utilizing the Internet for automated order entry, purchase requisitions, check writing, etc.

Dwindling natural gas supplies have resulted in natural gas (Henry Hub) strip prices of \$2.60 to \$2.80 mcf – after the warmest winter on record. A recent study by the National Petroleum Council predicts that natural gas demand in the United States will grow from 23 TCF in 1997 to 33 TCF in 2015. Power generation (the use of natural gas to generate electricity), with a predicted compound annual growth rate of 6.2%, is the underlying cause of the dramatic increase. With 33% of the country's proven natural gas reserves, the Gulf of Mexico will be the primary region to supply the needed product. This should translate into strong demand for dive support and construction services in the second half of 2000 in a market (OCS) where Cal Dive and Aquatica have a dominant position.





## SALVAGE SERVICES

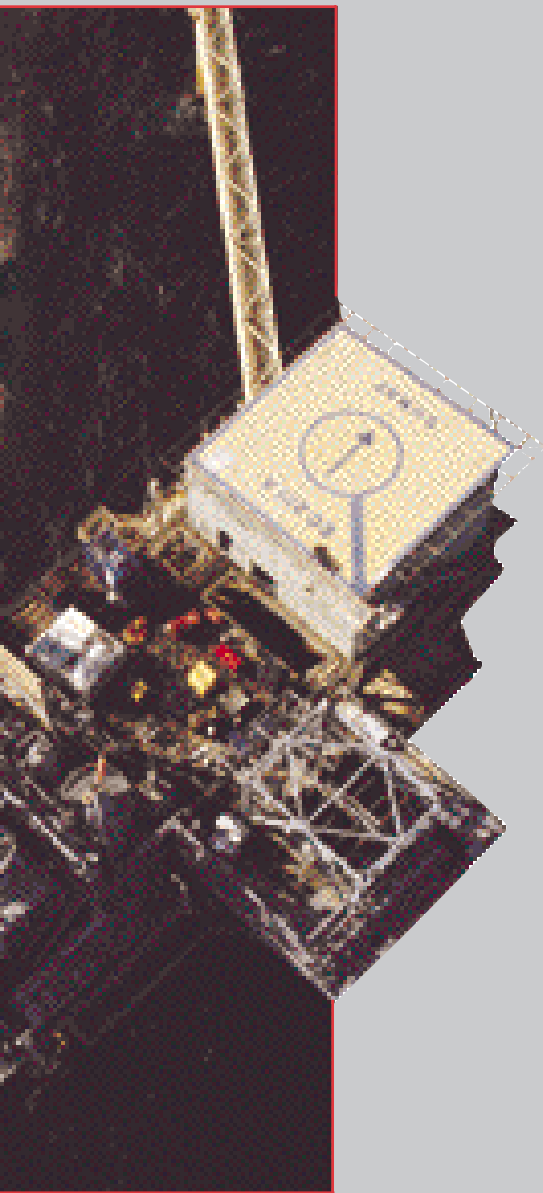


35 years ago Cal Dive performed its first GOM salvage project in the aftermath of Hurricane Betsy (see photo). Decommissioning has been a core business unit at Cal Dive since 1989 when we began operating the *Cal Dive Barge I*. Our dominance in this market niche for over a decade reflects our strategy of maintaining an asset base that is limited yet best-in-class. Specifically, we are not aware of any equipment that can compete economically with our barge and salvage management team in the removal of the smaller structures we target.

CDI salvage assets set a new all time revenue record in 1999 even though the market was just "so-so" with 77 two-pile or greater platforms being removed (roughly the same as the prior year). The largest Deepwater and OCS decommissioning

projects in CDI history were both completed in 1999. In addition to *Cooper*, Sonat Exploration Company awarded Cal Dive a turnkey contract which required the removal of nine OCS platforms and one caisson, 24 wells were plugged and abandoned and 30 associated pipelines were decommissioned. Cal Dive was again awarded a Chevron package of small structure removals (20 caissons and two platforms) and undertook fairly good-sized salvage projects for Samedan, Murphy Oil, Chocktaw Oil and Gas, and Forcenergy. The subcontract of Horizon Offshore derrick and pipelay barges to support the decommissioning of large structures and full field projects added \$10 million to 1999 revenues from this new alliance and new product line.





process entirely. ERT makes its money in three ways: Lower salvage costs using CDI assets, operating the field more cost effectively, and extending reservoir life through well exploitation operations. The collapse of commodity prices early in 1999 took many of the small companies which buy mature properties out of the market. The financial difficulties that these companies experienced also reminded the majors and large independents that they step right back into the liability chain when companies having little or no operating or salvage experience are not able to perform the assumed abandonment obligation. As a result, ERT was able to double the number of operated properties (and triple the number of wells operated) early in 1999. We then conducted a successful well exploitation program which increased 1999 production by 4 BCFe, or 82% over 1998 levels. In addition, three of the properties acquired are oilfields which took oil and condensate production to 40% of ERT fourth quarter revenues, up from our historical average of 10%.

In 1999 ERT added technical disciplines (geophysicists and reservoir engineers) which enabled us to acquire 3-D seismic and map a number of prospects, one of which was successfully drilled on a promoted basis. When the operator proposed a second well, ERT opted to sell the leases as we are not in the exploration business. This decision also flowed from our

policy of selling ERT assets when the expected future revenue stream can be accelerated in a single transaction. We have now sold seven of the 41 offshore blocks acquired since inception, three last year and two each in 1998 and 1997.

ERT enters the 21st Century as a respected offshore operator seeking to acquire properties which face the end of their decline curve and a significant near term abandonment obligation. We got out of the blocks quickly in 2000 as the February purchase of EEX interests on the OCS added over 6 BCF of natural gas reserves and achieved a key corporate goal of expanding ERT technical and operational capacity.



A significant backlog of GOM decommissioning work has been building for years. A recent study by the MMS and Louisiana State University (LSU) forecasts that 185 structures will have to be removed each year through 2025. To date 140 permits have been filed for two-pile and greater platform removals in 2000. Capacity to expand our decommissioning business is in place through the alliance with Horizon which gives CDI access to three derrick barges having lifting capacity as great as 1,000 tons.

Energy Resource Technology represents one of the energy industry's most successful new product ideas. Launched in 1992, ERT offers customers the option of selling mature fields or non-core properties, thereby avoiding the decommissioning

<b>ENERGY RESOURCE TECHNOLOGY: PROVEN DEVELOPED RESERVES</b>					
(Net BCFE)	1995	1996	1997	1998	1999
Beginning Balance	3.8	21.1	25.3	30.3	30.2
Purchase of Reserves	19.9	8.9	9.9	7.4	15.2
Production	(2.6)	(4.5)	(5.7)	(4.9)	(8.9)
Sale of Properties	0.0	0.0	(0.9)	(0.6)	(5.2)
Property Exploitation (Revision)	0.0	(0.2)	1.7	(2.0)	4.3
Ending Balance	21.1	25.3	30.3*	30.2*	35.6

*\*Includes Sonat acquisitions which were effective in January 1998 and 1999.*

# CDI PEOPLE

1999 marked the 25th year of Cal Dive operations in the Gulf of Mexico. An awards ceremony held last year recognized eleven individuals who had been with Cal Dive for over 20 years during this period. These awards highlight not only the emergence of CDI as a major construction contractor but also the company's ability to survive three major industry recessions. Specifically, in the early 1980's Cal Dive was one of 45 companies that provided diving and subsea construction services; today only four of those companies remain. While Cal Dive has become a much larger company, particularly in the most recent five years, we retain a unique family atmosphere. The awards ceremony included the accompanying photos of each individual from the early days of their association with Cal Dive. The evening concluded with Peggy Baker receiving a standing ovation. Peggy came to us straight out of high school in 1975 and over the past 25 years has mothered untold numbers of our divers and tenders.



**RANDY DREWRY**  
Vice President - Operations  
Retired



**JERRY REUHL**  
Chief Executive Officer  
Retired



**PEGGY BAKER**  
Payroll Supervisor



**SCOTT NAUGHTON**  
Vice President -  
Core Group

*“Passionately committed CDI employees consistently produce seemingly impossible results.”*



**DAVE MORGAN**  
Offshore Supervisor



**JEFF DAVIS**  
Offshore Superintendent



**MARTY SCHWAB**  
Offshore Superintendent



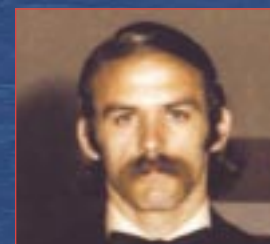
**RICK BUCHER**  
Account Manager



**JIM MACKLIN**  
Account Manager



**POLITE LEGER**  
Controller  
Retired



**TERRY TATUM**  
Diver

# CORPORATE DIRECTORY

## BOARD OF DIRECTORS

Gordon F. Ahalt  
*Independent Consultant*  
*Retired Senior Vice President of*  
*Ashland Oil Co.*

Bernard J. Duroc-Danner  
*Chairman & Chief Executive Officer*  
*Weatherford International, Inc.*

Claire Giraut  
*Executive Vice President &*  
*Chief Financial Officer*  
*Coflexip*

Martin R. Ferron  
*President & Chief Operating Officer*  
*Cal Dive International, Inc.*

Owen E. Kratz  
*Chairman & Chief Executive Officer*  
*Cal Dive International, Inc.*

Aline F. Montel  
*General Counsel*  
*Coflexip*

S. James Nelson, Jr.  
*Executive Vice President*  
*Cal Dive International, Inc.*

Kevin Wood  
*Executive Vice President*  
*Coflexip Stena Offshore*

## EXECUTIVE OFFICERS

Owen E. Kratz  
*Chairman & Chief Executive Officer*

Martin R. Ferron  
*President & Chief Operating Officer*

S. James Nelson, Jr.  
*Executive Vice President &*  
*Chief Financial Officer*

Andrew C. Becher  
*Senior Vice President &*  
*General Counsel*

Kenneth E. Duell  
*Senior Vice President*  
*Business Development*

Louis L. Tapscott  
*Senior Vice President*  
*Special Projects*

A. Wade Pursell  
*Vice President - Finance*  
*Chief Accounting Officer*

Prentis F. (Sonny) Freeman  
*President*  
*Aquatica, Inc.*

Lyle K. Kuntz  
*President*  
*Energy Resource Technology, Inc.*

## CORPORATE OFFICERS

Michael V. Ambrose  
*Vice President - Major Projects*

Mark W. Bridger  
*Vice President - Marine Operations*

Jon M. Buck  
*Vice President - Sales*

Wayne J. Bywater  
*Vice President - Deepwater Sales*

A. Mark McWatters  
*Vice President - Supply Chain*

Scott T. Naughton  
*Vice President - Core Group*

Terrell W. (Jack) Reedy  
*Vice President - Safety*

R. A. (Andy) Scott  
*Vice President - Life Of Field Services*

Sherry A. Daniel  
*Corporate Controller*

Steve Brazda  
*General Manager*  
*Aquatica Inc.*

## CORPORATE LOCATIONS

### CORPORATE HEADQUARTERS

Houston  
400 N. Sam Houston Parkway E.  
Suite 400  
Houston, TX 77060  
Office: 281-618-0400  
Fax: 281-618-0500

### OPERATIONS BASE

Morgan City  
1550 Youngs Road  
Morgan City, LA 70380  
Office: 504-330-0300  
Fax: 504-330-0394

### AQUATICA, INC.

Lafayette  
3209 Moss Street  
Lafayette, LA 70509  
Office: 318-232-8714  
Fax: 318-234-9831

### SALES OFFICE

New Orleans  
2620 Eighth Street  
Harvey, LA 70058  
Office: 504-366-5997  
Fax: 504-366-5999



# SHAREHOLDER INFORMATION

## COMMON STOCK LISTING

Nasdaq National Market  
Symbol: CDIS

## STOCK TRANSFER AGENT

Norwest Bank Minnesota, NA  
161 North Concord Exchange  
P. O. Box 64854  
St. Paul, MN 55164-0854  
(800) 468-9716  
www.norwest.com/  
business-stocktransfer/

Communications concerning the transfer of shares, lost certificates, duplicate mailing or change of address should be directed to the stock transfer agent.

## STOCK HELD IN "STREET NAME"

The company maintains a direct mailing list to ensure that shareholders with stock held in brokerage accounts receive information on a timely basis. We also maintain a list of those investors who wish to receive "blast faxes" of CDI Press Releases. Shareholders wanting to be added to these lists should direct their requests to Investor Relations at the Corporate Headquarters or call (281) 618-0400.

## ANNUAL MEETING

Stockholders are invited to attend CDI's Annual Shareholder Meeting on Wednesday, May 10 at 2:00 p.m. Central Daylight Time in the Toulouse Room of the Hotel Sofitel, 425 North Sam Houston Pkwy. E., Houston, Texas.

## WEBSITE

<http://www.caldive.com>

A recent independent study rated our website as one of the most "user friendly" in the energy industry. There you will find a profile of your company, the services we offer and a complete review of each of our vessels. New this year is an animation which provides a review of each of the unique features of the *Q4000*. The Investor Relations section enables you to access on a "real time" basis the most recent quarterly and annual reports as soon as they are issued. We have made it possible for all shareholders to participate in the quarterly conference calls with analysts. Simply click on "Live Webcast" in the Investor Relations module to listen; replays of the conference calls are also available by clicking on "Audio Archives".

## INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen LLP  
Houston, TX

## CORPORATE COUNSEL

Fulbright & Jaworski LLP  
Houston, TX

## FORM 10-K

The information, including financial statements and footnotes thereto, included in this Annual Report to Shareholders should be read in conjunction with the company's annual report on Form 10-K for the year ended December 31, 1999 which is incorporated herein by reference. This Annual Report and related Form 10-K are both provided to Shareholders in connection with the company's Annual Meeting. Shareholders interested in obtaining a hard copy, without cost, of the Form 10-K filed with the Securities and Exchange Commission may do so by writing to Andrew C. Becher, General Counsel, Cal Dive International, Inc., 400 N. Sam Houston Parkway E., Suite 400, Houston TX 77060-3500. The Form 10-K can also be viewed and down-loaded from our website.

*This Annual Report includes certain statements that may be deemed "forward looking statements" under applicable law. Forward looking statements and assumptions in this Annual Report that are not statements of historical fact involve risks and assumptions that could cause actual results to vary materially from those predicted, including among other things, unexpected delays and operational issues associated with turnkey projects, the price of crude oil and natural gas, weather conditions in offshore markets, change in site conditions, and capital expenditures by customers. The company strongly encourages readers to note that some or all of the assumptions upon which such forward looking statements are based are beyond the company's ability to control or estimate precisely and may in some cases be subject to rapid and material change.*



*The New Generation Subsea Contractor*

400 N. Sam Houston Parkway E.  
Suite 400, Houston, TX 77060  
(281) 618-0400  
Fax: (281) 618-0500  
[www.caldive.com](http://www.caldive.com)