CAL DIVE INTERNATIONAL

1999 Annual Report

CORPORATE PROFILE

Cal Dive International (CDI) is a leading subsea contractor providing construction, maintenance and decommissioning services from the shallowest to the deepest waters of the Gulf of Mexico. Over three decades, Cal Dive has developed a reputation for innovation which has kept the company on the leading edge of underwater technological developments.

Cal Dive has positioned for the new Deepwater frontier by assembling a technically advanced fleet of dynamically positioned vessels. These vessels serve as work platforms for the services provided by CDI and alliances with a team of internationally recognized contractors and manufacturers. The company is building the *Q4000* (see cover and below), a revolutionary multi-service vessel specifically designed for construction tasks to 10,000 fsw. *Q4000* capabilities include; installation of reeled umbilicals and pipe; J-Lay of pipe; manifold, template and subsea tree installation; coring and geotechnical investigation; and downhole well servicing.

The entrepreneurial drive of CDI employees has enabled the company to excel in the Gulf spot market on the Outer Continental Shelf, one that is unique among world offshore provinces. The scheduling flexibility afforded by the CDI fleet enables the company to offer turnkey pricing while assuring customers of on-time project performance. Since 1984, when the company custom designed the first Gulf DSV with a moonpool deployed saturation diving system, CDI has been a major provider of saturation diving services to the "mid-water" Gulf (300 to 1,000 fsw). Aquatica, Inc., a wholly-owned subsidiary, provides a customer focused bundle of surface diving services in the shallow water market from the shore to 300 fsw.

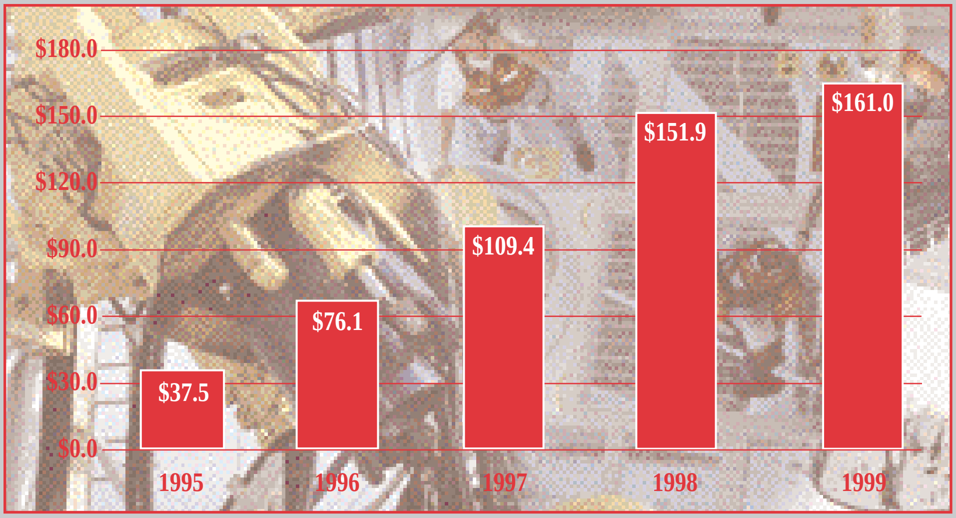
Cal Dive has also established a leading position in the salvage market by offering customers a number of options to address decommissioning obligations in the most cost efficient manner. An alliance with Horizon Offshore provides derrick barge and heavy lift capacity for the removal of larger structures. In addition, Energy Resource Technology, Inc. (ERT), a wholly-owned subsidiary, acquires mature offshore properties and assumes the obligation to decommission the field in full compliance with all regulatory requirements, relieving the customer of this obligation entirely.

CDI has established a corporate culture in which safety is understood to be and is accepted as the number one priority. Our corporate goal, based on the belief that all accidents are preventable, is to provide an injury-free workplace by focusing on correct safety behavior. Cal Dive safety procedures and training programs were developed by management personnel who came into the industry as divers and who know firsthand the physical challenge of the ocean work site.

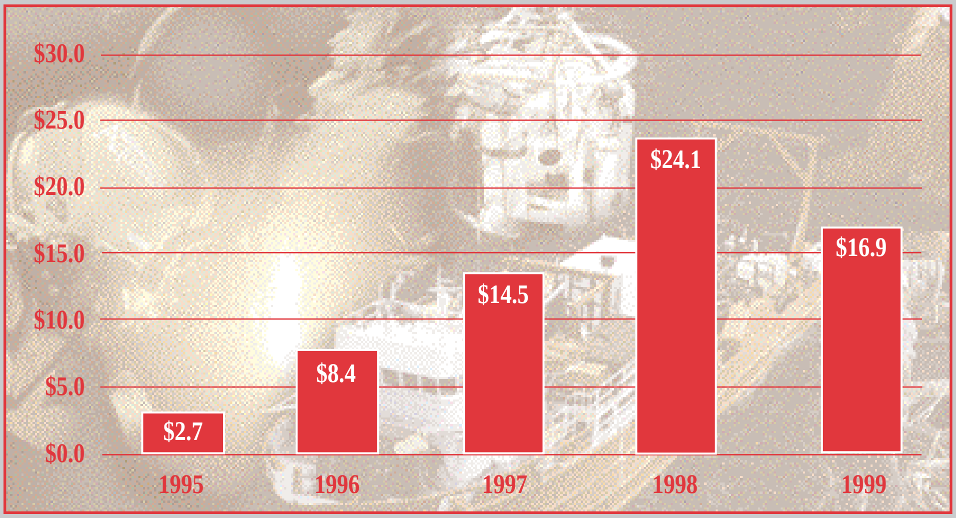
Headquartered in Houston, Texas, Cal Dive is publicly traded on Nasdaq under the symbol CDIS.

FINANCIAL HIGHLIGHTS

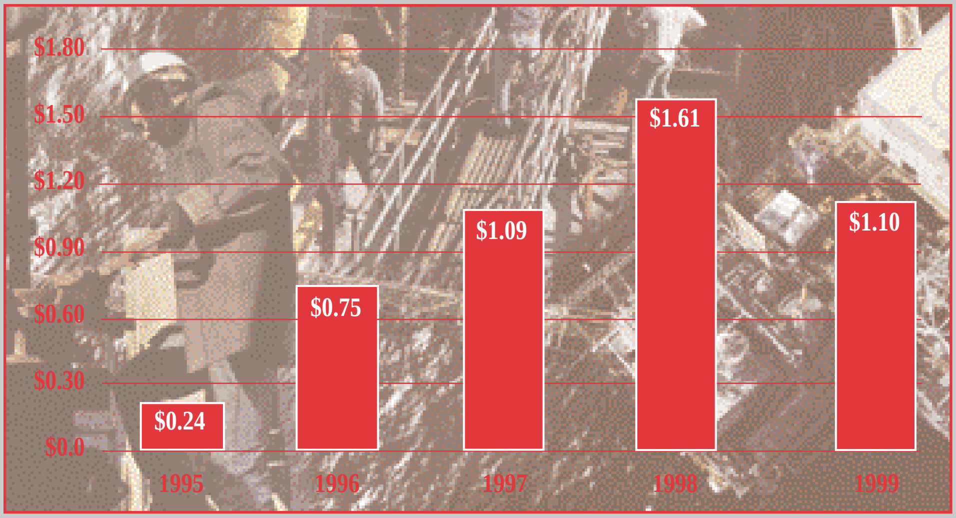
Revenue In Millions



Net Income In Millions



Diluted Earnings Per Share



GLOSSARY

BCFE (BCF): Billions of cubic feet of natural gas equivalent.

Deepwater: Water depths beyond 1,000 feet.

Dive Support Vessel (DSV): Subsea services are typically performed with the use of specially constructed vessels which serve as an operational base for divers, ROVs and customized underwater construction equipment.

Dynamic Positioning (DP): Satellite based global positioning systems ensure the proper counteraction to wind, current and wave forces, thereby enabling the vessel to stay in position without the use of anchors.

DP-2: Redundancy allows the vessel to maintain position even with failure of one system. Required for vessels which support both manned diving and robotics and for those working in close proximity to platforms.

EBITDA: Earnings before interest, taxes, depreciation and amortization is a supplemental financial measure of cash flow used in the evaluation of the marine construction industry.

E&P: Companies involved in oil and gas exploration and production activities.

FSW: Water depths in feet of salt water.

Gulf of Mexico: Referred to in this report as Gulf, Deepwater Gulf, GOM, etc.

Host Structures: Compliant towers, floating production systems, and SPARs which tie together the production of a number of subsea wells.

Initial Public Offering (IPO): Cal Dive shares sold to the public at $15 per share in July, 1997.

MCF: Thousands of cubic feet of natural gas.

Minerals Management Service (MMS): The government regulatory body having responsibility for United States waters in the Gulf of Mexico.

Outer Continental Shelf (OCS): Areas in the Gulf of Mexico from the shore to 1,000 feet of water.

Remotely Operated Vehicle (ROV): Robotic vehicles used to complement, support and increase the efficiency of diving and subsea operations and for tasks beyond the capability of manned diving operations.

Saturation Diving (Sat): Sat diving, required for work in water depths greater than 300 feet, involves divers working from special chambers for extended periods at a pressure equivalent to the depth of the work site.

TCF: Trillions of cubic feet of natural gas.

Ultra-Deepwater: Water depths beyond 4,000 fsw.

TO OUR SHAREHOLDERS

1999 turned out to be far more challenging than anticipated when we wrote to you a year ago. Rationalizing businesses to cope with forecasts of $12 to $15 oil and the subsequent barrage of mergers left E&P managements in shock and unable to react as commodity prices unexpectedly began to improve in the second quarter. Service companies appeared equally bewildered with no clear strategy beyond slashing rates to survive until higher oil and gas prices would again bring happy days. Most of our peer group saw their revenue base crushed and were doing high-fives if they made any money at all. In the midst of this your company increased revenues by 6% and delivered net income that exceeded 10% of sales.

Our people performed at exceptional levels, achieving virtually every objective set for them last year (see box score). This performance did not, however, result in incentive compensation for your executive and Subsea management personnel as CDI did not achieve the level of earnings per share required by the 1999 bonus plan. This is one of two ways that directly align CDI management and shareholder interests, with the second being the fact that 20% of Cal Dive stock is owned by employees. From a stockholder perspective, the 60% increase in the value of CDIS during 1999 and 50% improvement since the beginning of 2000 have handsomely rewarded both employee and public shareholders.

Never was our ability to operate profitably while adapting to changing circumstances on the fly more evident than in 1999. Specific highlights include:

- ***Revenues:*** CDI set an all time record of $161 million by aggressively shifting our marketing strategy to focus upon larger negotiated contracts where the company served as prime contractor. Compound annual revenue growth now stands at 44% since we first introduced DP vessels to the GOM in 1995.
- ***Deepwater:*** Both *Diana* and *Cooper* confirmed an underlying premise of the *Q4000* by saving the customer an estimated 20% of the cost of the drilling rig alternative, even at the depressed rates of 1999.
- ***Fleet Utilization:*** On a comparable basis (i.e. removing the Coflexip charters from last year and the *Dove* from 1999) vessel utilization was identical both years at just under 70%. Our relatively small yet technically advanced asset base is a competitive advantage when the market crashes.
- ***Energy Resource Technology:*** Our strategy played out perfectly as we doubled the number of owned properties in the first four months of the year and then embarked upon an aggressive well exploitation program. This two-pronged approach resulted in a 170% year over year increase in production during the second half when commodity prices improved significantly.
- ***Gross Profit:*** Margins dropped 9 points from 1998 levels to 23% due to the intensely competitive market conditions, the growth in our role as general contractor (which entailed a significant increase in pass-through costs), and the challenging downhole problems encountered on the first ever decommissioning of a Deepwater field (*Cooper*).
- ***Overhead:*** Selling, general and administrative costs (excluding consolidation of Aquatica) were $3.8 million lower than 1998 with all of that reduction due to the lack of Subsea bonuses. This had the effect of adding 2 points to operating margins.
- ***Cash Flow:*** EBITDA margins were 28% in 1999, very close to the all time record of 30% set last year, as our ATM machine (Energy Resource Technology) kicked into high gear.

We believe the 21st Century will mark a paradigm shift in the historical relationship between producer and contractor. Technology advances enabled the domestic energy industry to muddle through the ups and downs of the past decade. However, the industry lost 15% of its work force during 1999 alone; those people were absorbed by the strong economy and are unlikely to return to energy's roller coaster ride. Both oil and oil service companies also find it difficult to attract the "best and brightest" new people as the young technical talent we need are far more interested in making zillions with dot coms.

Those E&P companies that have survived enter 2000 with hoards of cash and strong balance sheets. However, their historic returns on invested capital (even in periods of high commodity prices) have triggered a lack of investor confidence and lower multiples, placing the sector at a disadvantage in the competition for equity funds. As a result, we expect that producers trying to improve returns will aggressively use the competitive bid process to squeeze contractor margins while simultaneously attempting to shift capital investment to the service companies. Contractors will be pressured to take on more of the capital requirements of field engineering and production, new technology development and eventually have to add a new generation of assets to serve the Deepwater market.

A new economic model must evolve to provide an equitable return to all participants, both producers and service companies. Among other things this is prompted by a convergence of several key factors: geographic maturity of the GOM, increasing technical complexity, and the need for more effective execution in the development of reserves. The focus should be on overall reservoir economics with motivation of both parties brought into alignment by greater contractor participation in the underlying asset, oil and gas reserves. This collaborative effort is the best means by which both the E&P and service sectors can achieve desired returns without one doing so to the disadvantage of the other. This will be particularly important as improved industry fundamentals drive service company rates to a replacement cost level.

To our knowledge Cal Dive is the only construction contractor that has successfully developed a production company. The reservoir engineering and geophysical disciplines which we bring to the table enable CDI to provide a unique perspective in creating cost-effective construction and development schemes for both OCS and Deepwater properties.

In a year of transition CDI management has targeted the following goals for 2000:

- ***Shareholder Return:*** Deliver a return on invested capital which exceeds the 12% industry average during the 1990's.
- ***Deepwater:*** Accelerate field development by redefining the customer-contractor relationship in a major Deepwater play. Establish life-of-field well service capability by adding well completion and well intervention product lines.
- ***DP Vessels:*** Secure government financing while keeping the *Q4000* construction on schedule and under its $150 million budget. Complete design and conversion of the *Sea Sorceress* or acquire a similarly configured vessel so that CDI offers the 2001 market two radically new, world-class construction vessels.
- ***Salvage Operations:*** Expand technical capacity of ERT personnel while increasing oil and gas revenues by 50%.
- ***Continental Shelf:*** Expand Aquatica operations to increase market share on the OCS. Continue to build recognition of CDI capabilities as prime contractor in part by expanding the modular full field product line.

Achieving these goals will flow from a strategy honed over three decades of offshore operations: secure a first-in position in new niche markets, employ a philosophy of partnering with other contractors, and maintain a focus upon project-by-project margins rather than market share. Implementing that strategy is the responsibility of the Cal Dive family of employees. It is a rare occurrence to have assembled a group of entrepreneurial, self-motivated and creative individuals who have the capacity to blend, develop and execute the way Team Cal Dive does.

Respectfully submitted,

Owen E. Kratz
Chairman
Chief Executive Officer

Martin Ferron
President
Chief Operating Officer

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

1999 BOX SCORE

Goals	*Grade*	*Comments*
Shareholder Return: Deliver return on invested capital of 12%.	A	13% in 1999 brought the five-year average (through an entire industry cycle) to 18%.
Mature Properties: Double ERT oil and gas revenues.	A+	$32.5 million of oil and gas revenues were $20 million or 260% of 1998 levels.
Salvage Operations: Achieve corporate goal of combined salvage activities (barge operations and ERT) representing 30% of consolidated revenues.	A	The increase in ERT operations, the largest salvage job in CDI history (Sonat), and the subcontract of pipelay barges combined to represent 34% of 1999 revenues.
Continental Shelf: Support Aquatica growth and expand CDI general contractor role.	A	Acquired the remaining 55% of Aquatica. Aggressively shifted to prime contractor on five full field development/pipelay projects.
Deepwater: Utilize DP fleet to deliver innovative solutions to Deepwater challenges and acquire DP vessels in depressed market.	A+	*Diana* and *Cooper* represented breakthrough opportunities at the cutting edge of Deepwater technology. Acquired an equity position in a newbuild DP vessel, the *Cal Dive Aker Dove*, at a bargain price.
Q4000: Complete design, shipyard selection and commence construction.	A	The design of this revolutionary semi-submersible was completed without significant change orders. Construction commenced during the third quarter at the Amfels yard in Brownsville, TX.