

TRANSOCEAN INC
Form DEF 14A
March 18, 2005

SCHEDULE 14A

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

(Amendment No.____)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 - Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
 - Definitive Proxy Statement
 - Definitive Additional Materials
 - Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12
- TRANSOCEAN INC.**

(Name of Registrant as Specified In Its Charter)

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Notes:

Reg. § 240.14a-101.

SEC 1913 (3-99)

March 18, 2005

Dear Shareholder:

The 2005 annual general meeting of Transocean Inc. will be held on Thursday, May 12, 2005 at 9:00 a.m., at the British Colonial Hilton Nassau, Nassau, Bahamas. The Secretary's notice of annual general meeting, the proxy statement and a proxy card are enclosed and describe the matters to be acted upon at the meeting.

It is important that your shares be represented and voted at the meeting. Please read the enclosed notice of annual general meeting and proxy statement and date, sign and promptly return the proxy card in the enclosed self-addressed envelope.

Sincerely,

J. Michael Talbert
Chairman of the Board

Robert L. Long
President & Chief Executive Officer

This proxy statement and the accompanying proxy card are dated March 18, 2005 and are first being mailed on or about March 25, 2005 to record shareholders as of March 17, 2005.

**NOTICE OF ANNUAL GENERAL MEETING OF TRANSOCEAN INC.
TO BE HELD MAY 12, 2005**

The annual general meeting of Transocean Inc., a Cayman Islands exempted company limited by shares, will be held at the British Colonial Hilton Nassau, Nassau, Bahamas at 9:00 a.m., Bahamas time, on Thursday, May 12, 2005 for the following purposes:

1. To elect three directors as members of our board of directors to serve until the 2008 annual general meeting and until their respective successors have been duly elected.
2. To approve the amendment of our Employee Stock Purchase Plan to increase the number of ordinary shares reserved for issuance under the plan from 2,500,000 to 3,500,000.
3. To approve the appointment of Ernst & Young LLP as independent registered public accounting firm for 2005.
4. To transact such other business as may properly be brought before the meeting.

This constitutes notice of the meeting as required by Cayman Islands law and our articles of association.

Only record holders of ordinary shares at the close of business on Thursday, March 17, 2005 will be entitled to notice of, and to vote at, the meeting.

The meeting may generally be adjourned from time to time without advance notice other than announcement at the meeting, or any adjournment thereof, and any and all business for which the meeting is hereby noticed may be transacted at any such adjournment.

By order of the Board of Directors,

Eric B. Brown
Secretary

Houston, Texas
March 18, 2005

YOUR VOTE IS IMPORTANT

**Please complete, sign and promptly return your proxy card in the enclosed
return envelope.**

**PROXY STATEMENT
FOR ANNUAL GENERAL MEETING OF TRANSOCEAN INC.
MAY 12, 2005**

This proxy statement is furnished in connection with the solicitation of proxies by Transocean Inc., on behalf of our board of directors, to be voted at our annual general meeting to be held on Thursday, May 12, 2005 at 9:00 a.m., at the British Colonial Hilton Nassau, Nassau, Bahamas.

Proposals

At the annual general meeting, shareholders will be asked to vote upon the following:

A proposal to elect three nominees as directors to serve three-year terms. These directors will be members of a class of directors that will serve until the 2008 annual general meeting and until their respective successors have been duly elected.

A proposal to approve the amendment of our Employee Stock Purchase Plan to increase the number of ordinary shares reserved for issuance under the plan from 2,500,000 to 3,500,000.

A proposal to approve the appointment of Ernst & Young LLP as independent registered public accounting firm for 2005.

Any other matters that may properly come before the meeting.

We know of no other matters that are likely to be brought before the annual general meeting.

Quorum

The presence, in person or by proxy, of shareholders holding a majority of our outstanding ordinary shares will constitute a quorum. Abstentions and broker non-votes will be counted as present for purposes of determining whether there is a quorum at the meeting.

Record Date

Only shareholders of record at the close of business on Thursday, March 17, 2005 are entitled to notice of and to vote, or to grant proxies to vote, at the meeting.

Votes Required

Approval of the proposal to elect the three nominees as directors requires the affirmative vote of a plurality of the votes cast. Abstentions and broker non-votes will not be counted in that vote.

Approval of the proposal to amend our Employee Stock Purchase Plan requires the affirmative vote of the holders of at least a majority of the votes cast on the proposal, provided that the total number of votes cast on the proposal represents a majority of the votes entitled to be cast. Abstentions and broker non-votes on this proposal will not affect the voting on the proposal as long as holders of a majority of ordinary shares cast votes on the proposal. Otherwise, the effect of an abstention or broker non-vote is a vote against the proposal. The New York Stock Exchange prohibits its member organizations from giving a proxy to vote on an equity compensation plan unless the beneficial owner of the share has given instructions. As a result, beneficial owners are encouraged to give voting instructions to their brokers.

Approval of the proposal to appoint Ernst & Young LLP as independent registered public accounting firm requires the affirmative vote of holders of at least a majority of the ordinary shares present in person or by proxy at the meeting and entitled to vote on the matter. Abstentions and broker non-votes on the proposal have the effect of a vote against the proposal.

As of the record date for the meeting, there were 324,466,430 ordinary shares outstanding and entitled to notice of and to vote at the meeting. Holders of ordinary shares on the record date are entitled to one vote for each share held.

Proxies

A proxy card is being sent to each shareholder as of the record date. If you properly received a proxy card, you may grant a proxy to vote on each of the four proposals by marking your proxy card appropriately, executing it in the space provided, dating it and returning it to us. We may accept your proxy by any form of communication permitted by Cayman Islands law and our articles of association. If you hold your shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee when voting your shares.

If you have timely submitted a properly executed proxy card and clearly indicated your votes, your shares will be voted as indicated. If you have timely submitted a properly executed proxy card and have not clearly indicated your votes, your shares will be voted FOR the election of all director nominees and FOR each of the other two proposals.

If any other matters are properly presented at the meeting for consideration, the persons named in the proxy card will have the discretion to vote on these matters in accordance with their best judgment. Proxies voted against any of the three proposals will not be voted in favor of any adjournment of the meeting for the purpose of soliciting additional proxies.

You may revoke your proxy card at any time prior to its exercise by:

giving written notice of the revocation to our Secretary;

appearing at the meeting, notifying our Secretary and voting in person; or

properly completing and executing a later-dated proxy and delivering it to our Secretary at or before the meeting.

Your presence without voting at the meeting will not automatically revoke your proxy, and any revocation during the meeting will not affect votes previously taken. If you hold your shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee in revoking your previously granted proxy.

Solicitation of Proxies

The accompanying proxy is being solicited on behalf of the board of directors. The expenses of preparing, printing and mailing the proxy and the materials used in the solicitation will be borne by us. We have retained D. F. King & Co., Inc. for a fee of \$6,000, plus expenses, to aid in the solicitation of proxies. Proxies may be solicited by personal interview, telephone and telegram by our directors, officers and employees, who will not receive additional compensation for those services. Arrangements also may be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of ordinary shares held by those persons, and we will reimburse them for reasonable expenses incurred by them in connection with the forwarding of solicitation materials.

ELECTION OF DIRECTORS

Our articles of association divide our board of directors into three classes: Class I, Class II and Class III. Three Class III directors are to be elected at our 2005 annual general meeting to serve for three-year terms expiring at the annual general meeting in 2008.

The board has nominated for election as Class III directors Judy J. Kelly, Roberto Monti and Ian C. Strachan. Ms. Kelly is not currently a director and is being nominated to fill our vacant board seat. Messrs. Monti and Strachan are standing for re-election. If any of the nominees becomes unavailable for any reason, which we do not anticipate, the board of directors in its discretion may designate a substitute nominee. If you have submitted an executed proxy card, your vote will be cast for the substitute nominee unless contrary instructions are given in the proxy.

The board of directors recommends a vote FOR the election of Judy J. Kelly, Roberto Monti and Ian C. Strachan as Class III directors.

Nominees for Director Class III Terms Expiring 2008

JUDY J. KELLY, age 56, is the retired Vice President Americas of ExxonMobil Gas Marketing Company, a division of ExxonMobil Corporation, a position in which she served from March 2002 until her retirement in July 2004 and in which she was responsible for ExxonMobil's natural gas and natural gas liquids marketing activities and related infrastructure assets in North and South America. From January 2000 until March 2002, Ms. Kelly served as Vice President Global Business Planning for ExxonMobil Gas Marketing Company, a position she assumed after ExxonMobil's merger with Mobil Corporation. Ms. Kelly joined a predecessor of ExxonMobil in its financial organization and served in a variety of positions during her 31 years at ExxonMobil. Ms. Kelly is not currently one of our directors.

ROBERTO MONTI, age 65, is the retired Executive Vice President of Exploration and Production for Repsol YPF. He was the President and Chief Executive Officer of YPF Sociedad Anonima from September 1995 to June 1999 prior to its acquisition by Repsol. From October 1993 to July 1995, he served as President of Dowell, a division of Schlumberger. He is also a director of Petrobras Energía S.A. and John Wood Group PLC. Mr. Monti has served as one of our directors since December 1999.

IAN C. STRACHAN, age 61, is Chairman of the Board of Instinet Group Incorporated and a director of Reuters Group PLC, Xstrata plc, Rolls Royce Group plc and Johnson Matthey plc. He served as Deputy Chairman of Invensys plc from 1999 to 2000. He served as CEO of BTR plc from 1996 until its merger with Siebe plc in 1999, when it changed its name to Invensys plc. From 1987 to 1995, Mr. Strachan was with Rio Tinto plc, serving as CFO from 1987 to 1991 and as Deputy CEO from 1991 to 1995. He was employed by Exxon Corporation from 1970 to 1986. Mr. Strachan has served as one of our directors since December 1999.

Continuing Directors Class I Terms Expiring 2006

VICTOR E. GRIJALVA, age 66, is Chairman of the Board of Hanover Compressor Company. Mr. Grijalva has been a director since December 1999 and served as Chairman of our board of directors until October 2002. He is the retired Vice Chairman of Schlumberger Limited. Before serving as Vice Chairman, he served as Executive Vice President of Schlumberger's Oilfield Services division from 1994 to January 1999 and as Executive Vice President of Schlumberger's Wireline, Testing & Anadrill division from 1992 to 1994. Mr. Grijalva is also an advisory director of Tenaris S.A.

ARTHUR LINDENAUER, age 67, became Chairman of the Board of Schlumberger Technology Corporation, the principal U.S. subsidiary of Schlumberger Limited, in December 1998 and served in that position through February 2004. He previously served as Executive Vice President-Finance and Chief Financial Officer of Schlumberger from January 1980 to December 1998. Mr. Lindenauer was a partner with the accounting firm of Price Waterhouse from 1972 to 1980. Mr. Lindenauer is also a director of TODCO, a publicly traded drilling company in which we own a minority interest and the New York Chapter of the Cystic Fibrosis Foundation, a Trustee of the American University in Cairo and a member of the Board of Overseers of the Tuck School of Business at Dartmouth

College. Mr. Lindenauer has served as one of our directors since December 1999.

RICHARD A. PATTAROZZI, age 61, served at Shell Oil Company as President and CEO of Shell Deepwater Development Inc. and Shell Deepwater Production Inc. from 1996 to 1999, and has served as a director of Transocean since January 2001. In early 1999, he was promoted to Vice President of Shell Oil Company, responsible for Shell Deepwater Development Inc., Shell Deepwater Production Inc. and the company's Shallow Water Gulf of Mexico exploration and production business and retired in January 2000. Mr. Pattarozzi joined Shell in 1966 in its offshore engineering organization and has more than 33 years of experience in the petroleum industry. He is also a director of Superior Energy Services, Inc., FMC Technologies, Inc., Global Industries, Ltd., Stone Energy Company and Tidewater, Inc., all of which are publicly traded.

KRISTIAN SIEM, age 56, is Chairman and Chief Executive Officer of Siem Industries, Inc., an industrial holding company that owns offshore oil and gas drilling and subsea construction services businesses, a fleet of reefer vessels and a fleet of car carrying vessels through subsidiaries in the Cayman Islands, the U.K. and Norway. Mr. Siem has served as one of our directors since September 1996 and was Chairman of Transocean ASA prior to its acquisition by us in 1996. Mr. Siem is also chairman of Star Reefers Inc., Siem Offshore Inc., Subsea 7 Inc. and Siem Industrikapital AB. He is further a director of North Atlantic Smaller Companies Investment Trust PLC. During the past five years, Mr. Siem has served as an executive officer with Siem Industries, Inc., as CEO and a director of Kvaerner ASA and as Chairman and a director of Norwegian Cruise Line.

Continuing Directors Class II Terms Expiring 2007

ROBERT L. LONG, age 59, is President, Chief Executive Officer and a member of our board of directors. Mr. Long served as President from December 2001 to October 2002, at which time he assumed the additional position of Chief Executive Officer. Mr. Long also served as Chief Operating Officer from June 2002 until October 2002, Chief Financial Officer from August 1996 until December 2001, as Senior Vice President from May 1990 until the time of the Sedco Forex merger, at which time he assumed the position of Executive Vice President, and as Treasurer from September 1997 until March 2001. Mr. Long has been an employee since 1976 and was elected Vice President in 1987. Mr. Long is also a director of TODCO, a publicly traded drilling company in which we own a minority interest.

MARTIN B. MCNAMARA, age 57, is a Partner of the law firm of Gibson, Dunn & Crutcher and has served as a member of the firm's executive, finance and compensation committees, as well as a Partner-in-Charge of the firm's Texas practice. He has served as one of our directors since November 1994. During the past five years, Mr. McNamara has been in the private practice of law.

ROBERT M. SPRAGUE, age 59, is the retired Regional Business Director of Shell EP International BV, a position in which he served from April 1997 until June 2003. Mr. Sprague served as Director - Strategy & Business Services for Shell EP International BV from January 1996 until March 1997 and as Exploration & Production Coordinator of Shell International Petroleum BV from May 1994 to December 1995. Mr. Sprague joined the Royal Dutch / Shell group of companies in 1967 and served in a variety of positions in the United States and Europe during his career, including as a director of Shell Canada Limited, a publicly traded company, from April 2000 to April 2003. Mr. Sprague has served on our board of directors since May 2004.

J. MICHAEL TALBERT, age 58, has served as our non-executive Chairman of our board of directors since October 2004. Prior to that Mr. Talbert served as our executive Chairman of the board since October 2002 and a member of our board of directors since August 1994. Mr. Talbert also served as Chief Executive Officer from August 1994 until October 2002, Chairman of our board of directors from August 1994 until December 1999, and as President from December 1999 until December 2001. Prior to assuming his duties with us, Mr. Talbert was President and Chief Executive Officer of Lone Star Gas Company, a natural gas distribution company and a division of Ensearch Corporation. He is also a director of El Paso Corporation and TODCO, a publicly traded drilling company in which we own a minority interest.

Merger with Sedco Forex, Designation of Board Members and Appointment of Mr. Grijalva

On December 31, 1999, we completed a merger with Sedco Forex Holdings Limited following the spin-off of Sedco Forex to Schlumberger stockholders on December 30, 1999. As a result of the merger, Schlumberger stockholders exchanged all of the Sedco Forex shares distributed to them by Schlumberger in the Sedco Forex spin-off for our ordinary shares, and Sedco Forex became our wholly owned subsidiary. Pursuant to the merger agreement, Transocean's board of directors designated Messrs. McNamara, Siem and Talbert as directors (in addition to two other individuals who no longer serve on our board) and Schlumberger's board of directors designated Messrs. Grijalva, Lindenauer, Monti and Strachan as directors (in addition to another individual who no longer serves on our board). In the merger agreement, we agreed to use reasonable efforts to appoint those designees for a period of three years from the effective date of the merger. We also agreed to nominate Mr. Grijalva to our board of directors to serve as Chairman until his 65th birthday (in July 2003). In October 2002, Mr. Grijalva resigned his position as Chairman but agreed to remain as a director.

Corporate Governance

We believe that we have long had good corporate governance practices, including having had written corporate governance guidelines, committee charters and a code of conduct for employees in place before enactment of the Sarbanes-Oxley Act and revisions to the corporate governance rules of the New York Stock Exchange (NYSE). Furthermore, the board has held separate meetings of the non-management directors for several years.

The Corporate Governance Committee of the board has continued to evaluate the Company's and the board's governance practices and formally reviews all charters and the board's governance principles at least annually. This Committee further receives updates at each meeting regarding new developments in the corporate governance arena. During 2004, the Corporate Governance Committee recommended and the board adopted continuing education goals for all directors. Our committee charters also require, among other things, that the Committees and the board evaluate their own performance.

We also have an ownership policy for directors that requires each current nonmanagement director to, by the year 2010, own a number of our shares and/or deferred units equal in value to an amount five times the annual director retainer and each new director to acquire such number of shares and/or deferred units over their initial five years as a director. Directors are then required to maintain such a minimum holding.

Our current governance documents may be found on our website at www.deepwater.com under Corporate Governance. Among the information you can find there is the following:

Corporate Governance Guidelines;

Audit Committee Charter;

Corporate Governance Committee Charter;

Executive Compensation Committee Charter;

Finance and Benefits Committee Charter; and

Code of Ethics.

Information contained on our website is not part of this proxy statement. You may also request this information in print by writing to our General Counsel, Transocean Inc., 4 Greenway Plaza, Houston, Texas 77046.

We will continue to monitor our governance practices in order to maintain our high standards. Some specific governance issues are addressed below.

Independence of Board Members/Committee Structure. Our corporate governance guidelines require that at least a majority of the directors meet the independence requirements of the NYSE. The director independence standards of the New York Stock Exchange require a board determination that the director has no material

relationship with the listed company and has no specific relationships that preclude independence. Our board considers all relevant facts and circumstances in assessing whether a director is independent.

The board has carefully considered the criteria of the NYSE and believes that our directors Arthur Lindenauer, Martin B. McNamara, Roberto Monti, Richard A. Pattarozzi, Ian C. Strachan and Robert M. Sprague and our director nominee Judy J. Kelly meet the NYSE independence requirements. We believe that our Executive Compensation, Audit and Corporate Governance Committees are composed solely of directors who meet the NYSE independence requirements.

The board has also considered what types of disclosure should be made relating to the process of determining director independence. To assist the board in making disclosures regarding its determinations of independence, the board has adopted categorical standards as permitted under the listing standards of the NYSE. These categorical standards deal only with what types of relationships need to be disclosed and not whether a particular director is independent. The board considers all relevant facts and circumstances in determining whether a director is independent. However, the relationships satisfying the categorical standards are not required to be disclosed or separately discussed in our proxy statement. The relationships that exist with nonemployee directors satisfy the standards and need not be disclosed.

A relationship satisfies the categorical standards adopted by the board if it:

is a type of relationship addressed in:

Item 404 of Regulation S-K of the Securities and Exchange Commission (containing requirements for proxy statement disclosure), but under those rules, disclosure is not required, or

Section 303A.02(b) of the NYSE Listed Company Manual (listing relationships that preclude a determination of independence), but under those rules, a determination of independence is not precluded; or

consists of charitable contributions by the Company to an organization where a director is an executive officer and such contributions do not exceed the greater of \$100,000 or 1% of the organization's gross revenue in any of the last three years.

Executive Sessions. The nonmanagement directors met in executive session at each regularly scheduled board meeting in 2004. During 2005, they are again scheduled to meet in executive session without management at each regularly scheduled board meeting. In addition, the independent directors met as a group in executive session on one occasion during 2004. The nonmanagement and independent directors have designated Ian C. Strachan as the presiding director for their respective meetings. Shareholders or other interested persons may send communications to the presiding director by writing to him c/o Mr. Eric B. Brown, Corporate Secretary, P.O. Box 2765, Houston, TX 77252-2765.

Director Nomination Process. The board has designated the Corporate Governance Committee as the committee authorized to consider and recommend nominees for the board. We believe that all members of the Committee meet the NYSE independence requirements.

Our Corporate Governance Guidelines require that the Governance Committee assess the needs of our company and the board so as to recommend candidates who will further our goals. In making that assessment, the Committee has determined that a candidate must have the following minimum qualifications:

high professional and personal ethics and values;

a record of professional accomplishment in his/her chosen field;

relevant expertise and experience; and

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a reputation, both personal and professional, consistent with our core values.

In addition to these minimum qualities, the Committee considers other qualities that may be desirable. In particular, the board is committed to having a majority of independent directors and, accordingly, the Committee evaluates the independence status of any potential director. The Committee evaluates whether or not a candidate contributes to the board's overall diversity and whether or not the candidate can contribute positively to the existing chemistry and culture among the board members. Also, the Committee considers whether or not the candidate may have professional or personal experiences and expertise relevant to our business and position as the leading international provider of offshore drilling services.

The Committee has several methods of identifying candidates. First, the Committee considers and evaluates whether or not the existing directors whose terms are expiring remain appropriate candidates for the board. Second, the Committee requests from time to time that its members and the other board members identify possible candidates. Third, the Committee has the authority to retain one or more search firms to aid in its search. Ms. Kelly was identified by a search firm retained by the Committee. The search firm assists the board in identifying potential board candidates, interviewing those candidates and conducting investigations relative to their background and qualifications.

The Corporate Governance Committee will consider nominees for director recommended by shareholders. Please submit your recommendations in writing, along with:

the name of and contact information for the candidate;

a statement detailing the candidate's qualifications and business and educational experience;

information regarding the qualifications and qualities described under "Director Nomination Process" above;

a signed statement of the proposed candidate consenting to be named as a candidate and, if nominated and elected, to serve as a director;

a statement that the writer is a shareholder and is proposing a candidate for consideration by the Committee;

a statement detailing any relationship between the candidate and any customer, supplier or competitor of ours;

financial and accounting background, to enable the Committee to determine whether the candidate would be suitable for audit committee membership; and

detailed information about any relationship or understanding between the proposing shareholder and the candidate.

Submit nominations to Eric B. Brown, Corporate Secretary, Transocean Inc., 4 Greenway Plaza, Houston, Texas 77046. The extent to which the Committee dedicates time and resources to the consideration and evaluation of any potential nominee brought to its attention depends on the information available to the Committee about the qualifications and suitability of the individual, viewed in light of the needs of the board, and is at the Committee's discretion. The Committee evaluates the desirability for incumbent directors to continue on the board following the expiration of their respective terms, taking into account their contributions as board members and the benefit that results from the increasing insight and experience developed over a period of time. Although the Corporate Governance Committee will consider candidates for director recommended by shareholders, it may determine not to recommend that the board, and the board may determine not to, nominate those candidates for election to our board.

In addition to recommending director nominees to the Corporate Governance Committee, any shareholder may nominate directors at an annual general meeting. For more information on this topic, see *Proposals of Shareholders*.

Process for Shareholder Communications with the Board. The board has established a process whereby interested parties may communicate with the board and/or with any individual director. Shareholders may send communications in writing, addressed to the board or an individual director, c/o Mr. Eric B. Brown, Corporate Secretary, P.O. Box 2765, Houston, TX 77252-2765. The Corporate Secretary will forward these communications to the addressee.

Director Attendance at Annual Meeting. We expect all of our directors to attend our annual general meeting of shareholders. At the 2004 meeting, all directors were in attendance either in person or by phone.

Compensation of Directors

At our 2004 annual general meeting, our shareholders approved the amendment of our Long-Term Incentive Plan to replace automatic awards to outside directors as described below with discretionary awards that are determined by our board. The board continues to believe that directors should receive deferred units rather than options or share appreciation rights, commonly referred to as SARs. Deferred units are units equal to one ordinary share each and are used to measure the benefits payable to the holder of the unit. At last year's board meeting held immediately after the annual meeting, the board granted deferred units to each outside director equal in value to \$62,000 based upon the average price of our ordinary shares for the 10 trading days prior to the annual meeting (calculated at \$27.17). Each outside director received 2,282 units.

Such units vest in equal installments over a three year period but are required to be held by a director until the director leaves the board. In the event of an outside director's retirement in accordance with the board's retirement policy or his earlier death or disability, or in the event of a change of control of our company as described under *Compensation of Executive Officers Compensation Upon Change of Control*, unvested deferred units will vest. If a director ceases to be a director for our convenience, as determined by the board, the board may at its discretion accelerate the vesting of the deferred units.

No other grants of units were made to outside directors during 2004. The board expects to grant deferred units to outside directors equal in value to \$88,000 based upon the average price of our ordinary shares for the 10 trading days prior to the annual meeting. This grant would be made immediately after the 2005 annual meeting. As with prior awards, the units would vest equally over a three year period and would be required to be held by directors until they leave the board. The board would expect to grant directors joining our board after the annual meeting a deferred unit award equal to the amount of the annual retainer. The current overall cash compensation of directors is described below.

Fees and Retainers. The Corporate Governance Committee annually reviews the compensation paid to directors to be certain that it is competitive in attracting and retaining qualified directors. Our employees receive no extra pay for serving as directors. Each director who is not one of our officers or employees received an annual retainer of \$40,000 in 2004, except for Mr. Talbert, whose director compensation arrangement is described below. The audit committee chairman received an additional \$20,000 annual retainer, and the other committee chairmen each received an additional \$10,000 annual retainer. Nonemployee directors also received a fee of \$2,000 for each board meeting and \$1,500 for each board committee meeting attended, plus incurred expenses where appropriate. Directors are eligible to participate in our deferred compensation plan. The director may defer any fees or retainer by investing those amounts in Transocean ordinary share equivalents or in other investments selected by the administrative committee of that plan. The Corporate Governance Committee reviewed the compensation of directors at its February 2005 meeting and the board approved the proposed increase of the annual retainer from \$40,000 to \$50,000. The committee chairmen retainers and the meeting attendance fees were not changed.

Mr. Talbert became our non-executive Chairman after his retirement from active employment with us in October 2004. Based upon research done by us and our compensation consultant, the board determined that an appropriate retainer for a non-executive chairman would be \$160,000 per year. Mr. Talbert was paid a pro-rated portion of this retainer for 2004. Mr. Talbert receives the board meeting attendance fee described above, but does

not receive any additional fees for attendance at board committee meetings. In addition, Mr. Talbert will receive the same equity grant given to other outside directors.

Stock Options/Stock Appreciation Rights. Directors did not receive any stock options or stock appreciation rights (SARs) during 2004. Each stock option and SAR previously granted to a director has a ten-year term and becomes exercisable in equal annual installments on the first, second and third anniversaries of the date of grant assuming continued service on the board. In the event of an outside director's retirement in accordance with the board's retirement policy or his earlier death or disability, or in the event of a change of control of our company as described under Compensation of Executive Officers Change of Control Provisions of Benefit Plans, options and SARs will become immediately exercisable and will remain exercisable for the remainder of their ten-year term. Options and SARs will terminate 60 days after an outside director leaves the board for any other reason. However, if that person ceases to be a director for our convenience, as determined by the board, the board may at its discretion accelerate the exercisability and retain the original term of those options and SARs.

We have reserved an aggregate of 600,000 ordinary shares for issuance to outside directors under our Long-Term Incentive Plan, of which 205,225 remained available for grant as of February 28, 2005.

Board Meetings and Committees

During 2004, the board of directors held five regular meetings. Each of our directors attended at least 75% of the meetings during the year, including meetings of committees on which the director served.

The board has standing executive compensation, finance and benefits, corporate governance and audit committees. As noted, the charters for these committees may be found at www.deepwater.com under Corporate Governance. In addition, the board may from time to time form special committees to consider particular matters that arise.

Executive Compensation Committee. The executive compensation committee reviews and approves the compensation of our officers, administers our executive compensation programs, makes awards under the Long-Term Incentive Plan and the Performance Award and Cash Bonus Plan and establishes performance goals for our Chief Executive Officer and reviews his performance. The current members of the executive compensation committee are Mr. Pattarozzi, Chairman, and Messrs. Monti, Sprague and Strachan. The executive compensation committee met four times during 2004.

Finance and Benefits Committee. The finance and benefits committee approves our long-term financial policies and annual financial plans, insurance programs and investment policies. It also makes recommendations to the board concerning dividend policy, the issuance and terms of debt and equity securities and the establishment of bank lines of credit. In addition, the finance and benefits committee approves the creation, termination and amendment of certain of our employee benefit programs and periodically reviews the status of these programs and the performance of the managers of the funded programs. The current members of the finance and benefits committee are Mr. Siem, Chairman, and Messrs. Lindenauer and Grijalva. We expect the board will appoint Ms. Kelly as a member of the finance and benefits committee upon her election as a director. The finance and benefits committee met four times during 2004.

Corporate Governance Committee. The corporate governance committee makes recommendations to the board with respect to the selection and compensation of the board, how the board functions and how the board should interact with shareholders and management. It reviews the qualifications of potential candidates for the board of directors, coordinates the self-evaluation of the board and committees and recommends to the board nominees to be elected at the annual meeting of shareholders. The current members of the corporate governance committee are Mr. McNamara, Chairman, and Messrs. Monti, Pattarozzi and Sprague. The corporate governance committee met four

times during 2004.

Audit Committee. The audit committee is directly responsible for the appointment, compensation, retention and oversight of our independent registered public accountants. The audit committee also monitors the integrity of our financial statements and the independence and performance of our auditors and reviews our financial reporting

processes. The committee reviews and reports to the board the scope and results of audits by our independent registered public accounting firm and our internal auditing staff and reviews the audit and other professional services rendered by the accounting firm. It also reviews with the accounting firm the adequacy of our system of internal controls. It reviews transactions between us and our directors and officers, our policies regarding those transactions and compliance with our business ethics and conflict of interest policies.

The board requires that all members of the committee meet the financial literacy standard required under the NYSE rules and that at least one member qualifies as having accounting or related financial management expertise under the NYSE rules. In addition, the SEC has adopted rules requiring that we disclose whether or not our audit committee has an audit committee financial expert as a member. An audit committee financial expert is defined as a person who, based on his or her experience, satisfies all of the following attributes:

- an understanding of generally accepted accounting principles and financial statements;

- an ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves;

- experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity of issues that can reasonably be expected to be raised by our financial statements, or experience actively supervising one or more persons engaged in such activities;

- an understanding of internal controls and procedures for financial reporting; and

- an understanding of audit committee functions.

The person is to further have acquired such attributes through one or more of the following:

- education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;

- experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;

- experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or

- other relevant experience.

The current members of the audit committee are Mr. Lindenauer, Chairman, and Messrs. McNamara and Strachan. We expect the board will appoint Ms. Kelly as a member of the audit committee upon her election as a director. The audit committee met 10 times during 2004. The board has reviewed the criteria set by the SEC and determined that Mr. Lindenauer qualifies as an audit committee financial expert. In addition, the board has determined that Mr. Lindenauer qualifies under NYSE rules as having accounting or related financial management expertise. Mr. Lindenauer is an accountant by education, was a partner in an accounting firm and served as the Chief Financial Officer of Schlumberger Limited, a public company.

Finally, NYSE rules restrict directors that have relationships with the company that may interfere with the exercise of their independence from management and the company from serving on the audit committee. We believe that the members of the audit committee have no such relationships and are therefore independent for purposes of NYSE

rules.

AUDIT COMMITTEE REPORT

Our committee has reviewed and discussed the audited financial statements of the Company for the year ended December 31, 2004 with management, our internal auditors and Ernst & Young LLP. In addition, we have discussed with Ernst & Young LLP, the independent registered public accounting firm for the Company, the matters required by Codification of Statements on Auditing Standards No. 61 (SAS 61). The Sarbanes-Oxley Act of 2002 requires certifications by the Company's chief executive officer and chief financial officer in certain of the Company's filings with the Securities and Exchange Commission (SEC). The committee discussed the review of the Company's reporting and internal controls undertaken in connection with these certifications with the Company's management and independent registered public accounting firm. The committee also reviewed and discussed with the Company's management and independent registered public accounting firm, management's report and Ernst & Young LLP's report and attestation on internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. The audit committee has further periodically reviewed such other matters as it deemed appropriate, including other provisions of the Sarbanes-Oxley Act of 2002 and rules adopted or proposed to be adopted by the SEC and the NYSE.

The committee also has received the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1, and we have reviewed, evaluated and discussed the written disclosures with that firm and its independence from the Company. We also have discussed with our management of the Company and the independent registered public accounting firm such other matters and received such assurances from them as we deemed appropriate.

Based on the foregoing review and discussions and relying thereon, we have recommended to the Company's Board of Directors the inclusion of the Company's audited financial statements for the year ended December 31, 2004 in the Company's Annual Report on Form 10-K for such year filed with the SEC.

ARTHUR LINDENAUER, CHAIRMAN IAN C. STRACHAN

MARTIN B. MCNAMARA

SECURITY OWNERSHIP OF 5% BENEFICIAL OWNERS AND MANAGEMENT

The table below shows how many ordinary shares each of our directors and nominees, each of the executive officers named in the summary compensation section below and all directors and executive officers as a group owned as of February 28, 2005. The table below also sets forth information concerning the persons known by us to beneficially own 5% or more of our ordinary shares.

AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP

| Name of Beneficial Owner | Shares Owned Beneficially(1)(2) | Percent of Shares Owned Beneficially (3) |
|--------------------------|------------------------------------|---|
| Eric B. Brown (4)(5) | 97,242 | |
| Jean P. Cahuzac (4) | 149,137 | |
| Gregory L. Cauthen (4) | 32,826 | |

| | |
|------------------------|---------|
| Robert L. Long (4)(6) | 180,796 |
| Jan Rask (7) | 0 |
| Barbara S. Wood (4)(8) | 77,875 |
| Victor E. Grijalva | 63,124 |
| Arthur Lindenauer | 25,121 |
| Judy J. Kelly | 0 |
| Martin B. McNamara | 51,185 |
| Roberto Monti | 20,000 |
| Richard A. Pattarozzi | 46,000 |
| Kristian Siem (9) | 30,841 |

| | | |
|--|------------|------|
| Robert M. Sprague | 3,000 | |
| Ian C. Strachan | 20,500 | |
| J. Michael Talbert (4)(10) | 908,513 | |
| All directors and executive officers as a group (18 persons) (4) | 1,754,138 | |
| Capital Research and Management Company (11) | 17,005,800 | 5.3% |
| FMR Corp. (12) | 21,322,676 | 6.6% |

- (1) The business address of each director and executive officer is c/o Transocean Inc., 4 Greenway Plaza, Houston, Texas 77046.
- (2) Includes options exercisable within 60 days held by Messrs. Brown (86,056), Cahuzac (147,462), Cauthen (29,167), Grijalva (20,000), Lindenauer (20,000), Long (137,313), McNamara (37,672), Monti (20,000), Pattarozzi (46,000), Siem (30,841), Strachan (20,000), Talbert (827,400), Mrs. Wood (62,866) and all directors and executive officers as a group (1,527,914). Also includes rights to acquire ordinary shares under our deferred compensation plan held by Messrs. Grijalva (17,977) and McNamara (12,513), and all directors and executive officers as a group (30,490).
- (3) As of February 28, 2005, each listed individual and our directors and executive officers as a group beneficially owned less than 1.0% of the outstanding ordinary shares.
- (4) Includes:

| | Mr. Brown | Mr. Cahuzac | Mr. Cauthen | Mr. Long | Mr. Rask | Mr. Talbert | Ms. Wood | All directors and executive officers as a group |
|---|--------------|----------------|----------------|-------------|-------------|----------------|-------------|---|
| Shares held by Trustee under 401(k) plan | 1,892 | 0 | 0 | 3,646 | 0 | 0 | 1,898 | 8,707 |
| Shares held in Employee Stock Purchase Plan | 1,699 | 1,294 | 2,159 | 5,515 | 0 | 0 | 0 | 13,009 |

- (5) Includes 7,595 shares held in a joint account with his wife.
- (6) Includes 34,322 shares held in a joint account with his wife.
- (7) Mr. Rask began his employment on July 16, 2002 with TODCO, a publicly traded drilling company in which we owned a majority interest until December 22, 2004. Mr. Rask is no longer one of our executive officers since we now hold a minority interest in TODCO.
- (8) Mrs. Wood is no longer one of our executive officers.
- (9) Excludes 1,423,720 of our ordinary shares held by Siem Industries, Inc. Mr. Siem is the Chairman and Chief Executive Officer of Siem Industries, Inc. As a result, he may be deemed a beneficial owner of those ordinary shares.

- (10) Includes 78,536 shares held in a joint account with his wife.
- (11) Based on a Schedule 13G filed with the SEC on February 14, 2005. According to the filing, Capital Research and Management Company has sole dispositive power over 17,005,800 shares, and sole voting power and shared voting or dispositive power over no shares. The address of Capital Research and Management Company is 333 South Hope Street, Los Angeles, California 90071.
- (12) Based on a Schedule 13G/A filed with the SEC on February 14, 2005. According to the filing, FMR Corp. has sole voting power over 1,865,390 shares, sole dispositive power over 21,322,676 shares and shared voting or dispositive power over no shares. Of the shares reported, 19,416,936 shares are beneficially owned by Fidelity Management & Research Company, an investment adviser and a wholly-owned subsidiary of FMR Corp., as a result of acting as investment advisor to various investment companies (collectively, the Fidelity Funds); with respect to these shares, FMR Corp., Mr. Edward C. Johnson 3d and each of the Fidelity Funds exercise sole investment power and the Fidelity Funds Boards of Trustees exercise sole voting power. Of the shares reported, 1,044,948 shares are beneficially owned by Fidelity

Management Trust Company, a bank and a wholly-owned subsidiary of FMR Corp., as to which each of Mr. Johnson and FMR Corp., through its control of Fidelity Management Trust Company, has sole dispositive power with respect to 1,044,948 shares and sole voting power with respect to 1,000,048 shares. Another 364,392 shares reported are beneficially owned by Strategic Advisors, Inc., an investment advisor and a wholly-owned subsidiary of FMR Corp. The remaining 496,400 shares reported are beneficially owned by Fidelity International Limited, an investment adviser and an entity independent of FMR Corp., as to which shares Fidelity International Limited exercises sole investment and voting power. The address of FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109.

Section 16(a) Beneficial Ownership Reporting Compliance

We believe all Section 16(a) reporting requirements related to our directors and executive officers were timely fulfilled during 2004, except for a Form 4 filed by Mr. Cauthen on December 2, 2004 that should have been filed on September 7, 2004. This belief is based solely on a review of the reports required to be filed under Section 16(a) of the U.S. Securities Exchange Act of 1934 that have been furnished to us and written representations from those with filing obligations that all reports were timely filed.

COMPENSATION OF EXECUTIVE OFFICERS

Executive Compensation Committee Report

Introduction

The executive compensation committee's primary responsibility is to ensure that our executive compensation program aligns the interests of management with those of our shareholders. The committee is composed solely of independent directors.

Our report covers the following topics:

- the role of the executive compensation committee
- our executive compensation guiding principles
- the components of our executive compensation program
- our stock ownership guidelines
- the limitations on deductibility of non-performance based compensation

Role of the Executive Compensation Committee

Our executive compensation program is designed to attract and retain a highly qualified and motivated management team and appropriately reward individual executives for their contributions to the attainment of key strategic goals. We review the compensation principles for the executive officers each year. We also review and establish the individual compensation levels for the executive officers. We have considered the advice of independent, outside consultants in determining whether the amounts and types of compensation we pay are appropriate.

Our program for the earning of equity awards by executives and key employees is heavily weighted by performance goals which significantly improves our ability to align the interests of management with those of our shareholders.

Executive Compensation Guiding Principles

The goal of the compensation program is to attract, motivate and retain the talented individuals we need to be a leader in our highly competitive industry. The following are the guiding principles of our program:

Align the interests of executives with those of our shareholders.

We believe that executive compensation should be directly linked to results delivered to the shareholder. The base pay and cash bonus and long term incentive programs should ultimately deliver total compensation of executives that is predominantly determined by our success both in absolute terms and as measured against peer companies.

Performance-based compensation.

We believe that individual base pay, bonus and equity-based compensation should be tied to how well we perform and individual employee performance, so that when performance meets or exceeds goals, our employees are compensated at the levels set for such goals, and when performance does not meet goals, bonus and equity-based awards for our employees are reduced accordingly or eliminated entirely.

Compensation should be set at competitive levels.

The Committee believes that executive compensation must be monitored to ensure that we maintain competitive compensation levels. We meet with outside consultants at least annually to review and compare the level of compensation we pay or award to key executives to the compensation practices of a peer group of companies. For 2004, the primary peer group of companies used to determine compensation (base salary, cash bonus incentives and long-term equity incentives) for key executives consisted of 15 publicly held companies that the Committee believes are generally of comparable financial size, business focus and scope; however, as described below, we use a narrower group of companies for comparisons based on return on capital.

Incentive compensation should be a greater part of total compensation for more senior positions.

The portion of an employee's total compensation that varies based on our performance and individual performance should increase as the employee's business responsibilities increase. For 2004, over 84% of Mr. Long's target compensation was subject to annual cash bonus program and long-term incentive performance goals.

Components of Our Executive Compensation Program

The three components of our compensation program are:

base salary

cash bonus incentives

long-term equity incentives

Base Salary

We set base salaries for executive officers so that they approximate the size-adjusted median for salaries of comparable executives in our peer group. We adjust base salaries when warranted by an employee's experience and individual performance and when our market surveys or other similar information show that base salaries within the peer group are being adjusted. In line with this approach, Mr. Long's base salary was adjusted from \$660,000 to \$700,000 in July 2004.

Cash Bonus Incentives

We award annual cash bonus incentive opportunities under the Performance Award and Cash Bonus Plan. The amount of an executive's bonus opportunity, which is expressed as a percentage of base salary, depends primarily upon that individual's position and responsibilities and bonus opportunities provided to comparable positions within our peer group. At the beginning of each year, the Committee reviews and approves annual performance goals. Shortly after the end of the year, the Committee determines the appropriate bonus payout levels based on the degree to which these goals have been achieved. The annual incentive program is designed to pay total annual cash compensation, which is salary plus bonus, above the median of our peer group when we meet

substantially all of the goals established for an executive's bonus opportunity. Similarly, when the goals are not achieved, the program is intended to result in total annual cash compensation below the median of our peer group. The Committee also has the discretion to award performance-based cash bonuses under our Long-Term Incentive Plan.

The Committee determined that the payout for an executive's 2004 bonus opportunity was to be based on the level of achievement of company-wide financial goals and specific corporate goals, as described below. The financial goal was weighted at 50% and the corporate goals at 50%. For 2004, bonus opportunities ranged from 30% to 90% of base pay. The actual percentage payment can range from 0% to 200% of the bonus opportunity. The overall bonus payout was also subject to the application of a reduction factor based on our cash flow return on Market Capitalization (CFROMC), the effect of which can reduce the bonus payment by 0-50%. The Committee may use its discretion to adjust payments downward from these amounts or to make additional cash bonus awards beyond the bonus opportunity to recognize exceptional individual performance or to take account of other factors.

The financial goals included in the 2004 bonus opportunities under our Performance Award and Cash Bonus Plan for senior management were our 2004 earnings per share (EPS) and a measure of cash flow return on capital (CFROC), as assessed and ranked to a group of companies within our peer group. Payout of the EPS goal was based on minimum, target and maximum levels of achievement. The corporate goals for all senior executives included in the 2004 bonus opportunities included safety, fleet downtime, marketing and cost containment. The Committee met in December 2004 and February 2005 to review the EPS and CFROC performance and the attainment of the corporate goals and objectives for the year 2004. Based on this review, the Committee determined that Mr. Long would receive a bonus of \$410,449, which represented 67% of his 2004 bonus opportunity under our Performance Award Cash Bonus Plan.

The Committee has determined that the payout for an executive's 2005 bonus opportunity would similarly be based on: the level of achievement of a company-wide financial goal and corporate goals, with the financial goal to be weighted at 30% and the corporate goals at 70%, and with the potential reduction of overall payout based on CFROMC performance. For 2005, bonus opportunities will likewise range from 30% to 90% of base pay, and the actual percentage payment can range from 0% to 200% of the bonus opportunity, depending on the Committee's evaluation of an individual's performance against his or her goals. The CFROMC factor can reduce the overall bonus payout by up to 50%.

The financial goals included in the 2005 bonus opportunities under our Performance Award and Cash Bonus Plan for senior management are our 2005 EPS as compared to return on equity targets and CFROC, as assessed and ranked to a group of companies within our peer group. Payout of the EPS goal is to be based on minimum, target and maximum levels of achievement. The corporate goals for all senior executives included in the 2005 bonus opportunities included goals related to safety, fleet downtime, marketing, human resource development and cost containment. The corporate goals were weighted at 70% of the bonus opportunity in an attempt to better align the executives' interests with those of our shareholders.

Long Term Incentives: Stock Options, Contingent Stock Options and Contingent Restricted Stock

The long-term equity incentive component of our executive compensation program is designed to align executive and shareholder interests by rewarding executives for the attainment of a total shareholder return (TSR) and a cash flow return on capital that ranks favorably within our peer group. In years prior to 2003, we principally granted time-vested stock options to our executives as long-term equity incentives and occasionally granted time-vested restricted stock awards when specific results were achieved. In an effort to further align executive and shareholder interests, beginning in 2003 we fundamentally changed our equity awards through the granting of contingent stock options and contingent restricted stock based on company performance.

The Committee currently intends to administer the long-term equity incentive program through annual grants of these contingent stock options, contingent restricted shares or contingent deferred units to designated executive officers and other key employees. Performance goals and maximum grant parameters are established by the Committee in the first quarter of the year. The committee may also make special awards including non-contingent awards to individual executives and other key employees during the year on a discretionary basis. The peer group of companies used to measure our relative TSR consists of 15 publicly traded companies with a focus on

contract drilling and oilfield services. The peer group of companies used to measure our relative CFROC rank is a more narrowly defined group of 10 companies comprised primarily of contract drillers. Pursuant to the previously established performance goals and award parameters, in July 2004, the Committee made grants of contingent stock options and contingent restricted stock to executives and certain key employees, including Mr. Long, and contingent restricted stock grants to other key employees in order to further the goal of aligning the executives' and key employees' interests with those of our shareholders and to encourage management continuity. No time vested stock options were granted in 2004.

Each executive officer is given a target grant opportunity based on the executive's individual position and compensation survey data of our peer group. The executives are granted a combination of contingent stock options and contingent restricted shares or contingent deferred units that in total combined value approximate 1.75 times the median for our peer group, subject to the Committee's discretion to grant more or fewer of such awards. Contingent awards are based upon a two-year performance period at the end of which the number of contingent shares/deferred units received and/or options retained is determined based on our performance relative to peer groups using TSR and CFROC rankings once the peer group information is publicly available. In general terms, performance resulting in the number one position of the relevant peer groups results in the executive retaining all of the contingent options and receiving all of the restricted shares. Conversely, performance generally within the approximate bottom third results in all contingent options being forfeited and no restricted stock/deferred units being received. Performance between these limits results in partial retention of the contingent options and partial receipt of the restricted stock/deferred units in correlation to the peer rankings. One-third of the earned award vests at the end of the performance period (year 2), with the remainder vesting in years 3 and 4.

Based upon the above criteria, in July 2004, we granted Mr. Long 156,680 contingent options to purchase ordinary shares at an exercise price of \$28.12 and 97,050 contingent restricted shares. Both the contingent option and contingent restricted share grants are subject to a two year performance period ending December 31, 2005, at which time the determination of how many of these options or shares to be retained by Mr. Long, if any, will be made on the basis of relative TSR and CFROC measures to peer groups.

Stock Ownership Guidelines

The Committee believes that it is important for our executives to build and maintain a significant minimum equity stake in our company and that these ownership requirements should be an integral part of our performance-based grant program. Our ownership policy for executives only covers the restricted shares awarded under this program beginning with the 2003 grants. In order to sell any restricted shares granted under the program, our ownership policy requires executives to hold and maintain after the sale vested shares with a value equal to or greater than the following:

our Chief Executive Officer five times annual base salary;

an Executive or Senior Vice President three times annual base salary;

a Vice President or a Region Manager two times annual base salary.

Should the share price later decline whereby an executive falls below the required holdings, the executive is precluded from further sales of restricted shares granted under the program until such time as the executive again meets the ownership requirements. Ownership status by each executive shall be reviewed by the Committee on an annual basis. The Committee will consider the size of and/or eligibility for any future awards to any executive found to have knowingly violated the above requirements.

For a discussion of our stock ownership guidelines for our directors, see Corporate Governance.

Limitations on Deductibility of Non-Performance Based Compensation

To the extent attributable to our U.S. subsidiaries and otherwise deductible, Section 162(m) of the U.S. Internal Revenue Code limits the tax deduction that our U.S. subsidiaries can take with respect to the compensation of designated executive officers, unless the compensation is performance-based. The Committee expects that all income recognized by executive officers upon the exercise of stock options and vesting of contingent restricted

stock and deferred units granted in 2004 under the Long-Term Incentive Plan will qualify as performance-based compensation.

Under the Long-Term Incentive Plan, the Committee has the discretion to award performance-based cash compensation that qualifies under Section 162(m) of the U.S. Internal Revenue Code based on the achievement of objective performance goals. All of our executive officers are eligible to receive this type of award. The Committee has determined, and may in the future determine, to award compensation that does not qualify under Section 162(m) as performance-based compensation.

Conclusion

The Committee believes that the executive compensation philosophy that we have adopted effectively serves our interests and those of our shareholders. It is the Committee's intention that the pay delivered to executives be commensurate with our performance.

This report is issued as of February 10, 2005. Mr. Strachan was added to the Committee after issuance of the report.

Richard A. Roberto L.
Pattarozzi, Monti
Chairman

Robert M.
Sprague

Executive Compensation

The table below shows the compensation during 2002, 2003 and 2004 of our Chief Executive Officer and our four most highly compensated executive officers other than our Chief Executive Officer who were serving as executive officers at the end of 2004 and two former executive officers (the named executive officers).

SUMMARY COMPENSATION TABLE