FORM 10−K

ATWOOD OCEANICS INC − ATW

Filed: December 18, 1998 (period: September 30, 1998)

Annual report which provides a comprehensive overview of the company for the past year

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

Form 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR FISCAL YEAR ENDED SEPTEMBER 30, 1998
COMMISSION FILE NUMBER 0-6352

ATWOOD OCEANICS, INC.
(Exact name of registrant as specified in its charter)

TEXAS (State or other jurisdiction of incorporation or organization)	74-1611874 (I.R.S. Employer Identification No.)
15835 Park Ten Place Drive Houston, Texas (Address of principal executive offices)	77084 (Zip Code)

Registrant's telephone number, including area code:
281-492-2929

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $1 par value
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 15 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings requirements for the past 90 days.
Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation in S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K { }

The aggregate market value of the voting stock held by non-affiliates of the registrants as of November 30, 1998 is $ 199,000,000.

The number of shares outstanding of the issuer's class of Common Stock, as of November 30, 1998: 13,624,926 shares of Common Stock, $1 par value.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Annual Report to Shareholders for the fiscal year ended September 30, 1998 - Referenced in Parts I, II and IV of this report.
(2) Proxy Statement for Annual Meeting of Shareholders to be held February 11, 1999 - Referenced in Part III of this report.

PART I

ITEM 1. BUSINESS

Atwood Oceanics, Inc. (which together with its subsidiaries is identified as the "Company" or "Registrant", unless the context requires otherwise), a corporation organized in 1968 under the laws of the State of Texas, is engaged in contract drilling of exploratory and development oil and gas wells in offshore areas and related support, management and consulting services. The Company currently owns (i) three "third-generation" semisubmersibles, one "second-generation" semisubmersible, one jack-up, one "second-generation" semisubmersible tender assist rig, one submersible, and one modular, self-contained platform rig, and (ii) a 50 percent interest in a new generation platform rig. The Company also provides labor, supervisory and consulting services to two operator-owned platform rigs in Australia.

In fiscal 1998, the Company's revenues, operating cash flows and net income were the highest in its history. For the last five fiscal years, the Company has maintained 99 percent utilization of its drilling equipment, resulting in five consecutive years of improved profitability. However, during the second half of fiscal 1998, the price for oil declined which has resulted in some curtailment of worldwide drilling activities, especially for jack-ups and shallow water drilling rigs. Currently, the price for oil is approximately $12 per barrel, with worldwide fleet utilization for mobile offshore rigs at less than 90 percent.

Historically, most of the Company's drilling operations have been conducted outside United States waters. Approximately 69, 88 and 92 percent of the Company's contract revenues were derived from foreign operations in fiscal years 1998, 1997 and 1996, respectively. The reduction in foreign operations in fiscal 1998 was due to a full year of operations of the ATWOOD HUNTER in United States waters following its relocation from Southeast Asia during fiscal 1997. In addition to operating in United States waters, the Company is currently involved in active foreign operations in the territorial waters of Australia, Italy, Malaysia, India, Egypt and the Philippines. The ATWOOD HUNTER, a third-generation semisubmersible, and the submersible RICHMOND are the Company's only drilling vessels located in United States waters. For information relating to the contract revenues, operating income and identifiable assets attributable to specific geographic areas of operations, see Note 12 of Notes to Consolidated Financial Statements contained in the Company's Annual Report to Shareholders for fiscal year 1998, incorporated by reference herein.

OFFSHORE DRILLING EQUIPMENT

The Company's diversified fleet of owned or operated drilling rigs currently consists of four semisubmersibles, one jack-up, one semisubmersible tender assist vessel, one submersible, and four modular, self-contained platform rigs. Each type of drilling rig is designed for different purposes and applications, for operations in different water depths, bottom conditions, environments and geographical areas, and for different drilling and operating requirements. The following descriptions of the various types of drilling rigs owned or operated by the Company illustrate the diversified range of application of the Company's rig fleet.

Each semisubmersible drilling unit has two hulls, the lower of which is capable of being flooded. Drilling equipment is mounted on the main hull. After the drilling unit is towed to location, the lower hull is flooded, lowering the entire drilling unit to its operating draft, and the drilling unit is anchored in place. On completion of operations, the lower hull is deballasted, raising the entire drilling unit to its towing draft. This type of drilling unit is designed to operate in greater water depths than a jack-up and in more severe sea conditions than a drillship. Semisubmersible units are generally more expensive to operate than jack-up rigs and, compared to a drillship, are often limited in the amount of supplies that can be stored on board.

The semisubmersible tender assist vessel operates like a semisubmersible except that its drilling equipment is temporarily installed on permanently constructed offshore support platforms. The semisubmersible vessel provides crew accommodations, storage facilities and other support for the drilling operations.

A jack-up drilling unit contains all of the drilling equipment on a single hull designed to be towed to the well site. Once on location, legs are lowered to the sea floor and the unit is raised out of the water by jacking up the legs. On completion of the well, the unit is jacked down, and towed to the next location. A jack-up drilling unit can operate in more severe sea and weather conditions than a drillship and is less expensive to operate than a semisubmersible. However, because it must rest on the sea floor, a jack-up cannot operate in as deep water as other units.

The submersible drilling unit owned by the Company has two hulls, the lower being a mat which is capable of being flooded. Drilling equipment and crew accommodations are located on the main hull. After the drilling unit is towed to its location, the lower hull is flooded, lowering the entire unit to its operating draft at which it rests on the sea floor. On completion of operations, the lower hull is deballasted, raising the entire unit to its towing draft. This type of drilling unit is designed to operate in shallow water depths ranging from 9 to 70 feet and can operate in moderately severe sea conditions. Although drilling units of this type are less expensive to operate, like the jack-up rig, they cannot operate in as deep water as other units.

A modular platform rig is similar to a land rig in its basic components. Modular platform rigs are temporarily installed on permanently constructed offshore support platforms in order to perform the drilling operations. After the drilling phase is completed, the modular rig is broken down into convenient packages and moved by work boats. A platform rig usually stays at a location for several months, if not years, since several wells are typically drilled from a support platform.

DRILLING CONTRACTS

The contracts under which the Company operates its vessels are obtained either through individual negotiations with the customer or by submitting proposals in competition with other contractors and vary in their terms and conditions. The initial term of contracts for the Company's owned and/or operated vessels has ranged from the length of time necessary to drill one well to several months and is generally subject to early termination in the event of a total loss of the drilling vessel, excessive equipment breakdown or failure to meet minimum performance criteria. It is not unusual for contracts to contain renewal provisions at the option of the customer.

The rate of compensation specified in each contract depends on the nature of the operation to be performed, the duration of the work, the amount and type of equipment and services provided, the geographic areas involved, market conditions and other variables. Generally, contracts for drilling, management and support services specify a basic rate of compensation computed on a dayrate basis. Such agreements generally provide for a reduced dayrate payable when operations are interrupted by equipment failure and subsequent repairs, field moves, adverse weather conditions or other factors beyond the control of the Company. Some contracts also provide for revision of the specified dayrates in the event of material changes in certain items of cost. Any period during which a vessel is not earning a full operating dayrate because of the above conditions or because the vessel is idle and not on contract will have an adverse effect on operating profits. An over-supply of drilling rigs in any market area can adversely affect the Company's ability to employ its drilling vessels. Except for two rigs idle for upgrades, the Company had virtually 100 percent utilization of its drilling fleet in 1998. However, due to current weakness in the worldwide offshore drilling market, the Company was unable to identify a new contract for the ATWOOD SOUTHERN CROSS when it completed its last contract at the end of September 1998. Despite the current market softness and no current contract for the ATWOOD SOUTHERN CROSS, the Company's contract backlog for its third-generation semisubmersibles should provide a high level of revenues and cash flows in fiscal 1999; however, there is no guarantee that the Company will not experience additional equipment idle time in fiscal 1999.

For long moves of drilling equipment, the Company attempts to obtain either a lump sum or a dayrate as mobilization compensation for expenses incurred during the period in transit. A surplus of certain types of units, either worldwide or in particular operating areas, can result in the Company's acceptance of a contract which provides only partial or no recovery of relocation costs. In recent times, the Company has received full recovery of relocation costs; however, there can be no assurance that this trend will continue.

Operation of the Company's drilling equipment is subject to the offshore drilling requirements of petroleum exploration companies and agencies of foreign governments. These requirements are, in turn, subject to fluctuations in government policies, world demand and prices for petroleum products, proved reserves in relation to such demand and the extent to which such demand can be met from onshore sources.

The Company also contracts to provide various types of services to third party owners of drilling rigs. These contracts are normally for a stated term or until termination of operations or stages of operation at a particular facility or location. The services may include, as in the case of contracts entered into by the Company in connection with operations offshore Australia, the supply of personnel and rig design, fabrication, installation and operation. The contracts normally provide for reimbursement to the Company for all out-of-pocket expenses, plus a service or management fee for all of the services performed. In most instances, the amount charged for the services may be adjusted if there are changes in conditions, scope or costs of operations. The Company generally obtains insurance or a contractual indemnity from the owner for liabilities which could be incurred in operations.

OPERATIONAL RISKS AND INSURANCE

The Company's operations are subject to the usual hazards associated with the drilling of oil and gas wells, such as blowouts, explosions and fires. In addition, the Company's vessels are subject to those perils peculiar to marine operations, such as capsizing, grounding, collision and damage from severe weather conditions. Any of these risks could result in damage or destruction of drilling rigs and oil and gas wells, personal injury and property damage, suspension of operations or environmental damage through oil spillage or extensive, uncontrolled fires. Although the Company believes that it is adequately insured against normal and foreseeable risks in its operations in accordance with industry standards, such insurance may not be adequate to protect the Company against liability from all consequences of well disasters, marine perils, extensive fire damage or damage to the environment. To date, the Company has not experienced difficulty in obtaining insurance coverage, although no assurance can be given as to the future availability of such insurance or cost thereof. The occurrence of a significant event against which the Company is not fully insured could have a material adverse effect on the Company's financial position.

ENVIRONMENTAL PROTECTION

Under the Federal Water Pollution Control Act, as amended by the Oil Pollution Act of 1990, operators of vessels in navigable United States waters and certain offshore areas are liable to the United States government for the costs of removing oil and certain other pollutants for which they may be held responsible, subject to certain limitations, and must establish financial responsibility to cover such liability. The Company has taken all steps necessary to comply with this law, and has received a Certificate of Financial Responsibility (Water Pollution) from the U.S. Coast Guard. The Company's operations in United States waters are also subject to various other environmental regulations regarding pollution and control thereof, and the Company has taken steps to ensure compliance therewith.

CUSTOMERS

During fiscal year 1998, the Company performed operations for 13 customers. Because of the relatively limited number of customers for which the Company can operate at any given time, sales to each of 3 different customers amounted to 10% or more of the Company's fiscal 1998 revenues. British-Borneo Petroleum Inc., Esso Australia Limited/Esso Production Malaysia, Inc., and Santos Ltd., accounted for 24%, 17% and 14%, respectively, of fiscal year 1998 revenues. The Company's business operations are subject to the risks associated with a business having a limited number of customers for its products or services, and a decrease in the drilling programs of these customers in the areas where they employ the Company may adversely affect the Company's revenues.

COMPETITION

The Company competes with numerous other drilling contractors, most of which are substantially larger than the Company and possess appreciably greater financial and other resources. Although recent business combinations among drilling companies have resulted in a decrease in the total number of competitors, the drilling industry remains competitive, with no single drilling contractor being dominant. Thus, there continues to be competition in securing available drilling contracts.

Price competition is generally the most important factor in the drilling industry, but the technical capability of specialized drilling equipment and personnel at the time and place required by customers is also important. Other competitive factors include work force experience, rig suitability, efficiency, condition of equipment, reputation and customer relations. The Company believes that it competes favorably with respect to these factors. If demand for drilling rigs increases in the future, rig availability may also become a competitive factor. Competition usually occurs on a regional basis and, although drilling rigs are mobile and can be moved from one region to another in response to increased demand, an oversupply of rigs in any region may result. Demand for drilling equipment is also dependent on the exploration and development programs of oil and gas companies, which are in turn influenced by the financial condition of such companies, by general economic conditions, by prices of oil and gas, and from time to time by political considerations and policies.

FOREIGN OPERATIONS

The operations of the Company are conducted primarily in foreign waters and are subject to certain political, economic and other uncertainties not encountered by purely domestic drilling contractors, including risks of expropriation, nationalization, foreign exchange restrictions, foreign taxation, changing conditions and foreign and domestic monetary policies. Generally, the Company purchases insurance to protect against some or all loss due to events of political risk such as nationalization, expropriation, war, confiscation and deprivation. Occasionally, customers will indemnify the Company against such losses. Moreover, offshore drilling activity is affected by government regulations and policies limiting the withdrawal of offshore oil and gas, regulations affecting production, regulations restricting the importation of foreign petroleum, environmental regulations and regulations which may limit operations in offshore areas by foreign companies and/or personnel. See Note 12 to Consolidated Financial Statements contained in the Company's Annual Report to Shareholders for fiscal year 1998, incorporated herein by reference, for a summary of contract revenues, operating income and identifiable assets by geographic region.

Because of the Company's foreign operations, its overall effective tax rate may in the future be higher than the maximum United States corporate statutory rate due to the possibility of higher foreign tax rates in certain jurisdictions or less than full creditability of foreign taxes paid.

EMPLOYEES

The Company currently employs approximately 700 persons in its domestic and worldwide operations. In connection with its foreign drilling operations, the Company has often been required by the host country to hire substantial portions of its work force in that country and, in some cases, these employees may be represented by foreign unions. To date, the Company has experienced little difficulty in complying with such requirements, and the Company's drilling operations have not been significantly interrupted by strikes or work stoppages.

ITEM 2. PROPERTIES

Information regarding the location and general character of the Company's principal assets may be found in the table with the caption heading "Offshore Drilling Operations" in the Company's Annual Report to Shareholders for fiscal year 1998, which is incorporated by reference herein.

During fiscal 1997, the Company upgraded and relocated the ATWOOD HUNTER at a cost of approximately $40 million and refurbished and upgraded the ATWOOD SOUTHERN CROSS at a cost of approximately $35 million. During fiscal 1998, the Company commenced an approximate $50 million upgrade of the ATWOOD FALCON and an approximate $35 million upgrade of the VICSKBURG. Both upgrades were completed during the first quarter of fiscal 1999. For more information concerning these costs, see Note 4 in Consolidated Financial Statements contained in the Company's Annual Report to Shareholders for fiscal year 1998, incorporated by reference herein.

ITEM 3. LEGAL PROCEEDINGS

The Company is not currently involved in any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

During the fourth quarter of fiscal 1998, no matters were submitted to a vote of shareholders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

As of September 30, 1998, there were over 750 beneficial owners of the Company's common stock.

The Company did not pay cash dividends in fiscal years 1997 or 1998 and the Company does not anticipate paying cash dividends in the foreseeable future because of the capital intensive nature of its business. To enable the company to maintain its high competitive profile in the industry, cash reserves will be utilized, at the appropriate time, to upgrade existing equipment or to acquire additional equipment. The Company's revolving credit facility prohibits the Company from paying dividends on common stock.

Market information concerning the Company's common stock may be found under the caption heading "Stock Price Information" in the Company's Annual Report to Shareholders for fiscal 1998, which is incorporated by reference herein.

ITEM 6. SELECTED FINANCIAL DATA

Information required by this item may be found under the caption "Five Year Financial Review" in the Company's Annual Report to Shareholders for fiscal 1998, which is incorporated by reference herein.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this item may be found in the Company's Annual

Report to Shareholders for fiscal 1998, which is incorporated by reference herein.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this item may be found under the caption "Disclosures About Market Risk" in the Company's Annual Report to Shareholders for fiscal 1998, which is incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this item may be found in the Company's Annual Report to Shareholders for fiscal 1998, which is incorporated by reference herein.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with the Company's independent public accountants on accounting and financial disclosure.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

This information is incorporated by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 11, 1999, to be filed with the Securities and Exchange Commission (the Commission) not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 11, 1999, to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 11, 1999, to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 11, 1999, to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS AND EXHIBITS

1. FINANCIAL STATEMENTS

The following financial statements, together with the report of Arthur Andersen LLP dated November 23, 1998 appearing in the Company's Annual Report to Shareholders, are incorporated by reference herein:

Report of Independent Public Accountants

Consolidated Balance Sheets dated September 30, 1998 and 1997

Consolidated Statements of Operations for each of the three years in the period ended September 30, 1998

Consolidated Statements of Cash Flows for each of the three years in the period ended September 30, 1998

Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended September 30, 1998

Notes to Consolidated Financial Statements

2. EXHIBITS

See the "EXHIBIT INDEX" for a listing of all of the Exhibits filed as part of this report.

The management contracts and compensatory plans or arrangements required to be filed as exhibits to this report are as follows:

Atwood Oceanics, Inc. 1990 Stock Option Plan -
See Exhibit 10.1 hereof.

Atwood Oceanics, Inc. 1996 Incentive Equity Plan -

See Exhibit 10.3 hereof.

(b) REPORTS ON FORM 8-K

During the last quarter of fiscal 1998, the Company did not file with the Securities and Exchange Commission any report on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ATWOOD OCEANICS, INC.

/s/ JOHN R. IRWIN
JOHN R. IRWIN, President
DATE: 3 December 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on the dates indicated.

/s/ JAMES M. HOLLAND
JAMES M. HOLLAND
Senior Vice President
(Principal Financial and Accounting Officer)
Date: 3 December 1998

/s/ JOHN R. IRWIN
JOHN R. IRWIN
President and Director
(Principal Executive Officer)
Date: 3 December 1998

/s/ ROBERT W. BURGESS
ROBERT W. BURGESS,
Director
Date: 3 December 1998

/s/ GEORGE S. DOTSON
GEORGE S. DOTSON,
Director
Date: 3 December 1998

/s/ HANS HELMERICH
HANS HELMERICH,
Director
Date: 3 December 1998

/s/ WILLIAM J. MORRISSEY
WILLIAM J. MORRISSEY,
Director
Date: 3 December 1998

/s/ W.H. HELMERICH, III
W.H. HELMERICH, III
Director
DATE: 3 December 1998

EXHIBIT INDEX

3.1.1 Restated Articles of Incorporation dated January 1972 (Incorporated herein by reference to Exhibit 3.1.1 of the Company's Form 10-K for the year ended September 30, 1993).

3.1.2 Articles of Amendment dated March 1975 (Incorporated herein by reference to Exhibit 3.1.2 of the Company's Form 10-K for the year ended September 30, 1993).

3.1.3 Articles of Amendment dated March 1992 (Incorporated herein by reference to Exhibit 3.1.3 of the Company's Form 10-K for the year ended September 30, 1993).

3.1.4 Articles of Amendment dated November 6, 1997 (Incorporated by reference to Exhibit 3.1.4 of the Company's Form 10-K for the year ended September 30, 1997).

3.2 Bylaws, as amended (Incorporated herein by reference to Exhibit 3.2 of the Company's Form 10-K for the year ended September 30, 1993).

10.1 Atwood Oceanics, Inc. 1990 Stock Option Plan (Incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-K for the year ended September 30, 1993).

10.2 Joint Venture Letter Agreement dated November 4, 1994 between the Company and Helmerich & Payne, Inc.(Incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-K for the year ended September 30, 1994).

10.3 Atwood Oceanics, Inc. 1996 Incentive Equity Plan (Incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended June 30, 1997).

10.4 Drilling Contract dated January 29, 1997 between the Company and Occidental Phillipines, Inc. (Incorporated herein by reference to the Company's Form 8-K dated July 10, 1997).

10.5 Credit Agreement dated July 17, 1997 between the Company and Bank One, Texas, N.A., Christiania Bank OG Kreditkasse Asa, New York Branch and Other Financial Institutions (Incorporated herein by reference to the Company's Form 8-K dated July 21, 1997.)

10.6 Drilling Contract dated June 20, 1996 between the Company and British-Borneo Petroleum, Inc. for use the ATWOOD HUNTER (Incorporated herein by reference to the Company's Form 8-K dated June 24, 1996).

*13.1 Annual Report to Shareholders

*21.1 List of Subsidiaries

*23.1 Consent of Independent Public Accountants

*27.1 Financial Data Schedule

* Filed hereinwith

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EXHIBIT 13.1

1998 ANNUAL REPORT TO SHAREHOLDERS

THE COMPANY

Atwood Oceanics, Inc. is engaged in the business of international offshore drilling of exploratory and developmental oil and gas wells and related support, management and consulting services. Presently, the Company owns and operates a modern fleet of seven mobile offshore rigs and one modular platform rig, as well as manages the operations of two operator-owned platform rigs in Northwest Australia. The Company also owns a fifty percent interest in a new generation platform rig operating in Australia. The Company supports its operations from headquarters in Houston and affiliated offices in Australia, Malaysia, Indonesia, Philippines, United Kingdom, Egypt, India and Italy.

TO OUR SHAREHOLDERS AND EMPLOYEES

Operating results for fiscal 1998 represent the Company's best financial performance in its thirty years of existence. Revenues, operating cash flows (before changes in working capital and other assets and liabilities) and net income increased 70%, 138% and 152%, respectively, over fiscal 1997 results. Through the end of fiscal year 1998, the Company has maintained virtually 100 percent utilization of its active drilling equipment for five consecutive years.

Record earnings and revenues were achieved through contract renewals at higher dayrates and through the commencement of contracts for our semisubmersibles ATWOOD HUNTER and ATWOOD SOUTHERN CROSS following the major enhancement and water depth upgrade of both units. With term contracts in place for the ATWOOD HUNTER, ATWOOD FALCON, ATWOOD EAGLE and VICKSBURG, the Company has a healthy contract backlog with approximately 90% and 60% of potential revenue days for these units already committed for fiscal years 1999 and 2000, respectively. Despite current near-term softness in the market, the Company's present contract commitments should provide for a high level of revenues during fiscal year 1999.

The major shipyard upgrades of the semisubmersible ATWOOD FALCON and jack-up VICKSBURG were completed during the first quarter of fiscal 1999 within cost and completion estimates. The Company has now successfully accomplished four major upgrades in the past two years within cost and completion targets. The ATWOOD FALCON, which was upgraded to 3,500 ft. water depth drilling capability, commenced a three-year contract with options to extend in Southeast Asia during November, 1998. The VICKSBURG, which was completely refurbished and enhanced, including cantilever conversion, is being mobilized to India to commence a one-year contract with options to extend during the first quarter of fiscal 1999. In addition, upgrade of the GOODWYN `A' self-contained platform rig, which the Company manages on a project basis on behalf of the owner, was also completed and commenced drilling operations in October, 1998 under the Company's management.

The ATWOOD EAGLE also recently received two additional contracts which require the Company to increase the water-depth drilling capacity of the rig from 2,500 feet to 2,800 feet. These additional contractual obligations do not contemplate extensive downtime for the rig and should keep the rig employed into fiscal year 2000. The tender-assist unit SEAHAWK is also a candidate for upgrade and enhancement, following anticipated completion of its current contract commitment in the second quarter of fiscal year 1999. Such upgrade will only be undertaken upon receipt of a contract commitment.

The ATWOOD HUNTER is in the second year of a three-year contract in the Gulf of Mexico. The submersible RICHMOND is committed until April, 1999 and has been continuously employed since February, 1993. We believe the RICHMOND should be a strong candidate for ongoing work prospects, though at reduced dayrates in the short term. In an improving market environment, we expect the semisubmersible ATWOOD SOUTHERN CROSS to be a significant contributor to the Company's future success.

The Company's mix of long-term contracts on high margin units, coupled with short-term contracts, provides the potential for excellent returns with downside protection under current market conditions and upside potential for enhanced earnings from market improvement. A strategy of international operations, highly-skilled personnel, premium equipment, financial strength, and a contract backlog and mix continues to serve us well. We remain optimistic about the long-term market outlook despite current near-term softness. Striving for safe operations remains at the core of our activities. We thank our employees for their efforts and contributions, and our shareholders for their support.

/s/ John Irwin
John Irwin

FINANCIAL HIGHLIGHTS

(In Thousands)	1998	1997
FOR THE YEAR		
REVENUES FROM CONTRACT DRILLING AND MANAGEMENT	$151,809	$ 89,082
NET INCOME	39,364	15,619
CAPITAL EXPENDITURES	79,607	62,778
AT YEAR END		
CASH AND SECURITIES HELD FOR INVESTMENT	$ 34,529	$42,234
NET PROPERTY AND EQUIPMENT	205,632	143,923
TOTAL ASSETS	281,737	215,330
TOTAL SHAREHOLDERS' EQUITY	163,766	122,689

Atwood Oceanics, Inc. and Subsidiaries

FIVE YEAR FINANCIAL REVIEW

(In thousands, except per share amounts, fleet data and ratios)	At or For the Years Ended September 30,				
	1998	1997	1996	1995	1994
STATEMENTS OF OPERATIONS DATA:					
Contract revenues	$151,809	$89,082	$ 79,455	$ 72,231	$ 65,975
Drilling costs and general and administrative expenses	(72,616)	(54,890)	(56,653)	(55,311)	(48,652)
OPERATING MARGIN	79,193	34,192	22,802	16,920	17,323
Depreciation	(17,596)	(9,979)	(9,742)	(11,134)	(13,618)
OPERATING INCOME	61,597	24,213	13,060	5,786	3,705
Other income (expense)	(1,278)	1,165	2,783	3,146	3,230
Tax provision	(20,955)	(9,759)	(4,475)	(1,872)	(726)
NET INCOME	$ 39,364	$ 15,619	$ 11,368	$ 7,060	$ 6,209
PER SHARE DATA:					
Earnings per common share: (1)					
Basic	$ 2.90	$ 1.16	$ .85	$ .54	$ .47
Diluted	2.84	1.14	.84	.53	.47
Average common shares outstanding: (1)					
Basic	13,592	13,474	13,328	13,182	13,164
Diluted	13,884	13,715	13,544	13,230	13,184
FLEET DATA:					
Number of rigs owned or managed, at end of period	11	11	11	10	9
Utilization rate for in-service rigs (excludes contractual downtime for rig upgrades in 1998 and 1997)	100%	100%	100%	99%	99%
BALANCE SHEETS DATA:					
Cash and securities held for investment	$ 34,529	$ 42,234	$ 40,492	$ 37,922	$ 41,047
Working capital	24,864	27,549	26,151	13,761	25,171
Net property and equipment	205,632	143,923	91,124	91,427	82,845
Total assets	281,737	215,330	159,309	152,853	153,460
Total long-term debt	72,000	59,500	34,473	39,319	53,294
Shareholders' equity	163,766	122,689	105,554	94,892	85,959
Ratio of current assets to current liabilities	1.93	2.41	2.45	1.67	2.89

Note -

(1) Retroactively adjusted to reflect 100% stock dividend declared in November, 1997.

(The Company has never paid any cash dividends on its common stock.)

OFFSHORE DRILLING OPERATIONS

NAME OF RIG	TYPE OF RIG	PERCENTAGE OF 1998 CONTRACT REVENUES	YEAR BUILT	MAXIMUM WATER DEPTH	LOCATION	CUSTOMER	CONTRACT STATUS AT NOVEMBER 30, 1998
DRILLING RIGS WHOLLY OR PARTIALLY OWNED							
ATWOOD FALCON	Third-generation Semi-submersible	11%	1983 (Enhanced and water depth upgrade in 1998)	3,500 Feet	Malaysia	Sabah Shell Petroleum Company Limited through assignment from Shell Philippines Exploration B.V.	Upon completion of six-month upgrade period, the rig commenced drilling under a firm three-year contract in November 1998. Upon completion of the current well for Sabah Shell it is anticipated that the rig will be mobilized to the Philippines to drill for Shell Philippines.
ATWOOD HUNTER	Third-generation Semi-submersible	23%	1981 (Enhanced and water depth upgrade in 1997)	3,500 Feet	United States Gulf of Mexico	British-Borneo Petroleum Inc.	Rig is under long-term contract which terminates in September 2000.
ATWOOD EAGLE	Third-generation Semi-submersible	21%	1982	2,500 Feet	Italy	Enterprise Oil Italiana S.p.A.	Rig is contracted to several operators under a "rig sharing agreement". Upon completion of the current well in Italy, the rig will return to Egypt to drill for Gulf of Suez Petroleum Company and BG Exploration and Production Limited. The rig also has contracts with Turkieye Petrolleria A.O. and Samedan, Mediterranean Sea, Inc. These contracts provide the rig with a firm backlog of work for approximately one year with options for futher work.
VICKSBURG	Jack-up	1%	1976 (Enhanced and upgraded in 1998)	300 Feet	Mobilizing to India	Enron Oil & Gas India Ltd.	Following completion of upgrade and refurbishment in November 1998, the rig is presently being mobilized to

							India to commence a one-year contract, with options to extend.
SEAHAWK	Second-generation semi-submersible Tender assist	8%	1974/ 1992	450 Feet	Malaysia	Esso Production Malaysia Inc.	Rig is under term contract (estimated completion second fiscal 1999 quarter). Discussions ongoing for multi-year contract extension.
ATWOOD SOUTHERN CROSS	Second-generation semi-submersible	14%	1976 (Refur-bished and upgraded in 1997)	2,000 Feet	Australia	-	Rig is available for contract since it became idle at the end of September 1998.
RICHMOND	Sub-mersible	8%	1982	75 Feet	United States Gulf of Mexico	Chevron U.S.A.	Rig is under term contract (estimat-ed completion March 1999). Options available for work until October 1999.
RIG-19	Modular platform	4%	1988	N/A	Australia	Esso Australia Limited	Rig is under term contract (estimat-ed completion between January and May 1999).
RIG-200	Modular platform	5%	1995	N/A	Australia	Esso Australia Limited	Rig is under term contract (estimat-ed completion between January and May 1999).

MANAGEMENT/LABOR CONTRACTS

GOODWYN'A' and NORTH RANKIN 'A'	Modular platforms	5%	N/A	N/A	Australia	Woodside Energy	Rigs are under term contract for management of drilling operations into the year 2000. Current plans project drilling operations to alternate between the two rigs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report to Shareholders and the related Form 10-K for the fiscal year ended September 30, 1998 includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this report and the related Form 10-K regarding the Company's financial position, business strategy, budgets and plans and objectives of management for future operations are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. These forward-looking statements involve risks and uncertainties that may cause the Company's actual future activities and results of operations to be materially different from those suggested or described in this Annual Report to Shareholders and related Form 10-K. These risks include: the Company's dependence on the oil and gas industry; the Company's ability to secure adequate financing; the risks involved in the construction and upgrade to the Company's rigs; competition; operations risks; risks involved in foreign operations; and governmental regulation and environmental matters. These factors ("Cautionary Statements") are disclosed in various places throughout this report and the related Form 10-K. All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the Cautionary Statements.

OUTLOOK

In fiscal 1998, the Company's revenues, operating cash flows and net income were the highest in its history. Except for rigs idle for upgrades, the Company had 100 percent utilization of its drilling fleet in fiscal 1998. At the beginning of fiscal 1998, the price for oil was around $20 per barrel, with worldwide fleet utilization for mobile offshore rigs in excess of 95 percent. During the second half of fiscal 1998, the price for oil declined which resulted in some curtailment of worldwide drilling activities, especially for jack-ups and shallow water drilling rigs. Currently, the price for oil is around $12 per barrel, with worldwide fleet utilization for mobile offshore rigs at less than 90 percent.

Due to current weakness in the worldwide offshore drilling market, the Company was unable to identify an ongoing contract for the ATWOOD SOUTHERN CROSS when it completed its last contract at the end of September, 1998. Currently, the ATWOOD SOUTHERN CROSS is the Company's only rig not generating revenues. In an improved market environment, the Company is confident that the ATWOOD SOUTHERN CROSS will be a significant contributor to future revenues. Despite the current market softness and no current contract for the ATWOOD SOUTHERN CROSS, the Company's contract backlog for its third-generation semisubmersibles should provide a high level of revenues and cash flows in fiscal 1999. The Company remains confident in the long-term future of the worldwide offshore drilling market.

RESULTS OF OPERATIONS

Fiscal Year 1998 Versus Fiscal Year 1997

Despite the ATWOOD FALCON and VICKSBURG being idle for a significant portion of fiscal 1998 while undergoing upgrades, contract revenues increased 70 percent to $151.8 million from $89.1 million. This increase was primarily attributable to the ATWOOD HUNTER returning to work at a significant increase in dayrate revenues following upgrade in fiscal 1997, the initial commencement of drilling operations for the ATWOOD SOUTHERN CROSS following its upgrade and refurbishment in fiscal 1997 and the increase in dayrate revenues for the ATWOOD EAGLE. An analysis of contract revenues by rig for fiscal years 1998 and 1997 is as follows:

	CONTRACT REVENUES (In millions)		
	Fiscal 1998	Fiscal 1997	Variance
ATWOOD HUNTER	$ 35.2	$ 5.2	$ 30.0
ATWOOD SOUTHERN CROSS	20.4	0.0	20.4
ATWOOD EAGLE	32.2	19.3	12.9
ATWOOD FALCON	17.3	16.9	0.4
RICHMOND	11.3	8.8	2.5
RIG-200	7.9	5.9	2.0
SEAHAWK	11.4	11.3	0.1
VICKSBURG	1.9	5.1	(3.2)
RIG-19	6.7	7.1	(0.4)
GOODWYN `A'	4.3	7.3	(3.0)
NORTH RANKIN `A'	3.2	2.2	1.0

$ 151.8	$ 89.1	$ 62.7

In September, 1997, the ATWOOD HUNTER commenced drilling under a three-year contract in the United States Gulf of Mexico. Due to the rig being upgraded, it generated less than 100 days of revenue during fiscal 1997. The ATWOOD SOUTHERN CROSS, which generated no revenues prior to fiscal 1998, commenced drilling in Australia in November, 1997. The ATWOOD EAGLE was relocated from West Africa to the Mediterranean Sea area in March, 1998 and commenced working under a rig-sharing agreement, with enhanced dayrate revenues. The ATWOOD FALCON entered a shipyard in May, 1998 for its water-depth upgrade, which was not completed until November, 1998. Revenues from the rig should be significantly higher in fiscal 1999. Due to a strong market during the first half of fiscal 1998, revenues from the RICHMOND increased in fiscal 1998 compared to fiscal 1997. However, due to current softness in the market, there has been a recent decline in dayrate for the rig and, therefore, it is expected to generate less revenues in fiscal 1999 than in fiscal 1998.

Stable contracts for the SEAHAWK, RIG-200 and RIG-19 provided consistency to operations during fiscal 1998. Contractual work for RIG-200 and RIG-19 could terminate during fiscal 1999 with an uncertainty for ongoing work. The VICKSBURG entered a shipyard in December, 1997 for refurbishment and upgrade which was not completed until November, 1998, and this accounted for its decrease in revenues. Drilling activity for the GOODWYN `A' declined during the second half of fiscal 1998 due to its Australian owner upgrading the rig. The Company provided additional labor to NORTH RANKIN `A' and is expected to continue to be involved in the operation of both rigs at least into the year 2000.

Contract drilling and management costs during fiscal 1998 increased 34 percent from $48.8 million to $65.3 million. This increase was primarily due to the ATWOOD HUNTER and ATWOOD SOUTHERN CROSS commencing drilling operations following their upgrades during fiscal 1997. An analysis of contract drilling and management costs by rig is as follows:

CONTRACT DRILLING AND MANAGEMENT COSTS

(In millions)

	Fiscal 1998	Fiscal 1997	Variance
ATWOOD HUNTER	$ 9.4	$ 1.7	$ 7.7
ATWOOD SOUTHERN CROSS	10.6	0.0	10.6
ATWOOD EAGLE	11.5	9.8	1.7
ATWOOD FALCON	4.9	6.3	(1.4)
RICHMOND	6.0	5.0	1.0
RIG-200	2.6	2.0	0.6
SEAHAWK	6.1	7.0	(0.9)
VICKSBURG	1.4	3.6	(2.2)
RIG-19	4.5	5.3	(0.8)
GOODWYN `A'	3.4	5.7	(2.3)
NORTH RANKIN `A'	2.9	1.1	1.8
OTHER	2.0	1.3	0.7
	$ 65.3	$ 48.8	$ 16.5

The ATWOOD HUNTER worked the entire fiscal 1998 compared to only approximately one quarter of fiscal 1997. The Company acquired the ATWOOD SOUTHERN CROSS in October, 1993, but did not place the rig into service until after the completion of its refurbishment and upgrade in November, 1997. The increase in operating costs for the ATWOOD EAGLE was due primarily to an increase in maintenance costs and higher operating costs associated with working in the Mediterranean Sea area as compared to West Africa. The increase in operating costs for the RICHMOND was due primarily to higher payroll related costs. During the ATWOOD FALCON and VICKSBURG upgrade periods, no operating costs are being incurred, resulting in lower operating costs in the current year than in fiscal 1997. As a result of certain payroll related tax refunds received in fiscal 1998, operating costs for RIG-19 declined. The increase in NORTH RANKIN `A' costs and the decrease in GOODWYN `A' costs were due to an increase in personnel services provided to the NORTH RANKIN `A', and a decrease in services provided to GOODWYN `A' during its upgrade period.

An analysis of depreciation expense by rig is as follows:

DEPRECIATION EXPENSE

(In millions)

	Fiscal 1998	Fiscal 1997	Variance
ATWOOD HUNTER	$ 5.0	$ 0.6	$ 4.4
ATWOOD SOUTHERN CROSS	3.0	0.0	3.0
ATWOOD EAGLE	2.2	2.1	0.1
ATWOOD FALCON	1.8	2.7	(0.9)
RICHMOND	0.5	0.4	0.1
RIG-200	2.1	1.5	0.6

SEAHAWK	2.5	2.2	0.3
VICKSBURG	0.0	0.0	0.0
RIG-19	0.2	0.2	0.0
OTHER	0.3	0.3	0.0
	$17.6	$ 10.0	$ 7.6

The increase in depreciation expense was primarily due to the commencing of depreciation in fiscal 1998 of upgrade costs of the ATWOOD HUNTER and ATWOOD SOUTHERN CROSS. The Company does not recognize depreciation expense during the period a rig is out of service for a significant upgrade. This accounts for the decline in depreciation expense for the ATWOOD FALCON in fiscal 1998 and the ATWOOD HUNTER in fiscal 1997. The increase in depreciation expense of RIG-200 was due to the rig having active drilling operations for all of fiscal 1998 compared to only three quarters of fiscal 1997.

General and administrative expense increased 20 percent in fiscal 1998 compared to fiscal 1997. This increase was attributed to an increase in payroll related costs and in professional fees. The $2.4 million increase in interest expense was primarily related to the increase in funds borrowed under the Company's revolving credit agreement. With a significant increase in pre-tax income and virtually no carryforward tax attributes, both the foreign and domestic tax provision increased.

Fiscal Year 1997 Versus Fiscal Year 1996

Contract revenues in fiscal 1997 increased 12 percent to $89.1 million from $79.5 million. This increase was primarily attributable to dayrate increases on the ATWOOD FALCON, ATWOOD EAGLE and RICHMOND, to an increase in labor services provided to NORTH RANKIN 'A' and to a complete year of revenues from RIG-200. An analysis of contract revenues by rig for fiscal 1997 and 1996 is as follows:

CONTRACT REVENUES

(In millions)

	Fiscal 1997	Fiscal 1996	Variance
ATWOOD FALCON	$16.9	$ 11.5	$ 5.4
ATWOOD HUNTER	5.2	11.3	(6.1)
ATWOOD EAGLE	19.3	15.6	3.7
RIG-200	5.9	2.2	3.7
SEAHAWK	11.3	11.0	0.3
VICKSBURG	5.1	5.0	0.1
RIG-19	7.1	8.2	(1.1)
RICHMOND	8.8	6.2	2.6
GOODWYN 'A'	7.3	7.6	(0.3)
NORTH RANKIN 'A'	2.2	0.9	1.3
	$89.1	$ 79.5	$ 9.6

Contracts which commenced during the last half of fiscal 1996 by the ATWOOD FALCON and ATWOOD EAGLE, and which resulted in dayrate increases of approximately 60 percent and 25 percent, respectively, extended through fiscal 1997, accounting for the increase in revenues for these rigs. The ATWOOD HUNTER entered the shipyard in December, 1996 for its deep water upgrade which was not completed until September, 1997, accounting for its decrease in revenues. A full year of revenues coupled with the commencement of active drilling at higher dayrates accounted for the increase in revenues for RIG-200. Stable contracts for the SEAHAWK and VICKSBURG provided consistency to these operations. The decline in revenues for RIG-19 was due to the rig being moved to a new platform during fiscal 1997 with no revenues being recognized during the relocation period. Market conditions for the RICHMOND also improved during fiscal 1997 resulting in increased revenues.

In contrast to a 12 percent increase in contract revenues, contract drilling and management costs in fiscal 1997 decreased 5 percent to $48.8 million from $51.5 million. The decrease was primarily due to the absence of drilling costs on the ATWOOD HUNTER during its upgrade period. An analysis of contract drilling and management costs by rig is as follows:

CONTRACT DRILLING AND MANAGEMENT COSTS

(In millions)

	Fiscal 1997	Fiscal 1996	Variance
ATWOOD FALCON	$ 6.3	$ 6.9	$ (0.6)
ATWOOD HUNTER	1.7	7.2	(5.5)
ATWOOD EAGLE	9.8	9.1	0.7
RIG-200	2.0	0.3	1.7
SEAHAWK	7.0	6.5	0.5
VICKSBURG	3.6	3.1	0.5

RIG-19	5.3	6.4	(1.1)
RICHMOND	5.0	4.8	0.2
GOODWYN 'A'	5.7	5.9	(0.2)
NORTH RANKIN 'A'	1.1	0.6	0.5
OTHER	1.3	0.7	0.6
	$ 48.8	$ 51.5	$ (2.7)

The ATWOOD HUNTER was out of service for approximately eight months in fiscal 1997 due to the upgrade period. The increase in costs of RIG-200 was due to a full year of operations. The decrease in costs for RIG-19 was due to its relocation to a new platform which resulted in no drilling costs being recognized during the relocation period. The increase in operating costs for the ATWOOD EAGLE, SEAHAWK, VICKSBURG and NORTH RANKIN 'A' were due primarily to higher payroll related costs.

An analysis of depreciation expense by rig is as follows:

	DEPRECIATION EXPENSE (In millions) Fiscal 1997	Fiscal 1996	Variance
ATWOOD FALCON	$ 2.7	$ 2.6	$ 0.1
ATWOOD HUNTER	0.6	1.6	(1.0)
ATWOOD EAGLE	2.1	2.0	0.1
RIG-200	1.5	0.0	1.5
SEAHAWK	2.2	2.2	0.0
VICKSBURG	0.0	0.0	0.0
RIG-19	0.2	0.6	(0.4)
RICHMOND	0.4	0.4	0.0
OTHER	0.3	0.3	0.0
	$10.0	$ 9.7	$ 0.3

With the ATWOOD HUNTER out of service for drilling operations during its water depth enhancement, no depreciation was recognized during the rig's upgrade period. Depreciation of RIG-200 commenced upon start-up of active drilling operation in January, 1997.

General and administrative expense increased 19 percent in fiscal 1997 compared to fiscal 1996. This increase was attributable to an increase in payroll related costs and to professional fees associated with a registration statement filed with the Securities and Exchange Commission in February, 1997 with respect to a public offering of 1.5 million shares of the Company's common stock, which was subsequently withdrawn due to the stock price range not adequately reflecting the value of the Company. Investment income in fiscal years 1997 and 1996 of $2.4 million and $2.5 million, respectively, offset interest expense for both years. With an increase in pre-tax income and virtually no carryforward tax attributes, both foreign and domestic tax provisions significantly increased.

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 1998, operating cash flows (before changes in working capital and other assets and liabilities) increased 138 percent from $25.8 million to $61.4 million. During fiscal 1998, the Company utilized available cash, internally generated funds and $14 million of funds borrowed under its revolving credit facility to invest approximately $30 million in the water-depth upgrade of the ATWOOD FALCON, to invest approximately $30 million in the refurbishment and upgrade of the VICKSBURG, to invest approximately $13 million in completing the refurbishment and upgrade of the ATWOOD SOUTHERN CROSS and to fund approximately $7 million in other capital expenditures.

After enhancing the ATWOOD FALCON to drill in up to 3,500 feet of water at an approximate cost of $50 million, of which $30 million was expended during fiscal 1998, the rig commenced drilling under a three-year contract in November, 1998. After the Company committed approximately $35 million to upgrade and refurbish the VICKSBURG (including cantilevering for extended reach drilling, adding a top drive and enhancing certain drilling equipment), the rig is preparing to mobilize to India to commence a one-year contract. Currently, the Company has two other rigs, the SEAHAWK and ATWOOD EAGLE, which are candidates for upgrades. A contract extension is currently being discussed for the SEAHAWK, which is a requirement before any upgrade will be undertaken. The Company is contractually obligated to increase the water-depth drilling capacity of the ATWOOD EAGLE from 2,500 feet to 2,800 feet. This minimum upgrade will cost approximately $4 million and will not require the use of a shipyard or result in extensive downtime for the rig. Thus, except for funding the remaining costs associated with the upgrades of the ATWOOD FALCON and VICKSBURG (approximately $25 million), minimal upgrade of the ATWOOD EAGLE and general capital maintenance of the Company's other rigs, the Company currently has no significant capital commitments.

Since September 30, 1998, the Company has borrowed another $8 million under its revolving credit facility, resulting in a current outstanding balance under the facility of $80 million. Subject to an investment opportunity being identified, the Company estimates that it will not significantly increase the outstanding balance under this facility. The ATWOOD HUNTER, ATWOOD EAGLE, and RICHMOND plus $20 million of the Company's United States Treasury bonds are pledged as collateral under the $125 million revolving credit facility. This revolving line of credit converts to a reducing facility commencing on March 31, 1999, with commitment reduction of $8.3 million per quarter until final maturity on March 31, 2002. Depending upon additional capital investments, anticipated future operating cash flows are expected to provide the Company with the option of repaying funds borrowed under the revolving credit facility prior to its required maturity.

For the last quarter of fiscal 1998, the Company earned approximately $35 million in contract revenues compared to approximately $24 million for the last quarter of fiscal 1997. This significant increase in contract revenues accounts for the $11.4 million increase in accounts receivable at September 30, 1998 compared to September 30, 1997. The Company's portfolio of accounts receivable is comprised of major international corporate entities with stable payment experience. Historically, the Company has experienced no difficulties in receivable collections; however, at September 30, 1998, there is a contract dispute over approximately $2 million billed in September 1998. The Company is in the process of taking legal action to collect this $2 million.

The Company continues to pursue additional growth opportunities. The current decline in drilling market activity may enhance the Company's ability to identify investment alternatives. The Company would expect to finance additional capital expenditures through a combination of operating cash flows, additional borrowing under the revolving credit facility or additional debt financing; however, the Company can give no assurance that additional debt financing would be available on terms acceptable to the Company. The Company continues to periodically review and adjust its planned capital expenditures and financing of such expenditures in light of current market conditions.

YEAR 2000

Many computer software systems, as well as certain hardware and equipment utilizing date-sensitive data, were structured to use a two-digit date field meaning that they will not be able to properly recognize dates in the Year 2000. The Company is using both internal and external resources to assess and where necessary, to reprogram, replace or test software for Year 2000 Compliance. A majority of the Company's internal information systems are in the process of being reprogrammed or replaced with fully-compliant new or modified systems. Most of the Company's operating systems on its various drilling rigs are mechanical, with no Year 2000 compliance issues; however, there are some systems that will require assessment and possible reprogramming or replacement. The Company is striving to address and, where necessary, correct all Year 2000 issues by the end of June 1999. Currently, the total cost of assessments, new software and implementations is estimated to be between $1 million and $2 million, most of which will relate to new software and will be capitalized. The Company believes that with modifications to existing software and conversion to new software, the Year 2000 issues will not pose significant operational problems; however, the extent and magnitude of the Year 2000 problem as it will affect the Company is difficult to predict. Accordingly, there can be no assurance that the Company will adequately correct all Year 2000 problems, so as not to create disruptions in the Company's business. The Company does not currently have information concerning the Year 2000 compliance of its significant customers or suppliers. In the event the Company's major suppliers or customers do not successfully and timely achieve Year 2000 compliance, the Company's operations will be adversely affected.

DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk, including adverse changes in interest rates and foreign currency exchange rates as discussed below.

Interest Rate Risk

Total long-term debt at September 30, 1998, included $72 million of floating rate debt. As a result, the Company's annual interest costs in fiscal 1999 will fluctuate based on interest rate changes. Because the interest rate on the Company's long-term debt is a floating rate, the fair value of the Company's long-term debt approximates carrying value as of September 30, 1998. The impact on annual cash flow of a 10 percent change in the floating rate (approximately 70 basis points) would be approximately $0.5 million. The Company did not have any open derivative contracts relating to its floating rate debt at September 30, 1998.

Foreign Currency Risk

Certain of the Company's subsidiaries have monetary assets and liabilities that are denominated in a currency other than their functional currencies. A decrease in the value of 10 percent in the foreign currencies relative to the U.S. dollar from the year-end exchange rates would result in a foreign currency transaction loss of approximately $1 million, based on September 30, 1998 amounts. The Company considers its current risk exposure to foreign currency exchange rate movements, based on net cash flows, to be immaterial. The Company did not have any open derivative contracts relating to foreign currencies at September 30, 1998.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Board of Directors of Atwood Oceanics, Inc.:

We have audited the accompanying consolidated balance sheets of Atwood Oceanics, Inc. (a Texas corporation) and subsidiaries as of September 30, 1998 and 1997, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for each of the three years in the period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atwood Oceanics, Inc. and subsidiaries as of September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Houston, Texas
November 23, 1998

Atwood Oceanics, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(In thousands)	September 30, 1998	1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,621	$19,264
Accounts receivable	27,730	16,353
Inventories of materials and supplies, at lower of average cost or market	8,076	7,004
Deferred tax assets	880	1,820
Prepaid expenses	3,280	2,610
Total Current Assets	51,587	47,051
SECURITIES HELD FOR INVESTMENT:		
Held-to-maturity, at amortized cost	22,585	22,581
Available-for-sale, at fair value	323	389
	22,908	22,970
PROPERTY AND EQUIPMENT, at cost:		
Drilling vessels, equipment and drill pipe	327,520	249,496
Other	6,128	5,363
	333,648	254,859
Less - accumulated depreciation	128,016	110,936
Net Property and Equipment	205,632	143,923
DEFERRED COSTS AND OTHER ASSETS	1,610	1,386
	$281,737	$215,330

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

Atwood Oceanics, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	September 30, 1998	1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 750	$ 750
Accounts payable	14,250	5,323
Accrued liabilities	11,723	13,429
Total Current Liabilities	26,723	19,502
LONG-TERM DEBT, net of current maturities	72,000	58,750
DEFERRED CREDITS:		
Income taxes	4,820	1,810
Mobilization fees and other	14,428	12,579
	19,248	14,389
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 1,000,000 shares authorized, none outstanding	---	---
Common stock, $1 par value; 20,000,000 shares authorized with 13,625,000 and 13,546,000 issued and outstanding in 1998 and 1997, respectively	13,625	13,546
Paid-in capital	51,781	50,104
Net unrealized holding loss on available-for-sale securities	(155)	(112)
Retained earnings	98,515	59,151
Total Shareholders' Equity	163,766	122,689
	$ 281,737	$215,330

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

Atwood Oceanics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30,		
(In thousands, except per share amounts)	1998	1997	1996
REVENUES:			
Contract drilling	$148,570	$86,833	$78,555
Contract management	3,239	2,249	900
	151,809	89,082	79,455
COSTS AND EXPENSES:			
Contract drilling	62,364	47,714	50,912
Contract management	2,921	1,076	628
Depreciation	17,596	9,979	9,742
General and administrative	7,331	6,100	5,113
	90,212	64,869	66,395
OPERATING INCOME	61,597	24,213	13,060
OTHER INCOME (EXPENSE):			
Interest expense	(3,599)	(1,212)	(2,522)
Investment income	2,321	2,377	2,510
Realized gain on sale of securities	--	--	2,795
	(1,278)	1,165	2,783
INCOME BEFORE INCOME TAXES	60,319	25,378	15,843
PROVISION FOR INCOME TAXES	20,955	9,759	4,475
NET INCOME	$39,364	$15,619	$11,368
EARNINGS PER COMMON SHARE:			
Basic	$ 2.90	$ 1.16	$ .85
Diluted	2.84	1.14	.84
AVERAGE COMMON SHARES OUTSTANDING:			
Basic	13,592	13,474	13,328
Diluted	13,884	13,715	13,544

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

Atwood Oceanics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	1998	1997	1996
	For Years Ended September 30,		
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income	$39,364	$15,619	$11,368
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	17,596	9,979	9,742
Amortization of deferred items	427	539	604
Deferred federal income tax provision (benefit)	3,970	(330)	1,400
Gain on sale of securities	---	---	(2,795)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	(11,377)	334	(3,412)
Increase (decrease) in accounts payable	954	2,708	(3,645)
Increase (decrease) in accrued liabilities	(1,706)	5,958	(1,524)
Net mobilization fees	2,779	6,286	3,000
Other	(1,924)	(1,848)	2,216
	10,719	23,626	5,586
Net Cash Provided by Operating Activities	50,083	39,245	16,954
CASH FLOW FROM INVESTING ACTIVITIES:			
Proceeds from sale of securities	---	---	3,738
Capital expenditures	(79,607)	(62,778)	(9,526)
Non cash portion of capital expenditures	7,973	---	---
Net Cash Used by Investing Activities	(71,634)	(62,778)	(5,788)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from exercises of stock options	658	1,019	761
Proceeds from revolving credit facility	14,000	58,000	---
Principal payments on debt	(750)	(32,973)	(6,346)
Deferred financing costs	---	(814)	---
Net Cash Provided (Used) by Financing Activities	13,908	25,232	(5,585)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,643)	1,699	5,581
CASH AND CASH EQUIVALENTS, at beginning of period	19,264	17,565	11,984
CASH AND CASH EQUIVALENTS, at end of period	$11,621	$19,264	$17,565

Supplemental disclosure of cash flow information:

Cash paid during the year for domestic and foreign income taxes	$18,549	$ 6,896	$ 2,660
Cash paid during the year for interest, net of amounts capitalized	$ 2,349	$ 1,295	$ 2,478

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

Atwood Oceanics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY

(In thousands)	Common Stock Shares(1)	Common Stock Amount(1)	Paid-in Capital(1)	Unrealized Holding Gain(Loss)	Retained Earnings
September 30, 1995	13,258	$13,258	$48,142	$1,328	$32,164
Unrealized holding gain at September 30, 1995 realized upon sale of securities in 1996	---	---	---	(1,482)	---
Decrease in unrealized holding loss	---	---	---	15	---
Exercises of employee stock options	124	124	637	---	---
Net income	---	---	---	---	11,368
September 30, 1996	13,382	13,382	48,779	(139)	43,532
Decrease in unrealized holding loss	---	---	---	27	---
Exercises of employee stock options	164	164	855	---	---
Tax benefit from exercises of employee stock options	---	---	470	---	---
Net income	---	---	---	---	15,619
September 30, 1997	13,546	13,546	50,104	(112)	59,151
Increase in unrealized holding loss	---	---	---	(43)	---
Exercises of employee stock options	79	79	579	---	---
Tax benefit from exercises of employee stock options	---	---	1,098	---	---
Net income	---	---	---	---	39,364
September 30, 1998	13,625	$13,625	$51,781	$ (155)	$98,515

NOTES -

(1) Adjusted for 100% stock dividend declared in November, 1997.
(2) Preferred stock, no par value, of 1,000,000 shares was authorized in 1975 and no shares have been issued.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

Atwood Oceanics, Inc. together with its wholly-owned subsidiaries (collectively referred to herein as the "Company"), is engaged in the business of international offshore drilling of exploratory and developmental oil and gas wells and related support, management and consulting services. Presently, the Company owns and operates a modern fleet of seven mobile offshore rigs and one modular platform rig, as well as manages the operations of two operator-owned platform rigs in Northwest Australia. The Company also owns a fifty percent interest in a new generation platform rig. Currently, the Company is involved in active operations in the territorial waters of Australia, Malaysia, Egypt, Philippines, Italy, United States and India.

Demand for drilling equipment is dependent on the exploration and development programs of oil and gas companies, which is in turn influenced by the financial conditions of such companies, by general economic conditions, by prices of oil and gas, and from time to time, by political considerations and policies. The Company's business operations are subject to the risks associated with a business having a limited number of customers for which it can operate at any given time. A decrease in the drilling programs of customers in the areas where the Company is employed may adversely affect the Company's revenues. The contracts under which the Company operates its drilling rigs are obtained either through individual negotiations with the customer or by submitting proposals in competition with the other drilling contractors and vary in their terms and conditions. The Company competes with several other drilling contractors, most of which are substantially larger than the Company and possess appreciably greater financial and other resources. Price competition is generally the most important factor in the drilling industry, but the technical capability of specialized drilling equipment and personnel at the time and place required by customers are also important. Other competitive factors include work force experience, rig suitability, efficiency, condition of equipment, reputation and customer relations. The Company believes that it competes favorably with respect to these factors.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation -

The consolidated financial statements include the accounts of Atwood Oceanics, Inc. ("AOI") and all of its wholly owned domestic and foreign subsidiaries. The Company's undivided 50 percent interest in RIG-200 is accounted for using the proportionate consolidation method (See Note 4). All significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign exchange -

The U.S. dollar is the functional currency for all areas of operations of the Company. Accordingly, monetary assets and liabilities denominated in foreign currency are remeasured to U.S. dollars at the rate of exchange in effect at the end of the year, items of income and expense are remeasured at average monthly rates, and property and equipment and other nonmonetary amounts are remeasured at historical rates. Gains and losses on foreign currency transactions and remeasurements are included in drilling costs in the consolidated statements of operations. The Company incurred foreign exchange losses of $ 1 million and $.7 million in 1998 and 1997, respectively, with a foreign exchange gain of $.2 million in 1996.

Property and equipment -

Property and equipment is recorded at cost. Interest costs related to property under construction are capitalized as a component of construction costs. Interest capitalized during fiscal 1998 and 1997 totaled $1.4 million and $1.3 million, respectively.

Depreciation is provided on the straight-line method over the following estimated useful lives of the various classifications of assets:

	Years
Drilling vessels and related equipment	5-15
Drill pipe	3
Furniture and Other	3-10

Maintenance, repairs and minor replacements are charged against income as incurred; major replacements and upgrades are capitalized and depreciated over the remaining useful life of the asset as determined upon completion of the work. The cost and related accumulated depreciation of assets sold, retired or otherwise disposed are removed from the accounts at the time of disposition, and any resulting gain or loss is reflected in the consolidated statements of operations for the applicable period.

Deferred costs -

The Company defers the net costs of moving a drilling rig to a new area and amortizes such costs on a straight-line basis over the life of the applicable drilling contract. During fiscal years 1998 and 1997, the Company received sufficient mobilization revenues on all rig moves to more than cover all mobilization costs. Thus, there were no unamortized mobilization costs at September 30, 1998 or 1997.

The Company defers the costs of scheduled drydocking and charges such costs to expense over the period to the next scheduled drydocking (normally 30 months).

Federal income taxes -

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes". Under SFAS No. 109, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end given the provisions of enacted tax laws. Deferred tax assets are reduced by a valuation allowance when, based upon management's estimates, it is more likely than not that a portion of the deferred tax assets will not be realized in a future period.

Revenue recognition -

The Company accounts for drilling and management contract revenues using the percentage of completion method of accounting, under which revenues are recognized on a daily basis as earned. Mobilization revenues are first used to cover the costs of mobilization with the excess revenues deferred and amortized on a straight-line basis over the life of the applicable drilling contract. At September 30, 1998 and 1997, deferred revenues totaling $12.1 million and $9.3 million, respectively, were included in Deferred Credits on the accompanying consolidated balance sheets.

Cash and cash equivalents -

Cash and cash equivalents consist of cash in banks and highly liquid debt instruments which mature within three months of the date of purchase.

Receivables -

Based upon the Company's historical collection of accounts receivable, the Company has not established an allowance for doubtful accounts.

Investments -

Investments in held-to-maturity securities are stated at the amortized cost at the balance sheet date. The Company has the ability and intent to hold such securities to maturity. At September 30, 1998 and 1997, investments in available-for-sale securities are carried at fair value with the unrealized holding loss, net of deferred tax, included in shareholders' equity.

Earnings per common share -

In fiscal 1998, the Company adopted SFAS No. 128, "Earnings per Share". Under SFAS No. 128, primary earnings per share ("EPS") is replaced by "Basic" EPS, which excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. "Diluted" EPS reflects the issuance of additional shares in connection with the assumed conversion of stock options. As required, all prior-period EPS information has been restated.

The computation of basic and diluted earnings per share under SFAS 128 for each of the past three years is as follows: (in thousands, except per share amounts)

	Net Income	Shares	Per Share Amount
Fiscal 1998:			
Basic earnings per share	$ 39,364	13,592	$ 2.90
Effect of dilutive securities -			
Stock options	---	292	(.06)
Diluted earnings per share	$ 39,364	13,884	$ 2.84
Fiscal 1997:			
Basic earnings per share	$ 15,619	13,474	$ 1.16
Effect of dilutive securities -			
Stock options	---	241	(.02)
Diluted earnings per share	$ 15,619	13,715	$ 1.14
Fiscal 1996:			
Basic earnings per share	$ 11,368	13,328	$ .85
Effect of dilutive securities -			
Stock options	---	216	(.01)
Diluted earnings per share	$ 11,368	13,544	$ .84

Stock-Based Compensation -

The Company accounts for employee stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, the adoption of SFAS No. 123, "Accounting for Stock-Based Compensation" in fiscal 1996 had no effect on the Company's results of operations.

Use of Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - SECURITIES HELD FOR INVESTMENT

All of the Company's investments in equity securities are classified as "available-for-sale" and accordingly, are reflected in the September 30, 1998 and 1997 Consolidated Balance Sheets at fair value, with the aggregate unrealized gain or loss, net of related deferred tax liability or asset, included in shareholders' equity. All of the Company's investment in United States Treasury Bonds (which mature in 2000 and 2001) are classified as "held-to-maturity" and, accordingly, are reflected in the September 30, 1998 and 1997 Consolidated Balance Sheets at amortized cost.

There were no sales of securities during fiscal 1998 or 1997. During fiscal 1996, 32,000 shares of Mobil Corporation common stock were sold for $3.7 million and resulting in realized gains, using average cost, of $2.8 million. An analysis of the Company's investment in marketable securities is as follows (in thousands):

	Amortized Cost	Unrealized Gain (Loss)	Fair Value
September 30, 1998 -			
Equity Securities	$ 561	$ (238)	$ 323
United States Treasury Bonds	22,585	1,782	24,367
	$ 23,146	$ 1,544	$24,690
September 30, 1997 -			
Equity Securities	$ 561	$ (172)	$ 389
United States Treasury Bonds	22,581	1,429	24,010
	$ 23,142	$ 1,257	$ 24,399

NOTE 4 - PROPERTY AND EQUIPMENT

VICKSBURG -

In December, 1997, the VICSKSBURG was mobilized from Australia to a Singapore shipyard to undergo an approximate $35 million refurbishment and upgrade project, of which $30 million was expended during fiscal 1998. Following completion of this project in November, 1998, the rig is being mobilized to India to commence a one-year plus option contract.

ATWOOD FALCON -

In June, 1998, the ATWOOD FALCON was relocated from Philippines to a Singapore shipyard to undergo an approximately $50 million water-depth upgrade, of which $30 million was expended during fiscal 1998. Following completion of the project in November, 1998, the rig has commenced drilling under the three-year phase two portion of its 1996 contract. Pursuant to the contract, the Company will receive $11.2 million in mobilization fees, of which $6.3 million was received at September 30, 1998 and recorded to Deferred Credits. These fees, net after mobilization costs, will be amortized into revenues over the three-year contract period.

ATWOOD SOUTHERN CROSS -

During fiscal year 1997, the ATWOOD SOUTHERN CROSS was mobilized from Australia to a Singapore shipyard, refurbished and upgraded to achieve 2,000 feet water-depth drilling capability at an aggregate cost of approximately $35 million. During November, 1997, the rig was mobilized from Singapore to Australia to commence working under a contract which it completed in September, 1998. While waiting for a new contract opportunity, the rig is currently idle in Australia.

ATWOOD HUNTER -

In fiscal 1997, the ATWOOD HUNTER was upgraded to achieve up to 3,500 feet water-depth drilling capability and relocated from Southeast Asia to the United

States Gulf of Mexico at an aggregate cost of approximately $40 million. The rig has two more years remaining on its three-year contract with British-Borneo Petroleum Inc. The contract provided for the payment of a $10 million mobilization fee of which $6.4 million (net after mobilization costs) was recorded to Deferred Credits and is being amortized into revenues over the three-year contract period, with an unamortized balance of $4.2 million at September 30, 1998.

RIG 200 -

RIG-200 (a modular platform rig built in 1995) is owned 50 percent by the Company and 50 percent by Helmerich & Payne, Inc. (current owner of 22 percent of the Company's outstanding common stock). Since the Company has a 50 percent undivided ownership interest in RIG-200 and is actively involved in its operations, the Company accounts for its investment in the rig on a proportionate consolidation method. Accordingly, the Company's $12 million investment in RIG-200 is reflected in "Drilling Vessels, Equipment and Drill Pipe" in the Consolidated Balance Sheet, with 50 percent of the rig's operating results for fiscal years 1998, 1997 and 1996 reflected in the Company's Consolidated Statement of Operations. At September 30, 1998, Accounts Payable included approximately $950,000 payable to Helmerich & Payne, Inc. relating to RIG-200 operations, which the Company paid in October, 1998.

NOTE 5 - DEBT

LONG-TERM DEBT -

A summary of long-term debt is as follows (in thousands):

	September 30,	
	1998	1997
Revolving credit agreement, bearing interest (market adjustable) at approximately 7 percent per annum at September 30, 1998	$ 72,000	$ 58,000
Term note, bearing interest at 6 percent per annum	750	1,500
	72,750	59,500
Less - current maturities	750	750
	$ 72,000	$ 58,750

In July, 1997, the Company entered into a $125 million revolving credit facility with a bank group. The revolving line of credit converts to a reducing facility commencing on March 31, 1999, with commitment reduction of $8.3 million per quarter until final maturity on March 31, 2002. The bank group's collateral for this revolving credit facility consists principally of preferred mortgages on the ATWOOD HUNTER, ATWOOD EAGLE and the RICHMOND plus the assigment of $20 million in market value of United States Treasury Bonds. The credit facility prohibits the Company from incurring any additional indebtedness in excess of $5 million, disposing of any material assets, paying dividends or repurchasing any of the Company's outstanding common stock. The proceeds borrowed under this revolving credit facility have been used to repay the notes payable to a prior bank group and to fund capital expenditures.

The maturities of long-term debt are as follows (in thousands):

FISCAL YEAR	AMOUNT
1999	$ 750
2000	5,100(1)
2001	33,200
2002	33,700
	$ 72,750

(1) Subsequent to September 30, 1998, an additional $8 million was borrowed under the credit facility. The additional $8 million will be due in 2000.

LINE OF CREDIT -

The Company has a $3 million unsecured line of credit with a bank to support issuance, when required, of standby letters of guarantee and the Indian tax guarantee (see Note 6). At September 30, 1998, standby letters of guarantee in the aggregate amount of approximately $3 million were outstanding under this facility.

NOTE 6 - INCOME TAXES

Domestic and foreign income (loss) before income taxes for the three years in the period ended September 30, 1998 are as follows (in thousands):

Fiscal	Fiscal	Fiscal

	1998	1997	1996
Domestic income	$ 39,553	$ 14,623	$ 17,508
Foreign income (loss)	20,766	10,755	(1,665)
	$60,319	$ 25,378	$ 15,843

The provision (benefit) for domestic and foreign taxes on income consists of the following (in thousands):

	Fiscal 1998	Fiscal 1997	Fiscal 1996
Current domestic provision	$ 11,487	$ 5,736	$ 452
Deferred domestic provision (benefit)	3,970	(330)	1,400
Current foreign provision	5,498	4,353	2,623
	$ 20,955	$ 9,759	$ 4,475

The components of the deferred income tax assets (liabilities) as of September 30, 1998 and 1997 are summarized as follows (in thousands):

	September 30,	
	1998	1997
Deferred tax assets -		
Net operating loss carryforwards	$ 2,860	$ 2,970
Book reserves	1,200	1,260
Deferred mobilization revenues	2,100	3,210
	6,160	7,440
Deferred tax liabilities -		
Difference in book and tax basis of equipment	7,360	4,940
Deferred charges	450	160
Unrealized holding loss available-for-sale securities	(80)	(60)
	7,730	5,040
Net deferred tax assets (liabilities) before valuation allowance	(1,570)	2,400
Valuation allowance	(2,370)	(2,390)
	$(3,940)	$ 10
Net current deferred tax assets	$ 880	$ 1,820
Net noncurrent deferred tax liabilities	(4,820)	(1,810)
	$(3,940)	$ 10

U.S. deferred taxes have not been provided on foreign earnings totaling approximately $20.6 million which are permanently invested abroad. Foreign tax credits totaling approximately $8.8 million are available to reduce the U.S. taxes on such amounts.

The differences between the statutory and the effective income tax rate are as follows:

	Fiscal 1998	Fiscal 1997	Fiscal 1996
Statutory income tax rate	35%	35%	34%
Increase (decrease) in tax rate resulting from -			
Foreign tax rate differentials, net of foreign tax credit utilization	(1)	10	12
Change in valuation allowance	---	(2)	(15)
Investment tax credit utilization	---	(5)	---
Other, net	1	---	(3)
Effective income tax rate	35%	38%	28%

The Company has United States net operating loss carryforwards totaling $8.2 million which expire in fiscal years 2001 through 2003. Due to various utilization limitations, management estimates that a significant portion of this tax attribute will not be available to reduce future tax obligations; accordingly, a $2.4 million valuation allowance is recorded as of September 30, 1998.

For several years, the Company has pursued legal action to collect certain tax refund claims in India. As a result of favorable court decisions in India, and upon the Company providing letters of guarantee, the Company received tax refunds in 1997 and 1994 of $ 1.1 million and $.6 million, respectively, (net of taxes on interest and other related expense), which are reflected in the September 30, 1998 and 1997 Consolidated Balance Sheets as other Deferred Credits, pending ultimate resolution of the issue by the Indian High Court.

NOTE 7 - CAPITAL STOCK

COMMON STOCK DIVIDEND -

On November 19, 1997, the Company effected a 100 percent common stock dividend resulting in the issuance of approximately 6,775,000 shares of common stock and the transfer of approximately $ 6,775,000 from paid-in capital to common stock which represented the par value of additional shares issued. All share and per share information has been retroactively restated in the Consolidated Financial Statements to reflect the stock dividend.

STOCK OPTION PLANS -

The Company has an incentive equity plan ("1996 Plan") whereby 670,000 shares of common stock may be granted to officers and key employees through February 12, 2007. At September 30, 1998, options to purchase 307,000 shares were outstanding under this Plan. The Company also has options outstanding to purchase 259,200 shares under a stock plan ("1990 Plan"). Under both plans, the exercise price of each option equals the market price of the Company's common stock on the date of grant, all outstanding options have a maximum term of 10 years, and options vest over a period from the second to the fifth year from the date of grant.

A summary of the status of the Company's Plans as of September 30, 1998, 1997 and 1996, and changes during the years ended on those dates is presented below:

	Fiscal 1998		Fiscal 1997		Fiscal 1996	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of Year	444,700	$ 15.42	506,800	$ 9.46	480,200	$ 6.15
Granted	208,000	33.07	112,500	28.00	151,000	17.25
Exercised	(78,500)	8.39	(164,000)	6.22	(124,400)	6.12
Forfeited	(8,000)	23.73	(10,600)	6.46	---	---
Expired	---	----	---	---	---	---
Outstanding at end of year	566,200	$ 22.76	444,700	15.42	506,800	$ 9.46
Exercisable at end of year	88,950	$ 8.49	69,450	$ 5.67	164,676	$ 6.02
Available for grant at end of Year	366,000		567,000		---	
Weighted-average fair value of options granted during the year	$ 14.21		$ 23.36		$ 6.68	

The following table summarizes information about stock options outstanding at September 30, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Weighted-Average Shares	Exercise Price
$ 4.87 to 5.38	38,000	4.1 years	$ 5.18	38,000	$ 5.18
6.50 to 6.69	82,650	5.6 years	6.61	31,150	6.62
16.63 to 18.97	235,050	8.6 years	17.42	19,800	17.83
28.00	107,500	8.5 years	28.00	---	---
48.75 to 52.06	103,000	9.2 years	48.94	---	---
4.87 to 52.06	566,200	7.9 years	$ 22.76	88,950	$ 8.49

As permitted by SFAS No. 123, the Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized from the granting of options pursuant to its stock option plans. Had compensation costs been determined based on the fair value at the grant dates for awards made in fiscal years 1998, 1997 and 1996 consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except for per share amounts):

		Fiscal 1998	Fiscal 1997	Fiscal 1996
Net Income	As reported	$ 39,364	$ 15,619	$ 11,368
	Pro forma	38,830	15,404	11,291
Earnings per share	As reported -			
	Basic	2.90	1.16	.85
	Diluted	2.84	1.14	.84
	Pro forma			
	Basic	2.86	1.14	.85
	Diluted	2.80	1.12	.83

The fair value of grants made in fiscal 1998, 1997 and 1996 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used: fiscal 1998 - risk free interest rate of 5.4 percent, expected volatility of 42 percent, expected lives of 5 years and no dividend yield; - fiscal 1997 - risk-free interest rate of 6.7 percent, expected volatility of 33.6 percent, expected lives of 5 years and no dividend yield; fiscal 1996 - risk-free interest rate of 5.8 percent, expected volatility of 33.7 percent, expected lives of 5 years and no dividend yield.

NOTE 8 - RETIREMENT PLAN

The Company has a contributory retirement plan (the "Plan") under which qualified participants may make contributions of up to 5% of their compensation, as defined (the basic contribution). The Company makes contributions to the Plan equal to twice the basic contributions. Company contributions vest 100 percent to each participant beginning with the fourth year of participation. If a participant terminates employment before becoming fully vested, the unvested portion is credited to the Company's account and can be used only to offset Company contribution requirements. In fiscal 1998, the Company made cash contributions of approximately $1.3 million to the Plan and utilized no fortfeitures to reduce its contribution requirements. In fiscal 1997 and 1996, the Company used forfeitures of $84,000 and $58,000, respectively, to reduce its cash requirements, which resulted in actual contributions of approximately $.9 million and $.7 million, respectively. As of September 30, 1998, there are approximately $100,000 of contribution forfeitures which can be utilized to reduce future Company cash contribution requirements.

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities included in the accompanying Consolidated Balance Sheets approximated fair value due to the short maturity of these instruments. Since the bank debt has a market adjustable interest rate, the carrying value approximated fair value as of fiscal year end 1998 and 1997. Although the $.7 million term note has a fixed 6 percent interest rate at September 30, 1998, it also approximated fair value. The Company's only financial instruments at September 30, 1998 and 1997 with a fair value different from carrying value are marketable securities; the difference of which is shown in Note 3.

NOTE 10 - CONCENTRATION OF MARKET AND CREDIT RISK

All of the Company's customers are in the oil and gas offshore exploration and production industry. This industry concentration has the potential to impact the Company's overall exposure to market and credit risks, either positively or negatively, in that the Company's customers could be affected by similar changes in economic, industry or other conditions. However, the Company believes that the credit risk posed by this industry concentration is offset by the creditworthiness of the Company's customer base. The Company's portfolio of accounts receivable is comprised of major international corporate entities and government organizations with stable payment experience. Historically, the Company's uncollectible accounts receivable have been immaterial, and typically, the Company does not require collateral for its receivables.

Drilling revenues for fiscal 1998 include $35.2 million, $25.9 million and $20.4 million in revenues received from British-Borneo Petroleum Inc., ESSO Australian Limited/ESSO Production Malaysia, Inc. and Santos Ltd., respectively. Drilling revenues for fiscal 1997 include $24.3 million, $19.3 million and $16.9 million in revenues received from ESSO Australia Limited/ESSO Production Malaysia, Inc., Mobil Equatorial Guinea Inc. and Carigali-Triton Operating Company Sdn. Bhd., respectively. Drilling revenues for fiscal 1996 include $25.6 million, $11.5 million and $8.4 million in revenues received from Esso Australia Limited/Esso Production Malaysia, Inc., Carigali-Triton Operating Company Sdn.

Bhd. and Mobil Equatorial Guinea Inc., respectively.

NOTE 11 - NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued four new accounting standards; SFAS No. 130 "Reporting Comprehensive Income"; SFAS No. 131, "Disclosures about Segments for Enterprise and Related Information"; SFAS No. 132, "Employer's Disclosure about Pension and Other Post Retirement Benefits" and SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 130, 131 and 132 are effective for fiscal years beginning after December 15, 1997. SFAS 130 requires the reporting and display of comprehensive income. While the Company does have certain comprehensive income items, this standard will not affect the Company's reported consolidated net income or cash flows. SFAS 131 establishes standards for reporting financial and description information about a company's operating segments. Management is currently analyzing the impact of SFAS 131, but does not expect the standard to materially change its current segment disclosure. SFAS 132 is a disclosure oriented standard and will not affect the Company's reported consolidated income or cash flows. SFAS 133 is effective for fiscal years beginning after June 14, 1999. This Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. In the opinion of management, the adoption of Statement 133 will not have a material impact on the Company's financial statements.

NOTE 12 - OPERATIONS BY GEOGRAPHIC AREAS

The Company is engaged in offshore contract drilling. The contract drilling operations consist of contracting Company owned or managed offshore drilling equipment primarily to major oil and gas exploration companies. Operating income is contract revenues less operating costs, general and administrative expenses and depreciation. In computing operating margin for each geographic area, none of the following items were considered: other income (expense) and domestic and foreign income taxes. Identifiable assets are those assets that are used by the Company in operations in each geographic area. General corporate assets are principally investments in marketable securities.

A summary of revenues, operating margin and identifiable assets by geographic areas is as follows (in thousands):

	Fiscal 1998	Fiscal 1997	Fiscal 1996
CONTRACT REVENUES:			
United States	$ 46,454	$10,585	$ 6,208
Australia	44,445	27,599	31,043
Southeast Asia	28,661	31,583	33,774
Mediterranean Sea	18,699	---	---
Africa	13,550	19,315	8,430
	$151,809	$ 89,082	$ 79,455
OPERATING INCOME:			
United States	$24,102	$ 5,642	$ 42
Australia	13,822	8,236	8,018
Southeast Asia	9,911	8,235	6,316
Mediterranean Sea	12,274	---	---
Africa	8,819	8,200	3,831
India/Middle East	---	---	(34)
General and administrative expenses	(7,331)	(6,100)	(5,113)
	$ 61,597	$ 24,213	$ 13,060
IDENTIFIABLE ASSETS:			
United States	$ 76,557	$ 81,800	$ 31,071
Australia	59,388	49,713	19,365
Southeast Asia	97,736	40,387	64,163
Mediterranean Sea	24,908	---	---
Africa	2	20,457	21,780
India/Middle East	238	3	3
General corporate	22,908	22,970	22,927
	$281,737	$215,330	$159,309

NOTE 13 − QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly results for fiscal years 1998 and 1997 are as follows (in thousands, except per share amounts):

	QUARTERS ENDED			
	DECEMBER 31,	MARCH 31,	JUNE 30,	SEPTEMBER 30,
1998				
Revenues	$ 36,224	$ 41,428	$ 39,294	$ 34,863
Income before income taxes	13,289	17,966	15,503	13,561
Net income	8,677	11,682	10,034	8,971
Earnings per common share (1) −				
Basic	.64	.86	.74	.66
Diluted	.63	.84	.72	.65
1997				
Revenues	$ 22,093	$ 20,805	$22,069	$ 24,115
Income before income taxes	5,734	5,117	5,660	8,867
Net income	3,919	3,114	3,662	4,924
Earnings per common share (1) −				
Basic	.29	.23	.27	.37
Diluted	.29	.23	.27	.36

− ------------

(1) Net income per common share has been restated in accordance with SFAS No. 128, as discussed in Note 2. The sum of the individual quarterly net income per common share amounts may not agree with year−to−date net income per common share as each quarterly computation is based on the weighted average number of common shares outstanding during that period.

DIRECTORS

ROBERT W. BURGESS (3)
Senior Vice President
CIGNA Investment Division
CIGNA Companies
Bloomfield, Connecticut

GEORGE S. DOTSON (1, 2, 3)
Vice President
Helmerich & Payne, Inc.
President
Helmerich & Payne International Drilling Co.
Tulsa, Oklahoma

W. H. HELMERICH, III
Chairman
Helmerich & Payne, Inc.
Tulsa, Oklahoma

HANS HELMERICH (1, 3)
President, Chief Executive Officer
Helmerich & Payne, Inc.
Tulsa, Oklahoma

JOHN R. IRWIN (1)
President, Chief Executive Officer
Atwood Oceanics, Inc.
Houston, Texas

WILLIAM J. MORRISSEY (2)
Bank Executive, Retired
Elkhorn, Wisconsin

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee

OFFICERS

JOHN R. IRWIN
President, Chief Executive Officer

JAMES M. HOLLAND
Senior Vice President and Secretary

GLEN P. KELLEY
Vice President − Contracts and Administration

LARRY P. TILL
Vice President − Operations

ANNUAL MEETING

The annual meeting of stockholders will be held on February 11, 1999 at the Company's principal office: 15835 Park Ten Place Drive, Houston, Texas. A formal notice of the meeting together with a proxy statement and form of proxy will be mailed to stockholders about January 15, 1999.

TRANSFER AGENT AND REGISTRAR

Bank One Corporation, N.A.
P. O. Box 25848
100 N. Broadway, 7th Floor (73102)
Oklahoma City, OK 73125

FORM 10-K

A copy of the Company's Form 10-K as filed with the Securities and Exchange Commission is available free on request by writing to:

Secretary, Atwood Oceanics, Inc.
P. O. Box 218350
Houston, Texas 77218

STOCK PRICE INFORMATION -

On August 6, 1997, the common stock of Atwood Oceanics, Inc. ceased trading on the Nasdaq Stock Market (NASDAQ) under the symbol "ATWD" and commenced trading on the New York Stock Exchange ("NYSE") under the symbol "ATW". No cash dividends on common stock were paid in fiscal year 1997 or 1998, and none are anticipated in the foreseeable future. As of September 30, 1998, there were over 750 beneficial owners of the common stock of Atwood Oceanics, Inc. As of November 30, 1998, the closing sale price of the common stock of Atwood Oceanics, Inc., as reported by NYSE, was $18.75 per share. The following table sets forth the range of high and low sales prices per share of common stock as reported by NASDAQ and the NYSE for the periods indicated, after retroactive restatement for the November 1997 100% common stock dividend.

	Fiscal 1997		Fiscal 1998	
QUARTERS ENDED	LOW	HIGH	LOW	HIGH
December 31	$22 3/8	$32 3/4	$40 1/16	$61 5/8
March 31	26 3/4	35 1/2	38 3/4	55 1/4
June 30	28 7/8	35 1/8	37 3/8	61 3/8
September 30	33 3/4	57 1/16	15 1/16	40 3/4

APPENDIX

The following graphic and image information in the form of "Bar Charts" are located in the Annual Report immediately following "Highlights".

BAR CHART - CONTRACT REVENUES ($ MILLIONS)

1994	1995	1996	1997	1998
$66.0	$72.2	$79.5	$89.1	$151.8

BAR CHART - EARNINGS, BEFORE DEPRECIATION, INTEREST, TAXES AND INVESTMENT INCOME ($ MILLIONS)

1994	1995	1996	1997	1998
$17.3	$16.9	$22.8	$34.2	$79.2

BAR CHART - OPERATING CASH FLOW ($ MILLIONS)

1994	1995	1996	1997	1998
$16.8	$14.9	$20.3	$25.8	$61.4

BAR CHART - NET INCOME (LOSS) ($ MILLIONS)

1994	1995	1996	1997	1998
$6.2	$7.1	$11.4	$15.6	$39.4

BAR CHART - CAPITAL EXPENDITURES ($ MILLIONS)

1994	1995	1996	1997	1998
$6.4	$25.7	$9.5	$62.8	$79.6

BAR CHART - CASH AND SECURITIES HELD FOR INVESTMENT ($ MILLIONS)

1994	1995	1996	1997	1998
$41.0	$38.0	$40.5	$42.2	$34.5

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EXHIBIT 21.1

SUBSIDIARY COMPANIES AND STATE OR
JURISDICATION OF INCORPORATION

All Oceans Drilling B.V.	Netherlands	100%
Alpha Offshore Drilling Services	Cayman Islands, B.W.I.	100%
Atwood Drilling Inc.	Delaware	100%
Atwood Offshore Inc.	Delaware	100%
Atwood Hunter Co.	Delaware	100%
Atwood Oceanics Australia Pty. Ltd.	Australia	100%
Atwood Oceanics Drilling Company	Texas	100%
Atwood Oceanics Drilling Pty. Ltd.	Australia	100%
Atwood Oceanics International, S.A.	Panama	100%
Atwood Oceanics (M) Sdn. Bhd.	Malaysia	100%
Atwood Oceanics (NZ) Limited	New Zealand	100%
Atwood Oceanics Pacific Limited	Cayman Islands B.W.I.	100%
Atwood Oceanics Platforms Pty. Ltd.	Australia	100%
Atwood Oceanics Service Pty. Ltd.	Australia	100%
Atwood Oceanics West Tuna Pty. Ltd.	Australia	50%
Aurora Offshore Service GmbH	Germany	100%
Clearways Drilling (M) Sdn. Bhd.	Malaysia	30%
Clearways Offshore Development Drilling Sdn. Bhd.	Malaysia	30%
Deep Seas Drilling Pty. Ltd.	Australia	100%
Drillquest (M) Sdn. Bhd.	Malaysia	90%
Eagle Oceanics, Inc.	Delaware	100%
Oceandril (M) Sdhn. Bhd.	Malaysia	90%
PT Pentawood Offshore Drilling	Indonesia	80%
Swiftdrill, Inc.	Texas	100%
Swiftdrill Nigeria Limited	Nigeria	60%

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EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated November 23, 1998, incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statement No. 33-52065 on Form S-8.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Houston, Texas
December 18, 1998

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