



## **Seadrill Limited**

Consolidated Financial Statements  
For the Periods ended December 31, 2006 and 2005

06



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### Appendix 1: Norwegian code for Corporate Governance

## Report of Auditors To the Shareholders and Board of Directors of Seadrill Limited

We have audited the accompanying consolidated balance sheet of Seadrill Limited and its subsidiaries (the Company) as of December 31, 2006 and the related consolidated statement of operations, comprehensive income, cash flows and changes in shareholders' equity for the year ended December 31, 2006. 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 audit. The financial statements of the Company as of December 31, 2005 and for the period from May 10, (inception) to December 31, 2005 was audited by other auditors whose report dated May 29, 2006 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seadrill Limited and subsidiaries at December 31, 2006, and the results of their operations and their cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers AS

Stavanger, Norway  
September 14, 2007

## Seadrill Limited

Consolidated Statement of Operations for the year ended December 31, 2006 and for the period from May 10, 2005 (inception) to December 31, 2005

*(In millions of US dollar, except per share data)*

	<b>Year ended December 31, 2006</b>	<b>Period from May 10 (inception) to December 31, 2005</b>
<b>Operating revenues</b>		
Contract revenues	942.3	26.6
Reimbursables	109.0	1.7
Other revenues	103.3	–
<b>Total operating revenues</b>	<u>1,154.6</u>	<u>28.3</u>
<b>Operating expenses</b>		
Vessel and rig operating expenses	587.8	23.3
Reimbursables expenses	103.4	1.7
Depreciation and amortisation	167.6	12.9
General and administrative expenses	69.7	5.8
<b>Total operating expenses</b>	<u>928.5</u>	<u>43.7</u>
<b>Operating income (loss)</b>	<u>226.1</u>	<u>(15.4)</u>
<b>Financial items</b>		
Interest income	14.0	1.7
Interest expenses	(79.8)	(0.9)
Share in results from associated companies	26.6	2.7
Other financial items	80.0	6.0
<b>Total financial items</b>	<u>40.8</u>	<u>9.5</u>
<b>Income (loss) before income taxes and minority interest</b>	<u>266.9</u>	<u>(5.9)</u>
Income taxes	(22.4)	(1.6)
Minority interest in net income of subsidiaries	(30.4)	(0.1)
<b>Net income (loss)</b>	<u>214.1</u>	<u>(7.6)</u>
<b>Earnings (loss) per share (US dollar)</b>	0.61	(0.04)
<b>Diluted earnings (loss) per share (US dollar)</b>	0.61	(0.04)

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

**Seadrill Limited**  
 Consolidated Balance Sheet as of December 31, 2006 and  
 as of December 31, 2005  
*(In millions of US dollar)*

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	210.4	51.8
Marketable securities	105.9	302.3
Accounts receivables	194.1	11.5
Other current assets	246.2	10.3
<b>Total current assets</b>	<b>756.6</b>	<b>375.9</b>
<b>Non-current assets</b>		
Investment in associated companies	238.1	152.8
Newbuildings	2,025.4	439.3
Drilling units	2,293.3	177.7
Goodwill	1,256.5	–
Deferred tax assets	109.7	–
Other non-current assets	63.1	3.3
<b>Total non-current assets</b>	<b>5,986.1</b>	<b>773.1</b>
<b>Total assets</b>	<b>6,742.7</b>	<b>1,149.0</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term interest bearing debt	255.4	137.4
Other current liabilities	477.2	33.2
<b>Total current liabilities</b>	<b>732.6</b>	<b>170.6</b>
<b>Non-current liabilities</b>		
Long-term interest bearing debt	2,559.3	176.8
Deferred taxes	324.8	–
Other non-current liabilities	199.0	–
<b>Total non current liabilities</b>	<b>3,083.1</b>	<b>176.8</b>
<b>Commitments and contingencies</b>	–	–
<b>Minority interest</b>	208.1	1.4
<b>Shareholders' equity</b>		
Paid-in capital	2,449.8	725.4
Accumulated other comprehensive income (loss)	(2.7)	82.4
Accumulated earnings (loss)	258.3	(7.6)
Other	13.5	–
<b>Total shareholders' equity</b>	<b>2,718.9</b>	<b>800.2</b>
<b>Total liabilities and shareholders' equity</b>	<b>6,742.7</b>	<b>1,149.0</b>

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

## Seadrill Limited

Consolidated Statement of Cash Flows for the year ended December 31, 2006 and for the period from May 10, 2005 (inception) to December 31, 2005

*(In millions of US dollar)*

	<b>Year ended December 31, 2006</b>	<b>Period from May 10 (inception) to December 31, 2005</b>
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	214.1	(7.6)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	167.6	12.9
Amortisation of deferred loan charges	6.3	0.1
Share of results from associated companies	(26.6)	(2.7)
Share-based compensation expenses	9.6	-
Fair value of equity share swap	-	(5.3)
Income attributable to minority interest	30.4	0.1
Gain on disposal of other investments	(83.6)	(0.8)
Difference between paid and expensed taxes	10.1	-
Changes in working capital items:		
Trade accounts receivable and other short-term receivables	(283)	(9.1)
Trade accounts payable and other short-term liabilities	142.5	8.9
Accrued expenses/deferred revenue	(13.2)	13.9
<b>Net cash provided by operating activities</b>	<b>174.2</b>	<b>11.2</b>

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

**Seadrill Limited**  
 Consolidated Statement of Cash Flows for the year ended December 31, 2006 and for the  
 period from May 10, 2005 (inception) to December 31, 2005  
*(In millions of US dollar)*

	<b>Year ended December 31, 2006</b>	<b>Period from May 10 (inception) to December 31, 2005</b>
<b>Cash Flows from Investing Activities</b>		
Additions to newbuildings	(1,159.7)	(247.5)
Additions to rigs and equipment	(36.1)	(21.3)
Sale of equipment	7.6	-
Investment of subsidiaries (goodwill)	-	(19.1)
Acquisition of subsidiary	(2,595.8)	-
Cash assumed in purchase of the subsidiaries	412.8	18.8
Investment in associated companies	(4.9)	(31.3)
Purchase of marketable securities	(126.8)	(2.1)
Sale of marketable securities	322.6	48.7
<b>Net cash used in investing activities</b>	<b>(3,180.3)</b>	<b>(253.8)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from long term debt	1,979.8	210.0
Proceeds from short term debt	98.2	46.7
Repayments of short term capital lease obligations	(11.3)	(4.8)
Repayments of short term debt	(48.8)	-
Repayments of long term debt	(593.9)	(164.3)
Debt fees paid	(31.9)	(1.1)
Contribution by minority interests	45.0	-
Proceeds from issuance of equity	1,741.8	206.3
Issuance costs in connection with issuance of equity	(17.3)	(1.6)
<b>Net cash provided by financing activities</b>	<b>3,161.6</b>	<b>294.4</b>
Effect of exchange rate changes on cash and cash equivalents	3.1	-
<b>Net increase in cash and cash equivalents</b>	<b>158.6</b>	<b>51.8</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>51.8</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>210.4</b>	<b>51.8</b>
Interest paid	(108.1)	(3.4)
Taxes paid	(11.6)	(1.4)

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*



## Seadrill Limited

Consolidated Statements of Comprehensive Income for the year ended December 31, 2006  
and for the period from May 10, 2005 (inception) to December 31, 2005

*(In millions of US dollar)*

	<b>Year ended December 31, 2006</b>	<b>Period from May 10 (inception) to December 31, 2005</b>
Net income (loss)	214.1	(7.6)
Change in unrealised gain/loss on marketable securities	(82.4)	82.4
Change in unrealised foreign exchange differences	51.8	-
	<b>183,5</b>	<b>74.8</b>
<b>Comprehensive Income</b>	<b>183,5</b>	<b>74.8</b>
	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Comprehensive Income items beginning of period	82.4	-
Unrealised gain/loss on marketable securities	(82.4)	82.4
Implementation of FASB Statement No. 158	(2.7)	-
Change in unrealised foreign exchange differences	51.8	-
	<b>(49.1)</b>	<b>82.4</b>
<b>Comprehensive Income items end of period</b>	<b>(49.1)</b>	<b>82.4</b>

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

## Seadrill Limited

Consolidated Statement of Changes in Shareholders' Equity for the year ended December 31, 2006 and for the period from May 10, 2005 (inception) to December 31, 2005  
(In millions of US dollar)

	Share capital	Addit. paid in capital	Options issued	Accum. other compre- hensive income	Retained earnings	Non- control. interest	Total share- holders' equity
Balance at May 10, 2005	–	–	–	–	(16.2)	–	(16.2)
Issued shares, net of issuance costs	458.3	440.8	–	–	–	–	899.1
Effect of acquisition from shareholder	–	(173.7)	–	–	16.2	–	(157.5)
Unrealised gain/loss on marketable securities	–	–	–	82.4	–	–	82.4
Net loss	–	–	–	–	(7.6)	–	(7.6)
Balance at December 31, 2005	<u>458.3</u>	<u>267.1</u>	<u>–</u>	<u>82.4</u>	<u>(7.6)</u>	<u>–</u>	<u>800.2</u>
Issued shares, net of issuance costs	308.0	1,416.4	–	–	–	–	1,724.4
Options issued	–	–	9.6	–	–	–	9.6
Unrealised gain/loss on marketable securities	–	–	–	(82.4)	–	–	(82.4)
Foreign exchange differences, other	–	–	–	51.8	–	–	51.8
Implementation of FASB No. 158	–	–	–	(2.7)	–	–	(2.7)
Non-controlling interest - share of result	–	–	–	–	–	3.9	3.9
Net income	–	–	–	–	214.1	–	214.1
Balance at December 31, 2006	<u>766.3</u>	<u>1,683.5</u>	<u>9.6</u>	<u>49.1</u>	<u>206.5</u>	<u>3.9</u>	<u>2,718.9</u>

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

## Sadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### General information

Sadrill Limited ("Sadrill" or the "Company") is an international offshore drilling contractor providing services within drilling and well services registered under the laws of Bermuda. The Company, together with partners, controls 37 offshore drilling units including 15 units currently under construction. The Company has a versatile fleet of drillships, jack-ups, semi-submersibles rigs and tender rigs for operations in shallow and deepwater areas as well as benign and harsh environment. In addition to owning and operating offshore mobile drilling units, Sadrill provides platform drilling, well intervention and engineering services. At present, the Company workforce counts more than 5,100 skilled employees, many with more than 30 years experience, representing over 25 nationalities, operating in 14 countries on four continents. Sadrill is listed in Norway on the Oslo Stock Exchange.

The main events in 2006 were as follows:

On 6 January, Sadrill sold its 21,414,028 shares in Ocean Rig ASA at NOK89 per share. In addition, Sadrill's holding of Ocean Rig ASA 04/07 Convertible Bonds, which were convertible into 552,632 shares in Ocean Rig ASA were sold at the same price. The transaction generated a profit of approximately US\$ 80 million which has been recorded in the first quarter 2006.

On 12 January, Sadrill participated in a private placement in Mosvold and was allocated a total of 12,000,000 new shares which, including shares already owned, represented 40.13% of Mosvold's outstanding share capital.

On 30 January, Sadrill announced its additional purchase of 14,549,085 shares in Mosvold at NOK18.25, increasing its ownership to a total of 49.7% of Mosvold's outstanding share capital. Sadrill subsequently launched an offer to acquire the remaining shares at the same price. This offer closed on 27 February 2006. Acceptances of the offer were received which, together with the shares in Sadrill's ownership, increased Sadrill's total ownership to approximately 94.3% of the outstanding share capital of Mosvold.

On 9 January, Sadrill announced that it would make a voluntary offer to purchase the outstanding class A- and class B-shares in Smedvig at a price of NOK 205 per class A-share and NOK165 per class B-share.

On January 20, Sadrill concluded its voluntary offer for Smedvig and achieved control of a total of 51.9% of the votes in Smedvig's general meeting and 53.1% of Smedvig's share capital. In order to part finance the acquisition, Sadrill completed Private Placement I, raising NOK 4,950 million in new equity. Further, Sadrill concluded a bridge loan facility agreement with Nordea and DnB NOR making an acquisition loan up to US\$1,200 million available to Sadrill. US\$609.4 million of this was drawn to part finance the shares in Smedvig acquired in the voluntary offer. Sadrill also declared the option to build an additional Semi-submersible rig at the Daewoo Shipyard in Korea. The rig is scheduled for delivered in the third quarter 2008.

On February 21, Sadrill completed Private Placement II, raising NOK 1,415 million in new equity in order to partly finance the acquisition of Mosvold.

Sadrill launched a global mandatory offer for the remaining shares Smedvig on 6 March. The offer closed on 31 March 2006. Sadrill received acceptance for 25,534,086 class A shares and 10,190,131 class B shares thus increasing its total ownership to 99.4% of the votes in Smedvig's general meeting and 96.8% of Smedvig's capital.

## **Sadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

On 14 March 2006, the Sadrill Group, through Sadrill Invest III, exercised its final option to order a Jack-up rig from KFELS. A contract to build a Jack-up rig with similar specification as Hull number B-277 with delivery in Q2/2008 was thus entered into between KFELS and Sadrill Invest III. KFELS and Sadrill furthermore agreed to cancel the take-out financing requirements in respect of Hull number B-265 and B-272.

Sadrill decided to organize its ownership of the shares in Smedvig through a Norwegian sub-holding company. Smedvig Holding was incorporated as a wholly owned subsidiary for this purpose.

Smedvig Holding proceeded to acquire all of Sadrill's shares in Smedvig and the obligation to acquire the shares tendered under the mandatory offer.

This was financed by way of the bridge loan facility from Nordea to DnB NOR being transferred to Smedvig Holding and by equity and a shareholder loan provided by Sadrill.

Smedvig Holding proceeded to declare the compulsory acquisition of the remaining shares in Smedvig on 26 April 2006 offering NOK205 per class A share and NOK165 per class B share as compensation.

The compulsory acquisition became effective on May 2 from which date Smedvig Holding became the sole shareholder of Smedvig. The compensation offer in exchange for the shares compulsorily acquired was NOK 114.6 million in aggregate.

Sadrill Invest I took delivery of Hull number B-265 from KFELS on May 2. The unit was named "Sadrill 3".

Sadrill established Sadrill Management to which Smedvig's senior management was transferred. Sadrill Management entered into a management agreement with each of Sadrill and its subsidiaries setting forth the terms upon and subject to which Sadrill Management, within the scope defined by the management agreement, should be responsible for the overall management of the Sadrill Group.

On 12 May, Smedvig changed its name to Sadrill Norge AS.

On 12 May, Sadrill's board announced the allocation of options to subscribe for 1.47 million shares to its directors and individual employees in the Sadrill Group within Sadrill's employee share ownership program

On 16 June Smedvig was delisted from the Oslo Stock Exchange.

On 21 June, Sadrill entered into an agreement with Malaysia Marine & Heavy Engineering Sdn Bnd for the purpose of building a new self erecting tender rig, T11 with the same specifications as Sadrill's T10. The new barge unit was scheduled for delivery in the fourth quarter 2008, and capital expenditure was estimated to approximately US\$100 million, including the derrick equipment set. Sadrill's ownership share is 100%.

On 30 June, Sadrill announced a sale and leaseback transaction with Ship Finance International Limited in which Sadrill sells the jack-up rig Sadrill 3 for a consideration of US\$210 million. At the same time, Sadrill 3 was leased back to Sadrill for a 15-year period. Sadrill has in addition a right to repurchase the rig after three years or on five uneven anniversaries thereafter until the end

## **Seadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

of the charter. The exercise price after three years is US\$135.5 million, decreasing to US\$60 million at the end of the 15-year charter.

On September 8, Seadrill after further acquisitions of shares reached a ownership of 20,299,811 shares in Eastern Drilling ASA representing 60.43% of the shares and votes in Eastern Drilling.

On September 8, the Company completed a directed share issue of a total of 20 million new shares to a subscription price of NOK 90.00 per share. Gross proceeds from the equity issue amounted to NOK 1.8 billion. The purpose of the share issue was to fund the acquisition of Eastern Drilling ASA, and for general corporate purposes. The issued share capital of Seadrill after the directed share issue was USD 766,266,432 equalling 383,133,216 shares of USD 2 par value. Hemen Holding Limited, a company indirectly controlled by John Fredriksen, was allocated a total of 716,667 shares in the share issue, and subsequent to the delivery of shares, held a total of 131,547,583 shares constituting 34.33 % of the issued share capital.

On December 1, the Annual General Meeting was held at Bermuda. The AGM resolved to increase the authorised share capital of the Company by US\$800,000,000 represented by 400,000,000 shares of par value US\$2.00 each.

As used herein, unless otherwise required by the context, the term "Seadrill" refers to Seadrill Limited and the terms "Company", "we", "Group", "our" and words of similar import refer to Seadrill and its consolidated subsidiaries. The use herein of such terms as group, organisation, we, us, our and its, or references to specific entities, is not intended to be a precise description of corporate relationships.

## **Sadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### **Basis of presentation**

The accompanying consolidated financial statements present the financial position of Sadrill Limited, the consolidated subsidiaries and the group's interest in associated entities (referred to as the "Company" or "Sadrill").

The financial statements are prepared on a historical cost basis, except that the following assets and liabilities were assessed at their fair value at the acquisition date. The acquisition of Smedvig asa, Mosvold Drilling Ltd and Eastern Drilling ASA in 2006 as well as Sadrill Invest in 2005 have been accounted for as a purchase in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations". The fair value of the assets acquired and liabilities assumed are included in the Company's consolidated financial statements beginning on the date of that control was achieved. In 2005, the Company bought five Cyprus companies and newbuilding contracts from Greenwich and Seatankers, respectively. These transfers represented entities and assets under common control. As a result, the transfer was recorded in Sadrill at Greenwich's and Seatankers' historical carrying values. Derivative financial instruments, financial instruments that are held for trading or classified as available-for-sale and other investments in entities owned less than 20 percent where the Company does not exercise significant influence, is recognized at fair value if fair value is readily determinable.

The financial statements are presented in accordance with generally accepted accounting principles in the United States (US GAAP). The amounts are presented in United States dollar rounded to the nearest hundred thousand, unless otherwise stated.

Non-current assets and disposal groups held for sale are stated at the lower of their carrying amount or fair value less costs of sale.

The accounting policies set out below have been applied consistently to all periods in these consolidated financial statements.

### **Basis of consolidation**

The consolidated financial statements include controlled entities, which for the Company are those where its voting interests exceed 50 percent or the Company has an ownership in a Variable Interest Entity ("VIE") and the Company has been determined to be the primary beneficiary.

A variable interest entity ("VIE") is a legal entity where either (a) equity interest holders as a group lack the characteristics of a controlling financial interest, including: decision making ability and an interest in the entity's residual risks and rewards or (b) the equity holders have not provided sufficient equity investment to permit the entity to finance its activities without additional subordinated financial support, or where (c) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. FIN 46(R) requires a variable interest entity to be consolidated if any of its interest holders are entitled to a majority of the entity's residual return or are exposed to a majority of its expected losses.

## **Seadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

Investment in companies in which the Company holds between 20 per cent and 50 per cent of an ownership interest, and over which the Company exercises significant influence, but does not consolidate, are accounted for using the equity method. The Company records its investments in equity method investees on the consolidated balance sheets as "Investments in associated companies" and its share of the investees' earnings or losses in the consolidated statements of operations as "Share of results from associated companies". The excess, if any, of purchase price over book value of the Company's investments in equity method investees is included in the accompanying consolidated balance sheets in "Investment in associated companies".

Investments in companies in which the Company's ownership is less than 20 percent are valued at fair value unless it is not possible to estimate fair value, then the cost method is used.

### **Basis of consolidation (cont'd)**

The Company's functional currency and reporting currency is the U.S. Dollar. For subsidiaries that maintain their accounts in currencies other than U.S. Dollars, the Company uses the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

All material intercompany transactions and internal sales have been eliminated in consolidation. Unrealized gains and losses arising from transactions with associates are eliminated to the extent of the Company's interest in the entity.

### **Accounting policies**

#### *Basis of accounting*

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Investments in companies in which the Company directly or indirectly holds more than 50 per cent of the voting control are consolidated in the financial statements. All intercompany balances and transactions have been eliminated on consolidation.

The acquisitions of Smedvig, Mosvold Drilling and Eastern Drilling have been accounted for as purchases in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations". The fair value of the assets acquired and liabilities assumed are included in the Company's consolidated financial statements beginning on the date of control was achieved, January 20, February 27 and September 30, 2006, respectively.

#### *Use of estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States 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.

## **Seadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### **Accounting policies (cont'd)**

#### *Revenue recognition*

The substantial majority of the Company's revenues are derived from dayrate based drilling contracts, other service contracts and fixed price contracts. Revenues are recognized over the contract period during which the services are rendered, and at the rates established in the contracts. Under some contracts, the Company is entitled to additional payments for exceeding performance targets. As there is uncertainty as to such bonus payments until the drilling program is completed, such additional payments are recognized after completion of the drilling program, or at such time as the uncertainty is resolved.

Reimbursements received for the purchase of supplies, equipment, personnel services and other services provided at the request of the Company's customers in accordance with a contract or agreement are recorded as revenue. The related costs are recorded as reimbursable expenses.

#### *Repairs, maintenance and period surveys*

Costs related to periodic overhauls of drilling units are capitalized under Drilling Units and equipment and amortized over the anticipated period between overhauls, which is generally five years. Related costs are primarily shipyard costs and the cost of employees directly involved in the periodic overhauls. Amortization costs for capitalized repair, maintenance and periodic overhauls are included in Depreciation and amortization.

Costs for repair and maintenance activities are included in Other operating expenses and expensed when the repairs and maintenance take place.

#### *Foreign currencies*

The Company's functional currency is the U.S. Dollar as the majority of revenues are received in U.S. Dollars and a majority of the Company's expenditures are made in U.S. Dollars. The Company's reporting currency is U.S. Dollars. Most of the Company's subsidiaries report in U.S. Dollars. For subsidiaries that maintain their accounts in currencies other than U.S. Dollars, the Company uses the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

Transactions in foreign currencies during the year are translated into U.S. Dollars at the rates of exchange in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency non-monetary assets and liabilities are translated using historical rates of exchange. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

#### *Current and non-current classification*

Receivables and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Receivables and liabilities not maturing within one year are classified as long-term assets and long-term liabilities respectively.



## Sadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Accounting policies (cont'd)

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash, restricted cash, demand deposits and highly liquid financial instruments purchased with original maturities of three months or less. Restricted cash consists of bank deposits which have been pledged as collateral for certain guarantees issued by a bank or minimum deposits which must be maintained in accordance with contractual arrangements.

#### *Marketable securities*

Marketable equity securities held by the Company are considered to be available-for-sale securities and, as such, are carried at fair value with resulting unrealised gains and losses, net of deferred taxes if any, recorded as a separate component of other comprehensive income in shareholders' equity.

Assets are classified as held for sale when the Company has a plan for disposal and those assets meet the held for sale criteria of the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") 144, Accounting for Impairment or Disposal of Long-Lived Assets.

The basis for the cost of a security sold is determined by specific identification.

#### *Receivables*

Receivables, including accounts receivables, are recorded in the balance sheet at their full amount less allowance for doubtful receivables. The Company establish reserves for doubtful receivables on a case-by-case basis when it is unlikely that required payments of specific amounts will occur. In establishing these reserves, the Company consider changes in the financial position of the customer as well as disputes with the customer regarding the application of contract provision to the drilling operations. Uncollectible trade accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance.

#### *Other non-current assets*

Other equipment is depreciated over its estimated remaining useful life, which approximates 3-5 years. Other non-current assets also include long-term part of loan arrangement fees and non-current receivables.

## **Seadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### **Accounting policies (cont'd)**

#### *Newbuildings*

The carrying value of the rigs under construction ("Newbuildings") represents the accumulated costs to the balance sheet date which the Company has had to pay by way of purchase instalments and other capital expenditures together with capitalised loan interest and associated finance costs. No charge for depreciation is made until the rig is completed to commence the operation. Rig purchase options are capitalised at the time when option contracts are acquired or entered into. The Company reviews expected future cash flows, which would result from the exercise of each option contract on a contract by contract basis to determine whether the carrying value of the option is recoverable. If the expected undiscounted future cash flows are less than the carrying value of the option plus further cost to delivery, a provision is made to write down the carrying value of the option to its recoverable amount. The carrying value of each option payment is written off as and when the Company adopts a formal plan not to exercise the option. Purchase price payments are capitalised and the total of the option payment, if any, and purchase price payment is transferred to cost of rigs, upon exercise of the option and delivery of the rig to the Company.

#### *Capitalised interest*

Interest expenses are capitalised on construction of newbuildings based on accumulated expenditures for the applicable project at the Company's current rate of borrowing. The amount of interest expense capitalised in an accounting period shall be determined by applying an interest rate ("the capitalisation rate") to the average amount of accumulated expenditures for the asset during the period. The capitalisation rates used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period.

If the Company's financing plans associate a specific new borrowing with a qualifying asset, the enterprise use the rate on that borrowing as the capitalisation rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing.

If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalisation rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowings of the Company.

## Sadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Accounting policies (cont'd)

#### *Drilling units and equipment*

Rigs, vessels and equipment are recorded at historical cost less accumulated depreciation. The cost of these assets less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of the Company's mobile units and tender rigs ranges from 25 years to 30 years.

During the operating life of rigs, the Company may upgrade a rig which extend the useful life of the rig or modify it for alternative employment. In such instance, the associated costs incurred are capitalised and depreciated over the new remaining useful life of the rig.

Significant investments are capitalised and depreciated in accordance with the nature of the investment. Significant investments that are deemed to increase an asset's value for its remaining useful life are capitalised and depreciated over the remaining life of the asset.

The Company charters certain vessels under agreements that are classified as capital leases. Depreciation of vessels under capital lease is included within depreciation expense in the statement of operations. Vessels under capital lease are depreciated on a straight-line basis over the vessels' remaining economic useful life.

Equipment not related to the drilling units is included in Other non-current assets and is depreciated over its estimated remaining useful life, which approximates 3-5 years.

Cost of property and equipment sold or retired, with the related accumulated depreciation and write-downs are removed from the balance sheet, and resulting gains or losses are included in the consolidated statement of operations.

#### *Goodwill*

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually at the reporting unit level, which is defined as an operating segment or a component of an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. Management has determined that our reporting units are the same as our operating segments for the purpose of allocating goodwill and the subsequent testing of goodwill for impairment.

#### *Impairment of long-lived assets*

The carrying value of long-lived assets that are held and used by the Company are reviewed whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. The Company assess recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. In addition, long-lived assets to be disposed of are reported at the lower of carrying amount and fair value less estimated costs to sell.

## **Seadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### **Accounting policies (cont'd)**

#### *Defined benefit pension plans*

The Company has several defined benefit plans which provide retirement, death and termination benefits. The Company's net obligation is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their cumulative service.

The projected future benefit obligation is discounted to its present value, and the fair value of any plan assets is deducted. The discount rate is the market yield at the balance sheet date on government bonds in the currency and based on terms consistent with the post-employment benefit obligations. The retirement benefits are generally a function of years of employment and amount of compensation. The plans are primarily funded through payments to insurance companies. The Company records its pension costs in the period during which the services are rendered by the employees. Actuarial gains and losses are recognized in the income statement when the net cumulative unrecognized actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected remaining working lives of the employees participating in the plans. Otherwise, recognition of actuarial gains and losses is not recognized in the income statement.

#### *Derivatives Instruments and Hedging Activities*

The Company applies SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", SFAS 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statements 133" and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - An amendment of FASB Statements 133", require an entity to recognise all derivatives as either assets or liabilities on the balance sheet and measure these instruments at fair value.

Effective changes in fair value of derivatives designated as cash flow hedges and hedges of a net investment in a foreign operation are recorded in net unrealised gain (loss) on derivatives, a separate component of other comprehensive income (loss). Amounts are reclassified from accumulated other comprehensive loss when the underlying hedged item affects earnings and all ineffective changes in fair value are recorded currently in earnings. Changes in fair value of derivatives designated as fair value hedges are recorded currently in earnings offset to the extent the derivative was effective by changes in fair value of the hedged item. Changes in fair value of derivatives not designated as hedging instruments are recorded currently in earnings. In order to qualify for hedge accounting under SFAS 133, certain criteria and detailed documentation requirements must be met.

The Company's interest-rate swap agreements, currency options and forward exchange contracts are recorded at fair value and do not qualify as hedges for accounting purposes, as they are not designated as hedges of specific assets, liabilities or firm commitments. Consequently, changes in the fair value of interest-rate swap agreements, forward exchange and currency options contracts are recorded as a gain or loss under Other Financial Items.

## **Sadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### **Accounting policies (cont'd)**

#### *Income taxes*

The Company is a Bermuda company. Bermuda does not impose corporate income taxes, including withholding taxes. Certain of its subsidiaries operate in other jurisdictions where taxes are imposed. Consequently income taxes have been provided in respect of taxes in such jurisdictions.

Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. The Group recognises tax liabilities based on estimates of whether additional taxes will be due.

Income tax expense consists of taxes currently payable and changes in deferred tax assets and liabilities calculated according to local tax rules. Deferred tax assets and liabilities are based on temporary differences that arise between the carrying values for financial reporting purposes and the amounts used for taxation purposes of assets and liabilities and the future tax benefits of tax loss carry forwards. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The impact of tax law changes is recognized in periods when the change is enacted or substantially enacted.

#### *Earnings per share*

Basic earnings per share ("EPS") is calculated based on the income (loss) for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments.

#### *Deferred charges*

Loan related costs, including debt arrangement fees, are capitalised and amortised over the tenor of the related loan. Amortisation of loan related costs is included in interest expense. Capitalisation of loan related costs commences when the activities to prepare the asset for its intended use are in progress and the expenditures and loan related costs are being incurred. Loan related costs are capitalised until the asset are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

## **Seadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### **Accounting policies (cont'd)**

#### *Financial instruments*

In determining fair value of its financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risk existing at each balance sheet date. For the majority of the financial instruments including most derivatives and long-term debt, standard market conventions and techniques such as options pricing models are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realised.

#### *Share-based compensation*

The Company has established an employee share ownership plan under which employees, directors and officers of the Group may be allocated options to subscribe for new shares in the ultimate parent, Seadrill Limited.

In accordance with Accounting Principles Board Opinion ("APB") 25, Accounting for Stock Issued to Employees and related interpretations in accounting for the employee share-based compensation plans, the compensation costs for stock options is recognised as an expense over the service period.

The fair value of the share options issued under the Company's employee share option plans is determined at grant date taking into account the terms and conditions upon which the options are granted, and using a valuation technique that is consistent with generally accepted valuation methodologies for pricing financial instruments, and that incorporates all factors and assumptions that knowledgeable, willing market participants would consider in determining fair value. The fair value of the share options is recognized as personnel expenses with a corresponding increase in equity over the period during which the employees become unconditionally entitled to the options. Compensation cost is initially recognized based upon options expected to vest with appropriate adjustments to reflect actual forfeitures. National insurance contributions arising from such incentive programs are expensed when the options are exercised.

#### *Comprehensive income*

The Company reports and displays comprehensive income in accordance with SFAS No. 130, Reporting Comprehensive Income ("SFAS 130"), which establishes standards for reporting and displaying comprehensive income and its components. Components of comprehensive income are net income and all changes in equity during the period except those resulting from transactions with owners. SFAS 130 requires enterprises to display comprehensive income and its components in the enterprise's financial statements, to classify items of comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income in shareholders' equity separately from retained earnings and additional paid-in capital.

## **Sadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### **Accounting policies (cont'd)**

#### *Provisions*

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### *Segment reporting*

A segment is a distinguishable component of the Company that is engaged either in providing products or services (industry segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

#### *Related parties*

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence. All transactions between the related parties are based on the principle of arm's length (estimated market value).

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Subsidiaries and investments included in the consolidated financial statements

Name of company	Jurisdiction of incorporation	Principal activities	Percent owned
Seadrill Norge Holding AS	Norway	Holding company	100
Seadrill Management AS	Norway	Management company	100
Seadrill Norge AS	Norway	Holding company	100
Seadrill Offshore AS	Norway	Drilling services contractor	100
Seadrill Engineering AS	Norway	Drilling services contractor	100
Seadrill Well Services AS	Norway	Drilling services contractor	100
Seadrill Rig AS	Norway	Owner of "West Alpha", "West Epsilon", "West Venture" and "West Navigator"	100
Seadrill Services AS	Norway		100
Seadrill XI AS	Norway		100
Seadrill XII AS	Norway		100
Eastern Drilling ASA	Norway	Owner of newbuilds "West E-Drill" and "West Eminence"	60.43
Seadrill Offshore Danmark AS	Denmark	Drilling services contractor	100
Seadrill Tender Rig Ltd	Bermuda	Owner of 6 tender rigs	100
Seadrill Tender Rigs Pte Ltd	Singapore	Owner of tender rig "West Setia"	100
Seadrill Asia Ltd	Hong Kong	Holding company	100
Seadrill Offshore Sing Ltd	Singapore		100
Seadrill Services Ltd	Hong Kong		100
Petrodril Holdings Inc	Panama		100
Seadrill Sdn. Bhd.	Brunei		50
Seadrill Limited	United Kingdom	Drilling services contractor	100
Seadrill Management Services Limited	United Kingdom	Management company	100
PT Nordrill Indonesia	Indonesia		100
Ashbourne Shipping Company Limited	Cyprus	Owner of "West Titania"	100
Covaldi Marine Company Limited	Cyprus	Owner of "West Larissa"	100
Stormont Marine Company Limited	Cyprus	Owner of "West Janus"	100
Golden Wisdom Shipping Company Limited	Cyprus	Charterer of "Crystal Ocean"	100
Golden Dream Shipping Company Limited	Cyprus	Charterer of "Crystal Sea"	100
Stella Shipping International Inc	Liberia	Owner of newbuild "West Atlas"	100



## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Subsidiaries and investments included in the consolidated financial statements (cont'd)

Caleb Maritime S.A.	Liberia	Owner of newbuild "West Triton"	100
Subsea Drilling Inc	Liberia	Owner of newbuild "West Sirius"	100
Subsea Drilling II Inc	Liberia	Owner of newbuild "West Taurus"	100
Subsea Drilling III Ltd	Cyprus	Owner of newbuild "West Hercules"	100
Subsea Drilling IV Ltd	Cyprus	Owner of newbuild "West Aquarius"	100
Seadrill Invest Ltd	Bermuda	Holding company	99.99
Seadrill Invest I Ltd	Bermuda	Charterer of "West Ceres"	99.99
Seadrill Invest II Ltd	Bermuda	Owner of newbuild "West Prospero"	99.99
Seadrill Invest III Ltd	Liberia	Owner of newbuild "West Ariel"	99.99
Seadrill Mobile Units Ltd	Nigeria	Management company	100
Seadrill Management (S) Pte Ltd	Singapore	Management company	100
Guildford Management Ltd	British Virgin Islands	Management company	100
Seadrill Deepwater Units (S) Pte Ltd	Singapore	Management company	100
Seadrill Deepwaters Management Ltd	Bermuda	Management company	100
Atlas Drilling (S) Pte Ltd	Singapore		100
Wisdom Shipping (S) Pte Ltd	Singapore	Owner of "Crystal Ocean"	100
Crystal Sea Marine Ltd	Liberia	Owner of "Crystal Sea"	100
Seadrill Deepwater Drillship Ltd	Cayman Islands	Owner of Drillship newbuilds "West Polaris" and "West Sun"	100

### Associated Companies

PT Apexindo Pratama Duta Tbk	Indonesia	Off- and onshore drilling contractor	32.33
Lisme AS	Norway	Investment company	44
Varia Perdana Sdn. Bhd.	Malaysia	Drilling services contractor	49
Tioman Drilling Co Sdn	Malaysia	Drilling services contractor	49
Crest Tender Rigs	Malaysia	Owner of 4 tender rigs	49

## **Seadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### **Recently issued accounting pronouncements**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. We will be required to adopt SFAS 159 in the first quarter of fiscal year 2008. Management is currently evaluating the requirements of SFAS 159 and has not yet determined the impact on the consolidated financial statements.

In September 2006, the FASB finalized SFAS No. 157, "Fair Value Measurements," which will become effective in 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements; however, it does not require any new fair value measurements. The provisions of SFAS No. 157 will be applied prospectively to fair value measurements and disclosures beginning in the first quarter of 2008 and is not expected to have a material effect on the Company's Consolidated Financial Statements.

In June 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company has substantially completed the process of evaluating the effect of FIN 48 on its Consolidated Financial Statements as of the beginning of the period of adoption, January 1, 2007. Implementation of FIN 48 did not have a material effect on the Company's Consolidated Financial Statements.

In June 2006, the FASB reached consensus on Emerging Issues Task Force ("EITF") No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement" ("EITF 06-3"). The scope of EITF 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and excise taxes. The Task Force affirmed its conclusion that entities should present these taxes in the consolidated statement of operations on either a gross or a net basis, based on their accounting policy, which should be disclosed pursuant to APB Opinion No. 22, Disclosure of Accounting Policies. If those taxes are significant, and are presented on a gross basis, the amounts of those taxes should be disclosed. The consensus on EITF 06-3 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. EITF 06-3 will not have a material effect on our consolidated balance sheet, statement of operations or cash flows.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140," that provides guidance on accounting for separately recognized servicing assets and servicing liabilities. In accordance with the provisions of SFAS No. 156, separately recognized servicing assets and servicing liabilities must be initially measured at fair value, if practicable. Subsequent to initial recognition, the company may use either the amortization method or the fair-value measurement method to account for servicing assets and

## **Sadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

servicing liabilities within the scope of this Statement. The Company will adopt SFAS No. 156 in fiscal year 2007. The adoption of this Statement will not have any material effect on the company's Consolidated Financial Statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140," to permit fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation in accordance with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The company will adopt SFAS No. 155 in fiscal year 2007. The adoption of this Statement will not have any material effect on the company's Consolidated Financial Statements.

### **Reclassifications**

Certain reclassifications have been made to prior period amounts to conform with the current year presentation. These reclassifications did not have a material effect on the consolidated financial statements.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 1 – Segment information

The Company provides drilling and related services to the offshore oil and gas industry. Our reportable segments consist of the primary services we provide. Although our segments are generally influenced by the same economic factors, each represents a distinct service to the oil and gas industry. There have not been any intersegment sales during the period. Segment results are evaluated based on operating profit. The accounting principles for the segments are the same as for the Company's consolidated financial statements. Direct general and administrative expenses and indirect general and administrative expenses are allocated to each segment based on estimated cost.

The split of our organization and aggregation of our business into three segments were based on differences in management structure and reporting, economic characteristics, customer base, asset class and contract structure. As of December 31, 2006, the Company operates in the following three segments:

- **Mobile Units:** The Company offers services encompassing drilling, completion and maintenance of offshore wells. The drilling contracts relate to semi-submersible rigs, jack-ups and drillships.
- **Tender Rigs:** The Company operates self-erecting tender rigs and semi-submersible tender rigs, which are used for production drilling and well maintenance in Southeast Asia and West Africa.
- **Well Services:** The Company performs production drilling and maintenance activities on several fixed installations in the North Sea. The Company also provides wireline services including well maintenance, modification and abandonment.

For accounting purposes, there is a fourth segment, Other Activities.

#### Revenues from external customers

<i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Mobile Units	638.1	28.3
Tender Rigs	179.0	-
Well Services	337.5	-
<b>Total</b>	<b>1,154.6</b>	<b>28.3</b>

#### Depreciation and amortization

<i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Mobile Units	127.3	12.9
Tender Rigs	33.7	-
Well Services	6.6	-
<b>Total</b>	<b>167.6</b>	<b>12.9</b>

## Sadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

<b>Operating income (loss) - net income (loss)</b> <i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Mobile Units	138.6	(15.4)
Tender Rigs	56.7	-
Well Services	30.8	-
Other Activities	-	-
Operating income (loss)	226.1	(15.4)
<i>Unallocated items:</i>		
Net financial items	40.8	9.5
Income taxes	(22.4)	(1.6)
Minority interest	(30.4)	(0.1)
Net income (loss)	214.1	(7.6)

<b>Total assets</b> <i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Mobile Units	5,455.9	1,149.0
Tender Rigs	953.8	-
Well Services	333.0	-
Total	6,742.7	1,149.0

<b>Total liabilities</b> <i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Mobile Units	2,876.2	347.3
Tender Rigs	800.8	-
Well Services	138.7	-
Total	3,815.7	347.3

<b>Capital expenditures – fixed assets</b> <i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Mobile Units	3,302.5	268.8
Tender Rigs	580.4	-
Well Services	36.8	-
Total	3,919.7	268.8

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### GEOGRAPHIC SEGMENT DATA

The following presents the Company's revenues and fixed assets by geographic area:

#### Revenues from external customers

<i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
North Sea	769.1	-
Asia	224.1	22.8
Africa	152.9	-
Australia	8.5	5.5
<b>Total</b>	<b>1,154.6</b>	<b>28.3</b>

#### Fixed assets – operating drilling units <sup>1)</sup>

<i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
North Sea	1,402.7	-
Asia	546.4	106.4
Africa	329.7	-
Australia	14.4	14.9
USA	-	56.4
<b>Total</b>	<b>2,293.2</b>	<b>177.7</b>

<sup>1)</sup>The fixed assets referred to in the table are the Company's operating drilling units. Asset locations at the end of a period are not necessarily indicative of the geographic distribution of the revenues or operating profits generated by such assets during such period.

### Note 2 – Taxes

The income taxes consist of the follows:

<i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Current tax expense:		
Bermuda	-	-
Foreign	13.1	1.6
Deferred tax expense:		
Bermuda	-	-
Foreign	9.3	-
<b>Total provision</b>	<b>22.4</b>	<b>1.6</b>

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

The income taxes for the period ended December 31, 2006 differed from the amount computed by applying the statutory income tax rate of 0% as follows:

<i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Income taxes at statutory rate	–	–
Foreign income and revenues taxed at higher rates	22.4	1.6
<b>Total</b>	<b>22.4</b>	<b>1.6</b>

In the consolidated financial statements there is recognized US\$9.6 million as general and administrative expenses related to stock options, which is not deductible for tax purposes.

### Deferred Income Taxes

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The net deferred tax assets (liabilities) consist of the following:

Deferred Tax Assets:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Pension	15.5	–
Tax loss carry forward	30.3	–
Contracts value	63.9	–
Other	0.2	–
<b>Gross deferred tax asset</b>	<b>109.9</b>	<b>–</b>

Deferred Tax Liability:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Property, Plant and Equipment	246.2	–
Provisions	1.0	–
Currency exchange fluctuations	23.6	–
Long Term Maintenance	10.3	–
Gain / Loss account	46.5	–
Other	9.1	–
<b>Gross deferred tax liability</b>	<b>336.7</b>	<b>–</b>
<b>Net deferred tax</b>	<b>226.8</b>	<b>–</b>

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

Deferred taxes are classified as follows:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Short-term deferred tax asset	0.2	–
Long-term deferred tax asset	109.7	–
Short-term deferred tax liability	11.9	–
<u>Long-term deferred tax liability</u>	<u>324.8</u>	<u>–</u>
<u>Net deferred tax</u>	<u>226.8</u>	<u>–</u>

Future taxable income justifies that tax losses carry forward is included in calculation of net deferred tax.

A total of US\$209.2 was booked against deferred tax balance as part of the acquisition of Smedvig and Eastern Drilling.

### Note 3 – Earnings per share

The computation of basic EPS for the consolidated financial statements is based on the weighted average number of shares outstanding during the period presented.

The components of the numerator for the calculation of basic EPS and diluted EPS for net income from continuing operations and net income are shown below

The components of the denominator for the calculation of basic EPS and diluted EPS are as follows:

	Net income adjusted for minority interest	Weighted average shares outstanding	Earnings per share
<b>2005</b>			
Earnings per share	(7.6)	190,917,701	(0.04)
Effect of dilution:			
Options		0	
<u>Diluted earnings per share</u>		<u>190,917,701</u>	<u>(0.04)</u>
 <b>2006</b>			
Earnings per share	214.1	352,133,216	0.61
Effect of dilution:			
Options		1,085,195	
<u>Diluted earnings per share</u>		<u>353,218,411</u>	<u>0.61</u>

### Note 4 – Other revenues

Other revenues consist of amortisation of unfavourable contract values of US\$100.2 million and gain on sale of equipment of US\$3.1 million. The unfavourable contract values arise from the acquisition of Smedvig, and represent the net present value of the existing contracts compared to the current market rates, discounted at the weighted average cost of capital. The estimated unfavourable contract values are to be amortised and recognised as other revenues over the terms of the contracts of two to five years.



## Sadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 5 – Restricted cash

Restricted cash are bank deposits which act as cash collateral of performance guarantees issued by a bank against the charter of subsidiary's units of US\$19.6 million and bank deposits from advanced tax withholding of US\$12.2 million, totalling US\$31.8 million.

Included in the Company's loan agreements there are covenant requirements related to the cash and cash equivalents. The Company shall on a consolidated basis at any time maintain free cash representing a minimum of USD 75 million until January 2, 2008, thereafter the Company shall at any time maintain free cash representing a minimum of 7% of its total liabilities. The Company has also covenants related to loans requiring a minimum of cash and cash equivalents of USD 50 million.

### Note 6 – Marketable securities

Marketable securities held by the Company are equity securities considered to be available-for-sale securities.

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Cost	106.6	219.9
Gross unrealised holding gain / (loss)	(0.8)	82.4
Fair value	105.8	302.3

On January 6, 2006 the Company sold its entire investment in Ocean Rig of 21,966,660 shares, representing 24.6 percent of the company, for US\$297.7 million and made a profit of approximately US\$80 million.

During 4<sup>th</sup> Quarter, Seadrill acquired 17.24 % (16,030,300 shares) ownership of Aker Drilling ASA for NOK 585.2 (US\$92.5 million). Aker Drilling ASA is an offshore drilling company listed on the Oslo Stock Exchange. On December 29<sup>th</sup>, 9,839,400 shares in Aker Drilling ASA were sold. As the company has an obligation to buy back the same number of shares in 2007, the sale has not been recorded as a disposal, but rather as a secured borrowing. Under FAS 140 the sale did not meet the criteria in paragraph 9 due to the repurchase obligation

### Note 7 – Other financial items

In 2006, a gain of USD 80.0 million related to the sale of the shares in Ocean Rig was recorded under other financial items. In addition, sales of other available-for-sale securities resulted in a gain of USD 0.5 million. Total proceeds from available-for-sale securities amounted to USD 319.2 million.

In addition, the Company has minor losses related to forward exchange contracts which are offset by gains related to interest rate swap agreements.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 8 – Accounts receivables

Accounts receivables are presented net of allowances for doubtful accounts receivables as follows:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Accounts receivables gross	216.3	11.5
Allowance for doubtful debt	(22.2)	-
Accounts receivables net	194.1	11.5

### Note 9 – Other current assets

Other current assets include:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Unbilled revenue	66.5	-
Prepaid expenses/accrued revenue	72.9	4.0
Debt arrangement fees – short term portion	9.7	0.4
Payment related to shares sold at financial institution	65.8	-
Other current assets	31.1	5.9
Short-term deferred tax assets	0.2	-
Allowance for doubtful debt	-	-
Total other current assets	246.2	10.3

### Note 10 – Newbuildings

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Newbuildings	2,025.4	424.3
Rig purchase option	-	15.0
Total	2,025.4	439.3

The carrying value of newbuildings represents the accumulated costs to the balance sheet date, which the Group has been billed by the shipyards on all newbuilds and other capital expenditures together with capitalised loan interest, deferred charges, surplus value from acquisitions and others.

Included in capitalized cost of newbuildings for the year ended December 31, 2006 and the period ended December 31, 2005, there are interest expenses and loan related costs of US\$63.4 million and US\$7.7 million, respectively.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 11 – Drilling units

The following table discloses cost and accumulated depreciation of the Group's operating drilling units, including the capitalised leased units (see note 9):

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Cost	2,480.3	170.9
Accumulated depreciation and amortization	(190.3)	(20.4)
Currency exchange fluctuations	3.3	-
Net book value	2,293.3	150.5
Net book value vessels under capital lease (see note 14)	-	27.2
Net book value drilling units	2,293.3	177.7
Depreciation and amortization for the period	158.2	12.8

### Note 12 – Other non-current assets

The following table discloses cost and accumulated depreciation of the Group's office equipment, furniture and fittings:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>Equipment:</b>		
Cost - Office equipment, furniture and fittings	45.6	0.6
Accumulated depreciation and amortization	(7.1)	(0.1)
Net book value	38.5	0.5
Depreciation and amortization for the period	9.4	0.1
<i>Other non-current assets consists of:</i>		
Equipment	38.5	0.5
Long-term part of loan arrangement fees	19.9	2.8
Non-current receivables	4.7	-
Total non-current assets	63.1	3.3

### Note 13 - Goodwill

During the year the Company acquired Mosvold, Smedvig and Eastern Drilling. All of the entities have been consolidated into our financial statements since their respective acquisition dates. The acquired entities assets and liabilities were fairly valued and taken into the consolidated accounts at the current market valuation. The purchase price paid in excess of the fair value of the net identifiable assets acquired (excess purchase price) was allocated to goodwill (see note 23

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

Acquisition and minority interest and note 24 Pro forma figures). The goodwill is related to human capital and future increase in marked conditions among others. Except for the acquisition of Smedvig, the purchase price could be allocated to identifiable assets. The total goodwill of US\$1,256.5 million arising from the acquisition of Smedvig was assigned to the Company's operating segments as follows: US\$957.2 million to Mobile Units, US\$149.3 million to Tender Rigs and US\$150.0 million to Well Services.

We perform our annual test of goodwill impairment as of December 31. As a result of the test for impairment, we had no impairment of goodwill for the year ended December 31, 2006.

Our goodwill balance and changes in the carrying amount of goodwill are as follows (in millions):

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
The aggregated amount of goodwill acquired	1,256.5	-
The aggregated amount of impairment losses	-	-
Net book balance at December 31	1,256.5	-
Goodwill included in disposals during the period	-	-

### Note 14 – Vessels under capital lease, net

The two vessels held under capital lease at December 31, 2005 were formally acquired by the Group at October 16, 2006 for a total consideration of US\$6.0. Consequently, the units are recorded under drilling units as of December 31, 2006. Both vessels have, subsequent to the balance sheet date, been disposed off by the Group. Please see note 20 - subsequent events note for further details.

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Cost	-	29.1
Accumulated depreciation	-	(1.9)
Net book value	-	27.2

Depreciation expense for the vessels under capital lease was US\$1.5 million for the year ended December 31, 2006 and US\$1.9 for the period ended December 31, 2005.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 15 – Operational leases

The Company has signed operating leases for certain premises. The largest lease agreements are related to offices in Stavanger, Bergen, Singapore and Aberdeen. Rental expenses amounted to USD 4.4 million for 2006 and USD 0.1 million for 2005. Estimated future minimum rental payments for the period 2007 to 2011 are as follows:

Year	Amount in USD million
2007	4.3
2008	4.0
2009	7.0
2010	7.2
2011	7.3
<b>Total</b>	<b>29.8</b>

### Note 16 – Investment in associated companies

The Company has the following participation in investments that are recorded using the equity method:

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
PT Apexindo Pratama Duta Tbk (Apexindo)	32.33%	33.04%
Varia Perdana Sdn. Bhd.	49%	-
Tioman Drilling Co	49%	-
Crest Tender Rigs	49%	-
Lisme AS	44%	-
Mosvold Drilling Ltd	-	40.1%

The ownership in Varia Perdana, Tioman Drilling, Crest Tender Rigs and Lisme were acquired through the acquisition of Smedvig in January 2006.

At year-end 2005, Mosvold Drilling Ltd was considered as an associated company, as Seadrill held 40.1% of the shares. In 2006, the Company increased its ownership in Mosvold Drilling, which resulted in consolidation of the investment in the Group accounts from February 27, 2006.

Eastern Drilling ASA was considered an associated company for the period January to September 2006, using the equity method for the 39.4% share. From September 30, 2006 Eastern Drilling has been consolidated in the Group, with an ownership of 60.4%.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

At year-end the book value of the Company's equity method investees are as follows:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
PT Apexindo Pratama Duta Tbk	67.2	55.2
Mosvold Drilling Ltd	-	97.6
Varia Perdana Sdn. Bhd. (incl. Tioman and Crest Tender Rigs)	91.6	-
Lisme AS	79.3	-
Total	238.1	152.8

The quoted market price of the Company's total shares in PT Apexindo Pratama Duta Tbk is US\$159.3 million. There are no quoted market values of Varia Perdana Sdn Bhd or Lisme AS.

Summarised balance sheet information of the Company's equity method investees at year-end is as follows:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Current assets	482.6	122.2
Non current assets	464.3	113.1
Current liabilities	(157.7)	(15.1)
Non current liabilities	(269.5)	(77.3)

Summarised statement of operations information of the Company's equity method investees is as follows:

<i>(In millions of US dollar)</i>	<b>2006</b>	<b>2005</b>
Net operating revenues	426.5	10.7
Net operating expenses	(226.4)	(8.0)
Net income	168.6	2.7

As at December 31, 2005, Seadrill owned 33.04% of shares in Apexindo. In 2006, Seadrill sold 0.6% in Apexindo, resulting in a gain of US\$2.3 million.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 17 – Deferred charges

Deferred charges represent debt arrangement fees that are capitalised and amortised to interest expense over the life of the debt instrument. The deferred charges are capitalised as an asset and are comprised of the following amounts:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Debt arrangement fees	33.0	3.3
Accumulated amortisation	(6.3)	(0.1)
Total book value	26.7	3.2
Less: Short-term portion	(6.8)	(0.4)
Long-term portion	19.9	2.8

### Note 18 – Long-term interest bearing debt and interest expenses

The Company has the following debt as at December 31, 2006:

Seadrill Rig AS has a secured Reducing and Revolving credit Loan facility (RRCF) of US\$500. The loan agreement has been amended, but the current terms are:

- The loan matures in 2011, 20 year repayment profile and a balloon payment at maturity date.
- The margin was LIBOR plus 95 basis points.

In addition, Seadrill Rig AS has a secured seven-year Reducing and Revolving Credit Loan facility of US\$250 million. The terms, price and conditions were in line with the conditions reported under US\$500 million RRCF described above. Total amount drawn on December 31, 2006, were US\$528 million which also was the total limit of the two facilities. Actual interest rate in 2006 ranged from 5.2% to 6.4%. There was no undrawn amount on these two credit facilities as of December 31, 2006.

The Company has also two other loan agreements. The first is a Term Loan Facility Agreement of US\$185 million which has a 5 year repayment profile. At December 31, 2006, the loan balance was US\$152 million. The margin was LIBOR plus 175 basis points which gave an actual interest rate ranging from 6.6% to 6.8% in 2006. The second loan agreement is a pre- and post delivery loan facility of US\$100 million with a 5 year maturity and a 12 year repayment profile, hence there will be a balloon payment at maturity. At December 31, 2006, the loan balance was US\$69 million, hence not full drawn. The margin is LIBOR plus 55 basis points, which gave an actual interest rate ranging from 5.6% to 6.0% in 2006.

In 2006, the Company entered into a bridge facility of US\$1,200 million with Nordea Bank Norge ASA. The bridge facility is maturing in beginning of 2008 and outstanding balance at December 31, 2006 is US\$863 million. The margin is LIBOR plus 125 basis points, hence the actual interest rate ranged from 6.2% to 6.8% in 2006.

Further, the Company has a Senior Secured Credit facility of US\$585 million with six years maturity, quarterly repayments with a final balloon payment of US\$300 million. The margin is LIBOR plus 70 basis points until 4<sup>th</sup> quarter 2008 which gave actual interest rate ranging from 6.0% to 6.3% in 2006.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

In 2006, the Company entered into a sale/leaseback agreement with Rig Finance for the rig West Ceres. Rig Finance is consolidated as a VIE (FIN 46) by the Company and include a loan with an outstanding balance at December 31, 2006 of US\$155 million with 73 months maturity. The margin is LIBOR plus 115 basis points, hence the actual interest rate ranged from 6.45% to 6.75% in 2006.

The Company has an agreement with DnB NOR Bank ASA as agent for a multi-tranche secured Term and Revolving Credit Facility of up to US\$800 million. The facility is divided in several tranches;

West E-drill: Tranche A: US\$175 million, Tranche B: US\$125 million and Tranche C up to US\$200 million (based on value of drilling contract) and West Eminence: Tranche A of US\$150 mill. and Tranche B of US\$150 mill. The A Tranches have a 15 years repayment profile from delivery of each rig and an interest rate margin of 200-215 basis points pre-delivery and 115-195 basis points post-delivery whereby applicable margin is based on charter values. The B Tranches have cash sweep mechanisms and may be refinanced or added to the A Tranches. The interest rate margin is 107.5 basis points (Eminence Tranche B 200 basis points) pre-delivery and 115-300 basis points post-delivery also dependent on charter values. Tranche C has a tenor over the period of the drilling contract(s) qualifying Eastern Drilling ASA to make drawdown under the facility. The interest margin is 100 basis points. Commitment fees regarding the above facilities are 50% of the applicable margins. As at December 31, 2006, US\$125 million of the facility was used.

Summary of the facilities at 31 December 2006 (amounts in millions of US dollar):

Facility	Long-term part, 31 December 2006	Short-term part, 31 December 2006	Amount outstanding, 31 December 2006	Amount outstanding, 31 December 2005
US\$500 credit facility	331	21	352	-
US\$250 credit facility	165	11	176	-
US\$185 facility	125	27	152	178
US\$100 facility	69	-	69	25
US\$1,200 bridge loan	800	63	863	-
US\$585 facility	535	50	585	-
US\$165 facility	130	25	155	-
US\$800 facility	125	-	125	-
<b>Total facilities loans</b>	<b>2,280</b>	<b>197</b>	<b>2,477</b>	<b>203</b>
<b>Other non-current loans</b>	<b>280</b>	<b>58</b>	<b>338</b>	<b>111</b>
<b>Total non-current loans</b>	<b>2,560</b>	<b>255</b>	<b>2,815</b>	<b>314</b>

### Bonds

The Company has raised NOK225 million and NOK100 million with maturity in 2008. The bonds were issued in the Norwegian market at a premium which gives an actual interest rate, after the debtor change from Seadrill Norge AS to Seadrill Limited, of NIBOR plus 2.95% for the NOK225 million and 7.7% (fixed) for the NOK100 million bond.

The Company has also raised NOK500 million and US\$30 million through bond issue in the Norwegian market and both bonds have a seven year maturity. The bonds were issued at a premium which gives an actual interest rate, after the debtor change on December 1, 2006, from Seadrill Norge AS to Seadrill Limited, at NIBOR plus 1.60% for the NOK Bond and LIBOR plus 2.03% for the US dollar bond.



## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

Seadrill Deepwater Drillship Ltd (formerly Mosvold Drilling Ltd) raised US\$80 million in 2005 through a senior secured bond issue through the Norwegian market with five year maturity and 9.25% fixed interest rate. The bond is secured by first priority assignment in the construction contract for the drillship West Polaris. After delivery, the security is replaced by second priority mortgage in the drillship. The bond has a nominal value of US\$80 million, and will run without installments and mature in full on 13 October 2010 at par value. Interest payments shall be paid semi-annually in arrears on 13 April and 13 October. If the construction contract or drillship is sold or transferred to a party other than a wholly owned subsidiary of Seadrill Deepwater Drillship Ltd, the loan shall be redeemed in full at a premium price. The premium is reduced gradually from 108% of par value to 104.5% of par value in the period from 13 October 2005 to 12 October 2008, and up to the maturity of the loan. The Company may redeem the remaining loan or any portion of the remaining loan at any time from and including 13 October 2008 at a price equal to 104.50 per cent of par value.

At December 31, 2006, the Company had the following bonds outstanding:

<i>(In millions)</i>	Maturity	Interest
US\$36 (NOK225)	November 19, 2008	NIBOR + 2.95 percent
US\$16 (NOK100)	November 19, 2008	Fixed 7.7 percent
US\$80	October 13, 2010	Fixed 9.25 percent
US\$80 (NOK500)	September 29, 2012	NIBOR + 1.60 percent
US\$30	February 14, 2012	LIBOR + 2.03 percent

### Convertible bond loan

At 31 December 2006, Eastern Drilling ASA had a convertible bond loan with an original amount of US\$50 mill divided in 500 convertible bonds of US\$0.1 million. The proceeds were used to finance the construction of West E-drill. Term to maturity is 8 years from the date of draw down (15. July 2005). Interest is 8% p.a. compounded annually and payable in kind (non-cash-interest). Thus the value of the convertible bonds will increase as interests are earned and the convertible amount will increase accordingly. The conversion price is US\$12.5 per share. The Convertible Bond loan may be converted into 4 million shares based on a value of US\$50 million (no interest accrued) and into 7.4 million shares based on a value of US\$92.5 million (including 8 years of interest compounded annually). Upon the fifth anniversary of issuance, the Company will have the option to redeem the convertible bonds for US\$75 million. This prepayment option has been viewed as an integrated part of the convertible bonds loan. At any time after the fifth anniversary of the issuance, but prior to the term to maturity, the Company will have the option to redeem the convertible bonds for the value at the time of redemption including any accrued interest. The convertible bonds and accrued interest are convertible, at the option of the bond holders, at any time in whole or in part at the conversion price. The convertible bonds are tradable. As at December 31, 2006, the convertible bond was recorded at US\$35 million.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

Long-term interest bearing debt at December 31, 2006, is payable as follows:

Year	Amount
2007	-
2008	990.6
2009	142.4
2010	313.1
2011	580.4
2012 and thereafter	532.8
<b>Total</b>	<b>2,559.3</b>

The Company has miscellaneous covenants in its loan agreements. The facilities contain the following main covenants:

- To maintain minimum cash no less than 7% of the total indebtedness.
- Consolidated working capital (defined as consolidated current assets less consolidated current liabilities) shall be no less than US\$0.
- To maintain the ratio of EBITDA to interest expenses greater than 2:1.
- To maintain maximum debt ratio, total liabilities to total assets, shall be less than 0.65:1.

The Company should not distribute any dividend to its shareholders without prior consent from the majority lenders.

The Company's bonds contain the following main covenants, based on financial statements, which require:

- To maintain an adjusted shareholders' equity equal to or greater than US\$300 million.
- To maintain an adjusted shareholder's equity equivalent to a minimum of 40% of total liabilities. For these purposes, the term "adjusted shareholder's equity" means the adjusted value of total consolidated assets less total consolidated liabilities with the addition or subtraction of the difference between market value and book value of the rigs and offshore vessels.

For the year ended December 31, 2006, interest costs incurred for the consolidated accounts were US\$143.2 million of which US\$63.4 million is capitalised. For the period ended December 31, 2005, interest costs incurred for the consolidated accounts were US\$8.6 million of which US\$7.7 million is capitalised.

The accounting effects of the Company's interest swap agreements are included in Other Financial items and amounted to gains of US\$9 million in 2006.

### Note 19 – Share capital

The Company was incorporated on May 10, 2005 and 6,000 ordinary shares of US\$2.00 each were issued. In 2005, there were several share issuances and at the end of December 2005 a total of 229,133,216 shares were issued. In 2006, the share capital was increased four times. Total increase in number of shares was 154,000,000 resulting in a total of 383,133,216 shares issued and outstanding as of December 31, 2006.

The Company has one class of shares of par value US\$2.00 each. The shares all have the same rights and privileges.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

<b>Total paid in capital</b>	<b>Consolidated December 31, 2006</b>	<b>Consolidated December 31, 2005</b>
Registered share capital	766.3	458.3
Share premium reserve	1,683.5	267.0
<b>Total</b>	<b>2,449.8</b>	<b>725.3</b>

<b>Changes in the number of shares</b>	<b>Number of shares</b>	<b>Share Capital</b>
Balance at May 10, 2005	6,000	0.0
New share issuance in 2005	229,127,216	458.3
Issued shares at December 31, 2005	229,133,216	458.3
New share issuance in 2006	154,000,000	308.0
Issued shares at December 31, 2006	383,133,216	766.3

### Note 20 – Share option plans

Seadrill has granted options to senior management and directors of the Company which provide the employee with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment. The subscription price under the options is fixed at the date of grant.

Options issued under the 2006 Programs may be exercised up to May-August 2011. The exercise price for the Program 1 to Program 4 is in the range of US\$2.23 to NOK102 per share. Options issued under the 2006 Programs may be exercised by one third per year, first time one year after they were granted. As at December 31, 2006, none of the granted options are exercisable.

As of December 31, 2006 the Board could grant further 1,043,333 options under the 2005 authorization.

The Company uses the Black-Scholes pricing model to value stock options granted under SFAS 123(R). The fair value of options granted is determined based on the expected term, risk-free interest rate, dividend yield and expected volatility. The expected term is based on historical information of past employee behavior regarding exercises and forfeiture of options. The risk-free interest rate assumption is based upon the published U.S. treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

The Company uses a blended volatility for the volatility assumption, to reflect the expectation of how the share price will react to the future cyclicity of the Company's industry. The blended volatility is calculated using two components. The first component is derived from volatility computed from historical data for a period of time approximately equal to the expected term of the stock option, starting from the date of grant. The second component is the implied volatility derived from the Company's "at-the-money" long-term call options. The two components are equally weighted to create a blended volatility.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Accounting for share-based compensation

The fair value of the share options is recognized as personnel expenses. During 2006, US\$9.6 million has been expensed in the income statement. There were no effects on taxes in the financial statements. If the option will be declared social security related to the declaration will be expensed at the declaration date.

	Weighted average exercise price per option	Number of shares
Outstanding at January 1, 2006	-	-
Options granted	7.89	3,956,667
Options forfeited	7.89	(40,000)
Outstanding at December 31, 2006	-	3,916,667

As of December 31, 2006, total unrecognized compensation costs related to all unvested share-based awards totaled US\$21.6 million, which is expected to be recognized as expenses in 2007, 2008 and 2009 by US\$13.8 million, US\$6.1 million and US\$1.7 million, respectively.

The Company has used the Black & Scholes pricing model in its fair value estimation. The following table summarizes the information of share options outstanding as of December 31, 2006:

Option program	2006 Program 1	2006 Program 2	2006 Program 3	2006 Program 4
Number of shares	741,667	45,000	625,000	2,505,000
Exercise price	2.23	11.18	16.28	14.07
Remaining contractual life (months)	52	52	52	56
Fair value at grant date	17.10	10.31	7.64	5.18

#### Pricing model assumptions:

Risk free interest rate (percent)	3.98	3.98	3.98	3.99
Expected life (years)	5	5	5	5
Volatility	33 %	33 %	33 %	35 %
Expected retirement of option holders	0 %	0 %	0 %	0 %
Expected dividend	0	0	0	0

Average fair value of grants during the year 7.89

The Company will be paying any employers' national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.

Under the terms of the plans, the exercise price set on the grant of share options could not be less than the average of the fair market value of the underlying shares for the three dealing days before the date of grant. Nevertheless, the Company was incorporated in May 2005 while the option scheme was approved in May 2006. During that period the market price of the Company's shares increased significantly (the Company's shares were listed at the Oslo Stock Exchange in November 2005). At the date of grant the Board decided to offer an exercise price for the share options equivalent to the assumed market value of the Company's shares at the date the holders of the share options were employed by the Company. Hence some of the share options have been offered at an exercise price below the prevailing market price of the Company's shares at the date of grant.

## Sadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

When stock options are exercised the Company intend to settle the obligation by issuing new shares.

### Note 21 - Pension benefits

Due to the acquisition of Smedvig ASA in January 2006 the Company acquired a pension obligation related to the employees, in total estimated to USD 41.8 million.

On December 31, 2006, Seadrill adopted the recognition and disclosure provisions of SFAS No.158, Employer's Accounting for Defined Benefit Pension and other Postretirement Plans, an amendment of FASB Statements No. 87, 88 and 123(R) ("SFAS 158"), which require the recognition of the funded status of the Defined Benefit and Postretirement Benefits Other Than Pensions ("OPEB") plans on the December 31, 2006 balance sheet with a corresponding adjustment to accumulated other comprehensive income. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial application of SFAS No. 87, Employers' Accounting for Pension ("SFAS 87"), all of which were previously netted against the plans' funded status on the balance sheet. These amounts will be subsequently recognized as net periodic pension cost pursuant to our historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income.

The incremental effects of adopting SFAS 158 on the consolidated balance sheet at December 31, 2006 were an increase in Other non-current liabilities of US\$3.7 million, an increase in Deferred tax assets of US\$1.0 million and a decrease in Shareholders equity of US\$2.7 million. The adoption of SFAS 158 did not affect the consolidated statement of operations for the year ended December 31, 2006, or any prior period presented, and it will not have any affect on our operating results in future periods.

The Company has a defined benefit pension plan covering substantially all Norwegian employees as of December 31, 2006. A significant part of this plan is administered by a life insurance company.

The primary benefits for the onshore employees in Norway are a retirement pension of approximately 66 percent of salary at retirement age of 67 years, together with a long-term disability pension. The retirement pension per employee is capped at an annual payment of 66 percent of the total of 12 times the Norwegian Social Security Base. Most employees in this group may choose to retire at 62 years of age on a pre-retirement pension. Offshore employees in Norway have retirement and long-term disability pension of approximately 60 percent of salary at retirement age of 67. Offshore employees on mobile units may choose to retire at 60 years of age on a pre-retirement pension. Offshore employees on fixed installations have the same pre-retirement pension, but the employees may not retire until they are 62 years of age.

## Seadrill Limited - Notes to Consolidated Financial Statements

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<b>Annual pension cost</b> <i>(in US dollar million)</i>	<b>2006</b>	<b>2005</b>
Benefits earned during the year	14.5	-
Interest cost on prior years' benefit obligation	4.7	-
Gross pension cost for the year	19.2	-
Expected return on plan assets	(3.6)	-
Administration charges	0.2	-
Net pension cost for the year	15.8	-
Social security cost	2.3	-
Amortization of actuarial gains/losses	(0.1)	-
Amortization of prior service cost	0	-
Amortization of net transition assets	0	-
<b>Total net pension cost</b>	<b>18.0</b>	<b>-</b>

### The funded status of the defined benefit plan

<i>(in US dollar million)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Projected benefit obligations	121.3	-
Plan assets at market value	(72.2)	-
Accrued pension liability exclusive social security	49.1	-
Social security related to pension obligations	7.0	-
Accrued pension liabilities	56.1	-

### Change in benefit obligations

<i>(in US dollar million)</i>	<b>2006</b>	<b>2005</b>
Benefit obligations at acquisition date	94.9	-
Interest cost	4.7	-
Current service cost	14.5	-
Benefits paid	(0.8)	-
Foreign currency translations	7.9	-
<b>Benefit obligations at end of year</b>	<b>121.2</b>	<b>-</b>

### Change in pension plan assets

<i>(in US dollar million)</i>	<b>2006</b>	<b>2005</b>
Fair value of plan assets at acquisition date	55.7	-
Estimated return	3.6	-
Contribution by employer	9.2	-
Administration charges	(0.2)	-
Benefits paid	(0.6)	-
Foreign currency translations	4.5	-
<b>Fair value of plan assets at end of year</b>	<b>72.2</b>	<b>-</b>

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

Pension obligations are actuarially determined and are affected by assumptions including expected return on plan assets, discount rates, compensation increases and employee turnover rates. The Company evaluates the assumptions periodically and makes adjustments to these assumptions and the recorded liabilities as necessary.

Two of the most critical assumptions used in calculating the Company's pension expense and liabilities are the expected rate of return on plan assets and the assumed discount rate. The Company evaluates assumptions regarding the estimated rate of return on plan assets based on historical experience and future expectations on investment returns, which are calculated by a third party investment advisor utilizing the asset allocation classes held by the plan's portfolios. In determining the discount rate Seadrill utilized the Norwegian government 10 year-bond effective yield plus 0.3-0.5 percent. Changes in these and other assumptions used in the actuarial computations could impact the projected benefit obligations, pension liabilities, pension expense and other comprehensive income.

<b>Assumptions used in calculation of pension obligations</b>	<b>2006</b>	<b>2005</b>
Rate of compensation increase at the end of year	4.3%	-
Discount rate at the end of year	4.7%	-
Prescribed pension index factor	2.5%	-
Expected return on plan assets for the year	5.8%	-
Turnover	4.0%	-
Expected increases in Social Security Base	3.5%	-
<i>Expected annual early retirement from age 60/62:</i>		
Offshore personnel fixed installations	30.0%	-
Offshore personnel Mobile units and onshore employees	50.0%	-

The weighted-average asset allocation of funds related to the Company's defined benefit plan at December 31, 2006 was as follows:

<b>Pension benefit plan assets</b>	<b>2006</b>	<b>2005</b>
Equity securities	29.7%	-
Debt securities	50.6%	-
Real estate	12.2%	-
Other	7.5%	-
<b>Total</b>	<b>100.0%</b>	<b>-</b>

The investment policies and strategies for the pension benefit plan funds do not use target allocations for the individual asset categories. The investment objectives are to maximize returns subject to specific risk management policies. The Company addresses diversification by the use of domestic and international fixed income securities and domestic and international equity securities. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. The yearly return on pension assets was 8.1 percent in 2006.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Cash flows - Benefits expected to be paid

The table below shows the Company's expected annual pension plan contributions under defined benefit plans for the years 2007-2016. The expected payments are based on the assumptions used to measure the Company's obligations at December 31, 2006 and include estimated future employee services.

<i>(in US dollar million)</i>	<b>2006</b>	<b>2005</b>
2007	13,3	-
2008	14,6	-
2009	17,8	-
2010	19,7	-
2011	22,0	-
2012-2016	150,2	-
<b>Total payments expected during the next 10 years</b>	<b>237,6</b>	<b>-</b>

The following table illustrates the incremental effect of applying FASB Statement No. 158 on individual line items in the Financial Statement of Position December 31, 2006:

<i>(in US dollar million)</i>	<b>Before application of Statement 158</b>	<b>Adjustments</b>	<b>After application of Statement 158</b>
Other non-current liabilities	195.3	3.7	199.0
Non-current deferred tax assets	108.7	1.0	109.7
Accum. other comprehensive income	(0.8)	(2.7)	(3.5)

### Note 22 – Related party transactions

Hemen, Greenwich and Seatankers are all ultimately controlled by Mr. John Fredriksen, a director and chairman of the Company. At December 31, 2006 Mr. Fredriksen indirectly controlled approximately 34.33% of Seadrill.

Ship Finance International Limited ("Ship Finance") is directly and indirectly controlled by Mr. John Fredriksen, a director and chairman of the Company. In the beginning of July, 2006, Seadrill has entered into a sale and lease back contract with Ship Finance, in which Seadrill sells the jack-up rig West Ceres for a total consideration of US\$210 million. West Ceres has been leased back to Seadrill for a 15 year period. Seadrill has in addition a right to repurchase the rig after three years or on five uneven anniversaries thereafter. The annual lease payment for the first three years will be US\$41.1 million. West Ceres will still be consolidated in the financial statement of the Company as it will be recorded as a Variable Interest Entity (VIE) see note 31.

Seatankers has managed the operations of the two FPSOs "Crystal Ocean" and "Crystal Sea" for a fee of US\$0.3 million for each of the year 2006 and 2005. As at December 31, 2006 the Company owed US\$0.01 million to Seatankers as compared to US\$0.7 million as at December 31, 2005.



## **Sadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

Frontline Management (Bermuda) Ltd ("Frontline") and Golden Ocean Group Ltd ("Golden Ocean") are indirectly controlled by Mr. John Fredriksen, a director and chairman of the Company. A subsidiary of Sadrill has provided management support and administrative services to Frontline and Golden Ocean. The total management fees charged for the year ended December 31, 2006 are US\$0.1 million to each group. In addition, Frontline has charged the Company a fee of US\$0.2 million as compared to US\$0.3 million in 2005 for providing management support and administrative services in 2006.

Sea Production Limited is an associated company of Frontline Limited, which is indirectly controlled by Mr. John Fredriksen. In November 2006, two of the subsidiaries of Sadrill have entered into a Management Agreement with a subsidiary of Sea Production, effective from October 16, 2006. Under the Management Agreement the subsidiary of Sea Production shall be responsible for the commercial and technical management of the Company's two FPSOs for a fee of US\$550 per day for each of the units. The total Management fees charged for the period from October 16, 2006 to December 31, 2006 is US\$0.1 million. As at December 31, 2006, the amount due from Frontline is US\$0.1 million.

In 2005, the Company entered into the Purchase and Subscription Agreement with Greenwich to buy the companies Ashbourne Shipping Company Limited, Covaldi Marine Company Limited, Stormont Marine Company Limited, Golden Wisdom Shipping Company Limited and Golden Dream Shipping Company Limited. The agreement also includes one construction contract dated March 15, 2005 between Seatankers and Keppel Fels Limited and one contract dated March 16, 2005 between Seatankers and PPL Shipyard Pte Limited.

### **Note 23 – Acquisition and minority interest**

#### Smedvig

On 9 January, 2006 Sadrill announced that it would make a voluntary offer to purchase the outstanding class A- and class B-shares in Smedvig at a price of NOK 205 per class A-share and NOK 165 per class B-share. Sadrill concluded its voluntary offer for Smedvig on 20 January, 2006, and achieved control of a total of 51.9% of the votes in Smedvig's general meeting and 53.1% of Smedvig's share capital.

In order to partly finance the acquisition, Sadrill completed Private Placement I, raising new equity of NOK 4,950 million. Further, Sadrill concluded a bridge loan facility agreement with Nordea and DnB NOR making an acquisition loan up to US\$1,200 million available to Sadrill. US\$609.4 million of this was drawn to part finance the shares in Smedvig acquired in the voluntary offer.

Sadrill launched a global mandatory offer for the remaining shares in Smedvig on 6 March, 2006. The mandatory offer closed on 31 March 2006. Sadrill received acceptance of the mandatory offer for the shares in Smedvig for 25,534,086 class A shares and 10,190,131 class B shares thus increasing its total ownership to 99.4% of the votes in Smedvig's general meeting and 96.8% of Smedvig's capital.

Smedvig Holding proceeded to acquire all of Sadrill's shares in Smedvig and the obligation to acquire the shares tendered under the mandatory offer. This was financed by way of the bridge loan facility from Nordea to DnB NOR being transferred to Smedvig Holding and by equity and a shareholder loan provided by Sadrill.

## **Sadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

Smedvig Holding proceeded to declare the compulsory acquisition of the remaining shares in Smedvig on 26 April 2006 offering NOK 205 per class A share and NOK 165 per class B share as compensation. The compulsory acquisition became effective on 2 May 2006 from which date Smedvig Holding became the sole shareholder of Smedvig. The compensation offer in exchange for the shares compulsory acquired, equalling 0.8% of the share capital, was NOK 114.6 million in aggregate.

Through the acquisition of Smedvig, Sadrill acquired one jack-up, two semi-submersible rigs, a drillship and 7 tender rigs, in addition to a newbuild tender rig scheduled for delivery in December 2006.

### Mosvold

On 12 January 2006, Sadrill participated in a private placement in Mosvold and was allocated a total of 12,000,000 new shares which, including shares already owned, represented 40.13% of Mosvold's outstanding share capital. On 30 January 2006, Sadrill announced its additional purchase of 14,549,085 shares in Mosvold at NOK 18.25 per share, increasing its ownership to a total of 49.7% of Mosvold's outstanding share capital. Sadrill subsequently launched an offer to acquire the remaining shares at the same price. This offer closed on 27 February 2006. Acceptances of the offer were received which, together with the shares in Sadrill's ownership, increased Sadrill's total ownership to approximately 94.3% of the outstanding share capital of Mosvold.

During 2006 Sadrill acquired the outstanding share capital of Mosvold, and owns 100% of the shares at December 31, 2006.

Through the acquisition of Mosvold, Sadrill acquired two drillship-newbuilds for delivery in July 2008 and December 2008.

### Eastern Drilling

On January 20, 2006, Sadrill achieved control over Smedvig which already owned 39.44% of Eastern Drilling. Sadrill acquired in the period April 6 to July 31, 2006, through eight transactions, equity total return swap related products linked to the development of Eastern Drilling share price. These transactions were organized as future contracts and were extended through rollovers. The transactions were all unwinded and resulted in a financial loss of NOK 60.7 million. The purpose of these transactions was to increase Sadrill's financial exposure towards Eastern Drilling without changing or in any way influencing the control over or shareholder structure of the company. The arrangements were based on standardized swap contracts and did not provide Sadrill with any rights to acquire Eastern Drilling shares or in any way influence any voting of Eastern Drilling shares. The contract was based on cash settlement of any positive or negative developments in the swap.

Following an acquisition September 8, 2006, Sadrill controls 20,299,811 shares which constitute approximately 60.4 percent of the outstanding shares and votes in Eastern Drilling. There has been no change in Sadrill's ownership of Eastern Drilling during the rest of the year.

Through the acquisition of Eastern Drilling, Sadrill acquired two semi-submersibles-newbuilds for delivery in December 2007 and September 2008.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

The acquisitions of Smedvig, Mosvold Drilling and Eastern Drilling have been accounted for as purchases in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations". The fair value of the assets acquired and liabilities assumed are included in the Company's consolidated financial statements beginning on the date of achieving control, January 20, February 27 and September 30, 2006, respectively.

The allocation of purchase price of the net assets acquired was based on a valuation. The drilling units were valued by external brokers. The difference between the purchase price and book values at the time of the purchase has been fully allocated to the assets (including goodwill) and liabilities.

The purchase price of Smedvig, Mosvold Drilling and Eastern Drilling has been allocated as follows:

<i>(in US dollar million)</i>	<b>Smedvig</b>	<b>Mosvold Drilling</b>	<b>Eastern Drilling</b>	<b>Total</b>
<b>Current assets</b>				
Cash and cash equivalents	104.8	209.2	98.8	412.8
Accounts receivables	75.1	-	-	75.1
Other current assets	56.7	2.2	1.5	60.4
<b>Total current assets</b>	<u>236.6</u>	<u>211.4</u>	<u>100.3</u>	<u>548.3</u>
<b>Non-current assets</b>				
Investment in associated companies	282.5	-	-	282.5
Other non-current assets	39.4	-	-	39.4
Newbuildings	23.6	228.6	465.1	717.3
Drilling units	1,965.3	-	-	1,965.3
Goodwill	1,256.5	-	-	1,256.5
<b>Total non-current assets</b>	<u>3,567.3</u>	<u>228.6</u>	<u>465.1</u>	<u>4,261.0</u>
<b>Current liabilities</b>				
Short-term interest bearing debt	79.8	-	-	79.8
Other current liabilities	273.9	4.3	2.3	280.5
<b>Total current liabilities</b>	<u>353.7</u>	<u>4.3</u>	<u>2.3</u>	<u>360.3</u>
<b>Non-current liabilities</b>				
Long-term interest bearing debt	726.1	80.0	57.3	863.4
Deferred taxes	178.9	-	31.4	210.3
Other non-current liabilities	269.9	-	-	269.9
<b>Total non-current liabilities</b>	<u>1,174.9</u>	<u>80.0</u>	<u>88.7</u>	<u>1,343.6</u>
<b>Minority interest</b>	<u>-</u>	<u>-</u>	<u>159.5</u>	<u>159.5</u>
<b>Total purchase price (fair value)</b>	<u><b>2,303.0</b></u>	<u><b>353.5</b></u>	<u><b>312.6</b></u>	<u><b>2,969.1</b></u>

The minority interest has been recorded at historical value at the time of the purchase.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 24 – Pro forma financial figures

The pro forma figures has been prepared for illustrative purposes only, and because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results.

The pro forma figures for 2005 shown below are a set of financial figures prepared in order to understand the operations of Seadrill, inclusive of Smedvig, Mosvold and Eastern Drilling. The pro forma statements for 2005 include Seadrill's current activities and the full effect of the acquisitions of Smedvig, Mosvold and Eastern Drilling, as if the acquisitions were made at the start of the period on January 1, 2005. Amortization of excess values identified in the purchase price allocation has been recognized in the 2005 pro forma income statement as if the acquisitions were made at the start of the period, without reducing the recorded fair values of acquired assets/liabilities in the pro forma balance sheet as of December 31, 2005. The income taxes in 2005 are affected by a reversal of previous provision of deferred taxes related to the Norwegian tonnage tax system. Included in the revenues for 2006 is a non-recurring amount of US\$10 million, which Eastern Drilling received due to a cancellation of a Letter of Intent from an oil company.

	<b>Pro forma Consolidated Year ended December 31, 2005</b>	<b>Pro forma Consolidated Year ended December 31, 2006</b>
<b>Operating revenues</b>		
Contract revenues	658.1	968.5
Reimbursables	54.1	111.7
Other revenues	122.1	126.6
<b>Total operating revenues</b>	<b>834.3</b>	<b>1,206.8</b>
<b>Operating expenses</b>		
Vessel and rig operating expenses	446.0	606.3
Reimbursables expenses	51.7	105.9
Depreciation and amortization	170.2	179.6
General and administrative expenses	50.7	77.1
<b>Total operating expenses</b>	<b>718.6</b>	<b>968.8</b>
<b>Operating income</b>	<b>115.7</b>	<b>238.0</b>
<b>Financial items</b>		
Interest income	10.0	19.9
Interest expenses	(104.7)	(81.6)
Share in results from associated companies	8.4	26.7
Other financial items	(9.4)	80.4
<b>Total financial items</b>	<b>(96.0)</b>	<b>45.4</b>
<b>Income before income taxes and minority interest</b>	<b>19.7</b>	<b>283.4</b>
Income taxes	56.1	(23.4)
Minority interest in net income of subsidiaries	(0.1)	(3.9)
<b>Net income</b>	<b>75.7</b>	<b>256.0</b>
<b>Earnings per share (US dollar)</b>	<b>0,40</b>	<b>0,72</b>

## Sadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 25 – Financial instruments and risk management

The Company has operations and assets in a number of countries worldwide. Consequently, the Company's results from operations are affected by fluctuations in currency exchange rates, primarily relative to the US dollar. When the US dollar appreciates against other currencies, the Company's profit from operations in foreign currencies reported in US dollar may decrease. Likewise, when the US dollar depreciates against other currencies, the Company's profit from operations in foreign currencies reported in US dollar may increase. The Company is also exposed to changes in interest rates on debt with variable interest rates and to the impact of changes in currency exchange rates on NOK denominated debt. Different financial instruments are used by the Company to manage these foreign currency and interest rate risks as summarized below.

#### Notional amounts and credit exposure

The notional amounts of derivative financial instruments presented in this note represent the face or contractual amounts and thus are not a measure of the exposure of the Company through its use of such financial instruments. The actual amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivative financial instruments, which relate to interest rates and exchange rates.

The Company is exposed to credit related losses in the event that counterparties to the derivative financial instrument contracts do not perform according to the terms of the contract. In the opinion of management, the counterparties to the derivative financial instrument contracts are creditworthy financial institutions, and the Company does not expect any significant loss to result from non-performance by such counterparties. The Company, in the normal course of business, does not demand collateral. The credit exposure of interest rate swap agreements, currency option contracts and foreign currency contracts is represented by the fair value of contracts with a positive fair value at the end of each period, reduced by the effects of master netting agreements. It is the Company's policy to enter into master netting agreements with the counterparties to derivative financial instrument contracts. These master netting agreements give the Company the legal right to discharge all or a portion of the amounts owed to a counterparty by offsetting it against amounts that the counterparty owes to the Company.

The Company make use of foreign exchange forward contracts and interest rate swaps in order to hedge parts of the exposure connected to interest rate risk and foreign exchange risk. These contracts have Nordic banks as counter parts. The credit risk arising from these banks is related to unrealized profits from foreign exchange forward contracts and interest rate swaps.

#### Foreign currency risk management

The majority of the rigs' and vessels' gross earnings are receivable in US dollar. The majority of the Company's transactions, assets and liabilities are denominated in US dollar, the functional currency of the Company. However, the Company incurs expenditure in other currencies. There is a risk that currency fluctuations will have a negative effect on the value of the Company's cash flows.

The Company's foreign currency risk arises from:

- The translation of NOK denominated debt and other monetary assets and liabilities to US dollar with the resulting gain or loss recorded as shareholders' equity.
- Foreign currency forward contracts and foreign currency options which are recorded as Other financial items.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

- The impact of fluctuations in exchange rates on the reported amounts of the Company's revenues and expenses which are contracted in foreign currencies (primarily the Norwegian kroner).
- Its net investment in certain foreign subsidiaries which is recorded as a cumulative translation adjustment in share holders' equity.

The Company uses foreign currency forward contracts to manage its exposure to foreign currency risk on certain assets, liabilities and future anticipated transactions. Such derivative contracts do not qualify for hedge accounting treatment and are recorded in the balance sheet under receivables if the forward contracts have a net positive fair value, and under other short-term liabilities if the forward contracts have a net negative fair value. As of December 31, 2006, the Company had forward contracts to receive approximately US\$132.4 million at exchange rates ranging from NOK/US\$6.19 to NOK/US\$6.64 between January 16, 2007 and September 28, 2012. Furthermore, the Company had forward contracts to receive approximately SG\$ 4.35 million. The exchange rates ranging from SG\$/US\$1.598 to SG\$/US\$1.603 in the period January 16, 2007 to March 16, 2007.

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>		<b>December 31, 2005</b>	
	<b>Notional amount</b>	<b>Fair value</b>	<b>Notional amount</b>	<b>Fair value</b>
<i>Currency forward contracts</i>				
Receivables	103	5	-	-

### *Interest rate risk management*

Seadrill's exposure to market risk for changes in interest rates relates mainly to its debt obligations and surplus funds placed with financial institutions. Seadrill is exposed to fluctuations in interest rates. The exposure is controlled through the use of interest swaps or derivative arrangements. It is Seadrill's policy to obtain the most favourable interest rate borrowings available without increasing its foreign currency exposure.

Surplus funds are placed in fixed deposits with reputable financial institutions which yield better returns than cash at bank. The deposits generally have short-term maturities so as to provide the Company with the flexibility to meet working capital and capital investments.

The following is a summary of interest rate swap agreements. Swap agreements that have a positive fair value are recorded as receivables while swap agreements with a negative fair value are recorded as other short-term liabilities.

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>		<b>December 31, 2005</b>	
	<b>Notional amount</b>	<b>Fair value</b>	<b>Notional amount</b>	<b>Fair value</b>
<i>Interest rate swap agreements</i>				
Receivables	200	4	-	-

The extent of the utilization of financial instruments is determined by reference to the Company's net debt exposure and the Company's views regarding future interest rates. At December 31, 2006, the Company had outstanding interest rate swap agreements representing approximately 8 percent

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

of the Company's US dollar interest bearing debt. This implies that the Company has a fixed interest rate for this portion of the debt. However, these agreements do not qualify for hedge accounting, and accordingly the changes in the fair values of the swap agreements are recorded as Other financial items. The Company has the following interest rate swap agreements as of December 31, 2006:

Notional amount	Receive rate	Pay rate	Length of contract
<i>(In millions of US dollar)</i>			
50	3 month LIBOR	3.34%	11/15/02-11/15/07
50	3 month LIBOR	3.31%	11/15/02-11/15/07
50	3 month LIBOR	4.63%	05/16/05-05/15/15
16 (NOK 100 mill)	7.50% fixed	3 month NIBOR	11/19/03-11/19/08
34 (NOK 220 mill)	3 month NIBOR+1.2%	3 month LIBOR+1.3%	09/28/05-09/28/12

### Concentration of credit risk

The market for the Company's services is the offshore oil and gas industry, and the customers consist primarily of major integrated oil companies, independent oil and gas producers and government-owned oil companies. The Company performs ongoing credit evaluations of the customers and generally do not require material collateral. Reserves for potential credit losses are maintained when necessary. The results of operations and financial condition should be considered in light of the fluctuations in demand experienced by drilling contractors as changes in oil and gas producers' expenditures and budgets occur. These fluctuations can impact the results of operations and financial condition as supply and demand factors directly affect utilization and dayrates, which are the primary determinants of net cash provided by operating activities.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, marketable securities, other receivables and certain derivatives instruments receivable amount, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. However, the Company believes this risk is remote as the counterparties are of high credit quality parties.

The following table summarizes revenues from major customers as a percentage of total revenues (revenues in excess of 10 percent for the period):

Customer	2006	2005
Statoil	25.2%	-
Shell	23.0%	-
Norsk Hydro	10.0%	-
EMP	-	37.3%
Oriental Oil	-	24.0%
Anzon	-	21.0%
GazProm	-	13.9%
Customer <10%	41.8%	3.8%
Total	100.0%	100.0%

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 26 – Fair value of financial instruments

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2006 and December 31, 2005 are as follows:

<i>(In millions of US dollar)</i>	December 31, 2006		December 31, 2005	
	Fair value	Carrying value	Fair value	Carrying value
<i>Non-Derivatives</i>				
Cash and cash equivalents	210.4	210.4	49.6	49.6
Restricted cash	31.8	31.8	2.2	2.2
Marketable securities	105.8	105.8	302.3	302.3
Current portion of long term floating rate debt	255.4	255.4	26.6	26.6
Long term floating rate debt	2,559.3	2,559.3	176.8	176.8
Current portion of long term obligations under capital lease	–	–	11.3	11.3
<i>Derivatives</i>				
Equity shares swap	–	–	5.2	5.2
Interest rate swap agreements	3.6	3.6	–	–
Currency forward contracts	5.5	5.5	–	–

The Company has used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of the Company's financial instruments as at December 31, 2006 and December 31, 2005. For certain instruments, including cash and cash equivalents, receivables and accounts payable, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

Quoted market prices or dealer quotes for the same or similar financial instruments were used to estimate the fair value of the marketable securities, short-term interest bearing debt, and long-term interest bearing debt. The estimated values of the Company's derivative financial instruments are primarily based on settlement values. These values represent the estimated amount that would be received or paid in the event of termination of the contract, taking into consideration current interest rates, the creditworthiness of the counterparties and current foreign currency exchange rates.



## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 27 - Liquidity

As of December 31, 2006 the Company has entered into newbuilding-contracts for the construction of 2 drillships, 6 semi-submersible drilling units, 4 jack-ups and 1 tender barge. The timing of payment instalments to the shipyards varies from contract to contract.

Seadrill believes that available cash and short term investments, available take-out financing and other available loan facilities will be sufficient to settle all commitments related to the newbuilding contracts during the next 12 months. However, the Company will need to raise additional financing to be able to finalise the newbuilding projects.

### Note 28 – Other current liabilities

Other current liabilities are comprised of the followings:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Accounts payable	105.7	13.4
Taxes payable	3.7	0.2
Short-term deferred tax liabilities	11.9	-
Employee withheld taxes, social sec. and vacation payment	41.4	-
Short-term part of unfavourable contract values <sup>1</sup>	87.0	-
Accrued interest expenses	39.4	3.4
Other current liabilities	188.1	16.2
<b>Total other current liabilities</b>	<b>477.2</b>	<b>33.2</b>

### Note 29 – Other non-current liabilities

Other non-current liabilities are comprised of the followings:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Accrued pension and early retirement obligation	56.1	-
Long-term part of unfavourable contract values <sup>1</sup>	141.1	-
Other non-current liabilities	1.8	-
<b>Total other non-current liabilities</b>	<b>199.0</b>	<b>-</b>

<sup>1</sup> The unfavourable contract values arise from the acquisition of Smedvig, and represent the net present value of the existing contracts compared to the current market rates, discounted at the weighted average cost of capital. The estimated unfavourable contract values are to be amortised over the terms of the contracts.

## Seadrill Limited - Notes to Consolidated Financial Statements

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### Note 30 – Commitments and contingencies

#### *Purchase Commitments*

At December 31, 2006, the Company had thirteen contracts for the construction of six semi-submersible rigs, four jack-up rigs, two drillships and one tender rig. All of the semi-submersible rigs are scheduled for delivery in 2008. Two of the jack-up rigs are scheduled for delivery in 2007, and two of the jack-up rigs are scheduled for delivery in 2008. Both drillships are scheduled for delivery in 2008. The tender rig is scheduled for delivery in 2008. As of December 31, 2006 the Company has paid US\$1,655 million directly to the involved construction yards on the newbuildings, and committed to make further yard instalments of US\$2,863 million. The amount includes variation orders but excludes spares, accrued interest expenses, construction supervision and operation preparation and mobilization.

The remaining committed newbuild yard instalments are expected to be due in the following years:

<b>Year</b>	<i>(In millions of US dollar)</i>
2007	947
2008	1,916
2009 and thereafter	-
<b>Total</b>	<b>2,863</b>

#### *Mortgages and pledged assets*

As at December 31, 2006 the Company has mortgages amounting to US\$1,694 million. The following assets have been pledged as security for the mortgages:

#### *Pledged assets*

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Drilling units	2,293	178
Newbuildings	936	-
Accounts receivables	129	-
<b>Total book value of pledged assets</b>	<b>3,358</b>	<b>178</b>

In addition to the mortgages above, the Company has issued a mortgage of US\$863 million where all the shares in Seadrill Norge AS, which has been recorded at a value of US\$2,380 million in Seadrill Holding AS, have been pledged as security for the underlying debt.

## Sadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Guarantees

The Company has issued guarantees in favour of third parties as follows, which is the maximum potential future payment for each type of guarantee:

<i>(In millions of US dollar)</i>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Guarantees to customers of the Company's own performance	190	-
Guarantee in favour of banks	252	-
Other guarantees	2	-
<b>Total</b>	<b>444</b>	<b>-</b>

The guarantees have the following maturities:

<b>Year</b>	<i>(In millions of US dollar)</i>
2007	19
2008	7
2009 and thereafter	418
<b>Total</b>	<b>444</b>

In addition, the Company has issued an unlimited performance guarantee to Exxon Exploration Inc. related to a drilling contract with West Polaris.

### Legal Proceedings

#### Dual Drilling Patents

In September 2005, the Company received a writ from Transocean Offshore Deepwater Drilling Inc. claiming compensation for alleged infringement of patents related to multiactivity offshore drilling apparatus and methods, and insisting that the Company should be prohibited from applying simultaneous operations in offshore drilling activities in Norway. Transocean have offered a possibility for a licence agreement which the Company has rejected. Legal proceedings are under preparation. The hearings will be conducted in Norwegian Courts and are scheduled to take place in September 2007. No amounts have been provided in the accounts as of December 31, 2006 because the Company is of the opinion that the claim is not justified.

#### Crystal Sea – Termination of operation in India

The FPSO Crystal Sea commenced operations in India under a five-year contract with Discovery Enterprise in June 2006. However, subsequent to commencement, riser related problems occurred resulting in permanent disruption of the operations. The owners and the customer (Discovery Enterprise Pte Ltd) tried to solve these problems together, however in the Company's view, it was concluded that operations would not be resumed within the time schedule outlined by the customer. As a result the FPSO departed India in January 2007. The customer has however a different view related to these issues. Hence there is now a dispute between the Discovery Enterprise and the Company on how to settle the outstanding issues. Management's best estimate of the outcome of the matter has been reflected in the financial statements of the Company as of December 31, 2006.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

Consideration related to sales of Crystal Sea and Crystal Ocean sold in 2007

The FPSOs Crystal Sea and Crystal Ocean were sold in 2007. They were both purchased in October 2006 from the Aktiv Kapital Group. There is now a discussion whether the Aktiv Kapital Group is entitled to a smaller consideration related to the sale.

Eastern Drilling

In April 2007 Seadrill made a mandatory offer for the outstanding shares of Eastern Drilling ASA at a price of NOK 135 per share. The offer price was determined by a ruling of Oslo Stock Exchange Appeals Committee following a disagreement between Oslo Stock Exchange and Seadrill related to use of Total Return Swap Agreements. Seadrill has subsequently taken legal actions against Oslo Stock Exchange and The Norwegian State with a claim of damages up to NOK850 million.

Retained Risk

Seadrill retain the risk, through self-insurance, for the deductible portion of insurance coverage. Insurance deductible is a maximum US\$2 million per occurrence for hull and machinery. In the opinion of management, adequate accruals have been made based on known and estimated losses related to such exposures.

### Note 31 – Variable Interest Entity (VIE)

As at December 31, 2006, the Group held one jack-up rig under VIE. Seadrill and Rig Finance Limited entered into a sale and leaseback arrangement in June 2006 where Seadrill sold the jack-up rig West Ceres (Seadrill 3) to Rig Finance Ltd, a subsidiary of Ship Finance International Limited, for a consideration of US\$210 million and simultaneously leased the unit for a term of 15 years. Rig Finance Ltd is a single purpose entity with the purpose to own the jack-up rig. The jack-up rig is bare boated to the Company on a long term contract. The book value of the jack-up rig in the consolidated accounts amounts to US\$171.8 million.

Seadrill has under the agreement several options to repurchase the unit during the charter period. The first repurchase option will be after three years at US\$135.5 million and the last repurchase option is after 15 years at US\$60 million. The aggregate lease payment for the first three years totals approximately US\$123 million. For the subsequent four-year period, the aggregated lease payment totals approximately US\$75 million. For the remaining eight-years of the lease period, the agreed aggregated lease payment is approximately US\$119 million. In addition, Ship Finance International Limited will after January 1, 2009 receive a four percent profit split element of the adjusted operating profit given that the operating profit has reached certain threshold levels.

The Company determined that Rig Finance was a variable interest entity and that Seadrill was the primary beneficiary of the risks and awards. Accordingly the Company consolidated the assets and liabilities of Rig Finance effective June, 2006. Furthermore, Seadrill did not record any gain from the sale of West Ceres in the accounts, as the jack-up continued to be reported as a newbuild asset in the Company's balance sheet at the time of the transaction. The rig was delivered from the yard in May 2006 and is reported under drilling units in the Company's balance sheet at year end.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 32 – Remuneration to the Board of Directors, Chief Executive Officer and other key personnel

Remuneration in 2006:

	Salaries and bonus payments	Income from exercised options
Board of Directors	0.100	
Chief Executive Officer (CEO) in Seadrill Management AS	1.763	2.783
Key personnel*	3.912	7.527

\*Key personnel consists of Chief Operating Officer (COO) - Seadrill Management AS, Chief Financial Officer (CFO) - Seadrill Management AS, Managing Director Deepwater Units Europe, Africa & Asia, Managing Director Jack Ups, Managing Director Tender Rigs, Managing Director Well Services and Project Director.

The Chief Executive Officer has a bonus arrangement based on achieving specific targets with a maximum limit of 50 percent of annual salary. Other key personnel have similar arrangements with various limits. The Chief Executive Officer has an early pension agreement whereby he can retire at an age of 65. Other key personnel have similar agreements.

Pursuant to the employment contract with the Chief Executive Officer he will receive compensation corresponding to 24 months salary if he, at the request of the Board of Directors, resigns.

### Shares and options owned by the Board, CEO and Key Personnel at December 31, 2006

	Shares	Option granted in 2006	Out- standing options
John Fredriksen, Chairman	134,547,583	350,000	350,000
Kate Blankenship, Director	8,000	30,000	30,000
Pål Nordgreen	62,000	30,000	30,000
Tor Olav Troim, Director	250,000	275,000	275,000
Kjell E. Jacobsen, CEO	0	350,000	350,000
Alf C. Thorkildsen, COO	0	275,000	275,000
Stein Diesen, Project Director	0	150,000	150,000
Sveinung Lofthus, Managing Director	0	150,000	150,000
Alf Ragnar Lovdal, Managing Director	0	150,000	150,000
Hans van Royen, Managing Director	0	216,667	216,667
Ståle Rod, Managing Director	0	150,000	150,000

More information about option programs are described in note 20.

## Seadrill Limited - Notes to Consolidated Financial Statements

For the Periods Ended December 31, 2006 and December 31, 2005

### Note 33 – Subsequent Events

#### *Sale/leaseback of West Prospero.*

On January 12, 2007, Seadrill and Ship Finance International Limited agreed a sale and leaseback arrangement where Seadrill sold the jack-up rig West Prospero for a consideration of US\$210 million and simultaneously leased the unit for a term of 15 years. Seadrill has under the arrangement several options to repurchase the unit during the charter period. As Seadrill determined that the rig housing entity, Rig Finance, was a variable interest entity and that Seadrill was the primary beneficiary of the risks and rewards, Seadrill did not record any gain from the sale of West Prospero in the accounts, accordingly, Seadrill continue to consolidate West Prospero.

#### *Sale of Crystal Ocean.*

On February 5, 2007, the Company confirmed that the sale of the FPSO vessel Crystal Ocean to Sea Production Ltd was completed. The total consideration was US\$90 million with effective date mid February 2007.

#### *Sale of Crystal Sea.*

On February 22, 2007, the FPSO vessel Crystal Sea was sold to BW Offshore. The total consideration for the FPSO vessel was US\$80 million of which US\$60 million in cash and US\$20 million in BW Offshore shares. BW Offshore Limited is listed at Oslo Stock Exchange.

#### *Sale of West Titania*

On July 25, 2007 the 1981 build jack-up rig West Titania was sold to the Nigerian drilling contractor SeaWolf Oil Services Limited for US\$146.5 million. The unit is at present operating in Tunisia for Ecumed under a three well contract that is expected to run until November 2007. The unit will thereafter be transferred to SeaWolf upon completion of the contract. As such, Seadrill will receive income from the three-well assignment in addition to the agreed sale price.

#### *Eastern Drilling.*

Following the decision by the Oslo Stock Exchange Appeal Committee on February 20, 2007, Seadrill was fined NOK 2 million per day by the Oslo Stock Exchange due to the failure of presenting a mandatory offer to all shareholders in Eastern Drilling ASA. The mandatory offer for the outstanding shares in Eastern Drilling was finally given April 17, 2007.

Seadrill has, after the expiry of the mandatory offer to acquire all outstanding shares in Eastern Drilling ASA at NOK135 per share, received acceptances for a total of 13,648,434 shares equaling approximately 35.8 percent of the total number of outstanding shares and votes in Eastern Drilling. Counting the accepted shares and shares already owned, Seadrill controls 38,052,695 shares, which represent approximately 99.7 percent of the outstanding shares and votes in Eastern Drilling.

After the mandatory offer, the Company has also acquired the remaining 0,3 percent of the outstanding shares in Eastern Drilling ASA through a compulsory acquisition.

## **Sadrill Limited - Notes to Consolidated Financial Statements**

For the Periods Ended December 31, 2006 and December 31, 2005

### *Yard-stay for jack-up West Larissa*

On July 5, 2007 Seadrill announced that the jack-up West Larissa is under way to Singapore for a yard-stay. The purpose of the yard-stay is repair of the unit's legs after damages suffered in connection with a punch-through during positioning of the unit for start-up of operations on a wellhead platform in Indonesia. Following inspection of the legs, it has been determined that the unit most likely will be out of operation for up to four months starting today. However, loss of revenues is to some extent expected to be covered by insurance. Furthermore, the unit has experienced various operational issues during the second quarter that have hampered the operational utilization and as such the economic contribution since early May from the unit has been limited.

### *New ultra-deepwater semi-submersible rig ordered from Jurong.*

On May 1, 2007, the Company entered into a turnkey contract to build another ultra-deepwater semi-submersible drilling rig at the Jurong Shipyard in Singapore. The turnkey contract has a net total project value of US\$531.5 million with scheduled delivery of the unit in April 2010.

### *New semi-submersible tender rig ordered from Keppel O&M.*

On June 25, 2007, the Company entered into an agreement with Keppel O&M in Singapore to build a new semi-submersible self-erecting tender rig (semi-tender). Total capital expenditure for the semi-tender is estimated at US\$195 million. The new rig is scheduled for delivery in the first quarter 2010.

### *New ultra-deepwater drillship ordered from Samsung.*

On July 12, 2007, Seadrill announced that it had entered into a turnkey contract to build another ultra-deepwater drillship at the Samsung shipyard in Korea. The turnkey contract has a net total project value of US\$598 million. Delivery of the drillship is scheduled for June 2010.

### *Debt financing*

The convertible bond loan in Eastern Drilling ASA was converted to shares in Eastern Drilling ASA in first quarter 2007.

During 2<sup>nd</sup> quarter 2007 Seadrill has completed a new US\$1,500 million bank facility through a syndicate of 14 international banks. The facility which is secured by the four Mobile Units operating in the North Sea has a maturity of seven years with a balloon of maximum US\$600 million. The facility replaces the several smaller bank facilities including the credit facility originally used to part finance the acquisition of Smedvig ASA. The interest rate conditions are US Libor plus 90 basis points.

### *Equity Issue.*

On April 17 and July 11, 2007, Seadrill completed equity issues of NOK 909 million and NOK 889 million, respectively.

## Appendix 1:

### Norwegian Code for Corporate Governance

Seadrill is, as a consequence of having its primary listing on the Oslo Stock Exchange, subject to the Norwegian Code of Practice for Corporate Governance (the "Code"). Seadrill is, however, a Bermuda company and thus subject to Bermuda corporate law. Some of the Code's recommendations can, for this reason, not be applied directly. The Code is a "comply or explain" guideline. Seadrill's current non-compliance with the Code can be summarized as follows:

- The authority to issue further shares within the authorized but un-issued share capital rests with the Board. There is no time limit on this.
- The shareholders in a Bermuda company does not have a preferred right to subscribe for further shares when such are issued.
- Seadrill has no independent nomination committee.
- The Board of Seadrill currently consists of four directors. Three of the directors, John Fredriksen and Tor Olav Troim and Blake Blankenship, are not independent from Seadrill's main shareholder, Hemen Holding Limited.

While Seadrill recognizes that the composition of the Board does not satisfy the recommendation of the Code for two independent directors at present, it is not intended to propose any further increase in the number of directors in the short term. Seadrill is currently going through a phase of rapid expansion, and it is therefore important to have a small and focused board of directors with a close working knowledge of Seadrill's strategy and operations, and an ability to react quickly when the situation so requires. The current composition of the Board perfectly satisfies these needs. Seadrill thus believes that these considerations, for the time being, justify the non-compliance with the Code's recommendation for two independent directors and the need for a nomination committee.

At the time the Seadrill was listed on the Oslo Stock Exchange, Seadrill provided a statement concerning the independence of its board of directors.