

## Seadrill Limited (SDRL) - Third Quarter 2006

### Highlights

- Seadrill reports net income of US\$56.1 million and earnings per share of US\$0.15 for the third quarter of 2006
- Seadrill secures term assignments for the deepwater units currently under construction West E-Drill, West Sirius and West Polaris
- Seadrill secures new contracts for the jack-ups West Larissa, West Janus and West Atlas (currently under construction)
- Seadrill secures new contracts for the tender rig West Berani (currently under construction) and exercises option to increase ownership interest from 30 percent to 100 percent
- Seadrill increases ownership interest in Eastern Drilling ASA (Eastern) to 60.4 percent
- Seadrill completed private placement of 20,000,000 shares raising total proceeds of some US\$ 278 million

### Condensed consolidated income statements

#### *Third quarter results*

Consolidated revenues for the third quarter of 2006 amounted to US\$300.3 million as compared to US\$275.6 million for the second quarter 2006. The increase in revenues mainly reflects higher contribution from the mobile units including a full operating quarter for the newbuild jack-up West Ceres.

Operating profit for the third quarter was US\$64.3 million as compared to US\$59.1 million in the second quarter. For the mobile units, the operating profit increased from US\$ 35.8 million in the second quarter to US\$45.1 million in the third quarter. The increase was related to higher utilization for the new jack-up West Ceres as well as improved contribution from the semi-submersible unit West Venture. For the tender rigs, the operating profit decreased from US\$13.9 million in the second quarter to US\$12.5 million in the third quarter. The decrease was a result of a five-year mandatory classification survey for T7 as well as somewhat lower utilization for West Menang. Operating profit from well services decreased from US\$9.4 million in the second quarter to US\$6.7 million in the third quarter. The decline in operating profit was due to temporary lower operating margin. The margin is expected to recover in the next quarter.

Net financial items for the quarter resulted in a net income of US\$0.4 million as compared an expense of US\$17.7 million in the second quarter. Interest expenses decreased from US\$23.9 million to US\$17.2 million which reflects increased capitalizing of interest due to the newbuilding program.

Income before income taxes amounted to US\$64.7 million.

Income taxes are calculated to US\$6.7 million.

Net income for the quarter amounted to US\$56.1 million.

The condensed Consolidated Financial Statements are prepared in accordance with US GAAP. The condensed Consolidated Financial Statements include the assets and liabilities of the Company. All material inter-company balances and transactions have been eliminated in the consolidation.

#### *Balance sheet*

Seadrill's balance sheet at the end of the third quarter included Eastern due to the fact that the Company at that point in time owned 60.4 percent of the outstanding shares in the company. As a result, total assets increased approximately 10 percent. The increase covered an increase in cash and cash equivalent of approximately US\$100.0 million and approximately US\$465.0 million of the increase in newbuildings. In addition, the interest bearing debt increased by US\$64.0 million.

#### *Cash flow*

At the end of the third quarter, cash and cash equivalents amounted to US\$520.4 million, an increase of US\$470.8 million compared to year-end 2005. The increase in the third quarter of US\$ 86.6 million mainly reflected the fact that the cash in Eastern was consolidated in third quarter. Net cash for the first nine months provided by the operating activities amounted to US\$191.5 million. Net investments of US\$4,030.4 million were mainly related to the acquisition of the assets in Mosvold Drilling Ltd. and Smedvig asa. In the third quarter, net investments increased by approximately US\$370.0 million. Paid instalments related to the newbuilding contracts as well as further investment in Eastern contributed to the increase. Net cash from financing activities was US\$4,309.7 million reflecting the proceeds from issuance of new equity, a new US\$1,200.0 million loan facility as well as the existing debt in Mosvold Drilling Ltd. and Smedvig asa. In the third quarter, net cash from financing activities increased by approximately US\$440.0 million. A private placement completed on September 8 which raised US\$277.8 million represented the majority of the increase, but also a minor refinancing of the tender rig fleet and the debt included from Eastern contributed to the increase.

#### *Eastern Drilling ASA*

Eastern is a Norwegian company listed on the Oslo Stock Exchange that has two deepwater drilling units under construction at the Samsung yard in South Korea. In early September, Seadrill increased its ownership interest in the company from 39.7 percent to 60.4 percent. As a result of the increased ownership interest, Seadrill on September 18 made a cash offer for all the remaining shares in Eastern at a price of NOK92 per share (equal to the price paid for the shares then acquired) in accordance with the requirements of the Norwegian Securities Trading Act. The Oslo Stock Exchange approved the terms of the mandatory offer pursuant to the provisions of the Norwegian Securities Trading Act, but following complaints from a number of the minority shareholders in Eastern shortly thereafter withdrew the approval. The complaints put forward were based on the argument that Eastern shares acquired by the Oslo based investment bank, Carnegie ASA, in early April 2006 in order to hedge the risk under a total return swap agreement entered into with Seadrill related to the share price development in Eastern should have been consolidated with Seadrill's ownership. The shares acquired by Carnegie ASA for hedging purposes were acquired at a price of NOK132.7 per share. The Oslo Stock Exchange accepted the argument from the minority shareholders and gave Seadrill the alternatives to either reduce its ownership position in Eastern to below 40 percent or make

a revised offer at NOK132.7 per share. Both Seadrill and the minority shareholders in Eastern have appealed the decision of the Oslo Stock Exchange to the Stock Exchange's Appeals Committee. The Appeals Committee's decision is expected mid December 2006. Seadrill has terminated its original offer of NOK92 per share and announced that it intends to reduce its stake in Eastern to less than 40 percent if the Appeals Committee reconfirms the Stock Exchange's decision.

#### *Aker Drilling ASA*

Aker Drilling is a Norwegian company listed on the Oslo Stock Exchange that has two deepwater drilling units under construction. In October, Seadrill acquired a 10 percent ownership interest in the company for a total consideration of US\$49.6 million.

### **Operations**

#### *Mobile units*

The fifth-generation semi-submersible rig West Venture continued drilling operations for Norsk Hydro on the Troll field offshore Norway. The fourth-generation semi-submersible rig West Alpha worked for Statoil in the Norwegian Sea while the ultra-deepwater drillship West Navigator drilled on the Ormen Lange field offshore Norway for Shell.

The ultra-large jack-up West Epsilon continued operations for BP on the Valhall field in the Norwegian sector of the North Sea. The contract with BP was completed in mid-October when the unit commenced a new three-year contract with Statoil at a dayrate of US\$305,000. Late July, the newbuild jack-up West Ceres commenced drilling operations offshore Nigeria for Total following a dry-tow from Singapore. The unit successfully completed its first well in September. The jack-up West Larissa completed the repair of its legs in mid-July and subsequently started operations for Premier Oil Indonesia in Indonesia. The jack-up has been awarded contracts in Indonesia for four and five well programs by Serica Energy and Premier Natuna Sea BV, respectively. The agreed dayrate is US\$195,000 and start-up of the drilling programs is scheduled in direct continuation of the unit's ongoing activities. The jack-up West Janus was on a contract with Shell for work offshore Sakhalin Island. The next assignment for West Janus is in Bangladesh for Cairn. The unit has been awarded a 210-day contract in Thailand at dayrate of US\$190,000 by Pearl Oil Thailand and Nucoastal in direct continuation of current contracts. The jack-up West Titania continued its operations for Tetra Petroleum in Nigeria. The present work program is expected to keep the unit employed until January 2007.

Crystal Ocean continued its employment for Anzon Australia under a contract that extends throughout 2007. Crystal Sea commenced operations under a five-year contract with Discovery Enterprise in June. However, subsequent to commencement, riser related problems occurred that halted the operation. Seadrill has worked to solve these problems, however, due to the long lead-time for delivery of the necessary equipment it was concluded that operation would not be continued within the time limit outlined by the customer. Seadrill is currently in discussions with Discovery Enterprise and ONGC regarding a contractual solution. The Company has off-hire insurance that runs until mid-December 2006. The vessel is currently off hire located in Mumbai, India.

In addition to operation of company-owned units, Seadrill was responsible for preparation for drilling operation for the Japanese scientific deepwater drillship Chikyu. Chikyu is intended for scientific surveys of the seismological zone among other things investigating earthquake mechanism. However, before the drillship starts the scientific activity the drillship will be employed in drilling of commercial oil and gas wells for Woodside from November 2006 to

October 2007. The aim with commercial assignment is to have sufficient drilling operation experience in order to develop deep-sea scientific drilling technologies skills and expertise. Seadrill has been responsible for marketing of the unit for commercial activities and will provide drilling crews to the unit going forward.

#### *Tender rigs*

Seadrill's self-erecting tender rigs were all in operation during the quarter. In Thailand, T4 and T7 continued their work for Chevron. In September, T7 started a mandatory five-year classification survey, which is expected to be completed in November. In Malaysia, the semi-tender West Alliance continued drilling operations for Shell while the semi-tenders West Pelaut and West Setia worked for Shell in Brunei. In West Africa, the barge T8 and the semi-tender West Menang continued operations for Total in Congo.

#### *Well services*

On the Norwegian continental shelf, Seadrill performed various drilling and maintenance operations for Statoil on the Statfjord A, B and C platforms, the Veslefrikk field as well as the Gullfaks A, B and C platforms. Further, the Company carried out drilling operations and maintenance work for BP on the Ula and Valhall platforms and for Talisman Energy on the Gyda field. On the U.K. Continental Shelf, Seadrill performed drilling and maintenance activities for Shell on several platforms including among others Brent D, Cormorant Alpha and North Cormorant. For the wireline operations in Norway and Denmark, the activity level remained sound. The contract with Norsk Hydro for wireline services on the Norwegian Continental Shelf was extended for three years with options for three additional two-year periods.

#### **Operations associated companies**

##### *Varia Perdana Bhd.*

Varia Perdana Bhd. owns four self-erecting tender rigs and has one unit under construction for delivery second quarter 2007. The four tender rigs were all in operation during the quarter. The tender barge T3 worked for PTT in Thailand whereas in Malaysia T6 and Teknik Berkat worked for Carigali and T9 worked for Exxon.

##### *PT Apexindo Pratama Duta TBK*

PT Apexindo Pratama Duta Tbk (Apexindo) offers onshore and offshore drilling services. The drilling fleet comprises of four submersible swamp barges, one jack-up rig, one jack-up rig under construction, and nine onshore drilling rigs. As of September 30, the market value of the Company's holding in Apexindo was US\$144 million as compared to the initial investment of US\$53 million. The share price of Apexindo has continued its positive development in the fourth quarter.

#### **Newbuild program (including contract awards)**

At present, the newbuild program in Seadrill includes four jack-ups, four semi-submersible rigs, two tender rigs and two ultra deepwater drillships. In addition, the Company has an option (that expires year-end 2006) to build a tender rig for delivery in the fourth quarter 2008. The Company has also two deepwater semi-submersible rigs under construction through the consolidated 60.4 percent owned Eastern Drilling ASA and one tender rig under construction through the 49 percent owned Varia Perdana.

Seadrill has secured employment for several of the units under construction including West Atlas, West Berani, West E-drill, West Polaris and West Sirius.

In September, Seadrill was awarded a letter of intent by Coogee Resources in Australia for the jack-up West Atlas currently under construction in Singapore. The length of the firm contract is 12 months, but the customer has an option to extend the contract by a further 12 months at pre-agreed terms and conditions. Commencement of operations is scheduled in the fourth quarter 2007 following delivery and the agreed dayrate is US\$262,000.

In September, Seadrill secured a four-year contract with Devon Energy Corporation for the deepwater semi-submersible rig West Sirius that is under construction at the Jurong Shipyard in Singapore. The contract is for operations in the Gulf of Mexico with commencement scheduled for the third quarter 2008 and the agreed dayrate is US\$460,000. Devon has in addition options to extend the contract to five or six years at dayrates US\$450,000 and US\$440,000, respectively. In order to enhance the drilling efficiency and the quality of the rig for operations in the Gulf of Mexico, Seadrill has decided to make an additional investment of US\$20 million in this unit. A similar investment will be made for the sister unit West Taurus.

In September, Seadrill as manager secured a three-year contract for the deepwater semi-submersible rig West E-drill with Total for operations in European waters. The initial firm contract period is three-years and the agreed dayrate is US\$480,000. Total has the right to extend the contract to a five-year firm period. The start-up of operations is planned in the second quarter 2008.

In October, Seadrill was awarded a letter of intent by a major oil company for international explorations activities with the ultra-deepwater drillship West Polaris. The contract has a firm duration of three years and the agreed dayrate is US\$520,000. West Polaris is currently under construction at Samsung Shipyard in South Korea and commencement is planned subsequent to delivery at the end of the second quarter 2008. The letter of intent is expected to be replaced by a firm contract during the fourth quarter.

In October, Seadrill exercised the option to increase the ownership interest in the semi-tender West Berani from 30 percent to 100 percent. The semi-tender is currently under construction at KFELS in Singapore with delivery scheduled in December this year. The estimated total capital expenditure for the newbuild all-inclusive is approximately US\$105 million. During the third quarter, two term contracts were secured for the unit, a two-year contract in Malaysia with Newfield Peninsula Malaysia Inc. at a dayrate of US\$120,000 and a three-year contract in Angola by Cabinda Gulf Oil Company and Chevron at a dayrate of US\$140,000 (Seadrill has the option to use West Setia as a replacement for West Berani for the Angola-assignment depending on availability).

As a result of increased demand from oil companies for rig capacity in even deeper waters as well as a very tight market for rig equipment (especially related to delivery time), Seadrill in the preceding quarter has ordered 3,000 meters of extra risers representing an investment of approximately US\$78 million. In the third quarter, a further 2,200 meters of risers at a cost of US\$39 million have been ordered for the two deepwater drillships under construction. As a result of these orders, Seadrill on average has some 10,000ft of risers for its six 100 percent owned deepwater newbuilds. The Company has a strategy of establishing a pool for capital spares (including risers) for the deepwater fleet with the objective of increasing the deepwater fleet's versatility and simultaneously reduces the risk for loss of revenue related to down time.

| Rig | Yard | Delivery | Contract | Installments paid |
|-----|------|----------|----------|-------------------|
|-----|------|----------|----------|-------------------|

|                          |         | date    | price*        | as of 3Q 2006   |
|--------------------------|---------|---------|---------------|-----------------|
| <i>Jack-ups</i>          |         |         |               |                 |
| West Atlas               | Keppel  | 3Q 2007 | US\$129 mill. | US\$77.3 mill.  |
| West Triton              | PPL     | 4Q 2007 | US\$129 mill. | US\$19.3 mill.  |
| West Prospero            | Keppel  | 3Q 2007 | US\$128 mill. | US\$51.2 mill.  |
| West Ariel               | Keppel  | 2Q 2008 | US\$132 mill. | US\$26.3 mill.  |
| <i>Tender rig</i>        |         |         |               |                 |
| West Berani              | KFELS   | 4Q 2006 | US\$100 mill. | US\$22.1 mill.  |
| T11                      | MSE     | 2Q 2008 | US\$90 mill.  | US\$11.2 mill.  |
| <i>Semi-submersibles</i> |         |         |               |                 |
| West E-drill             | Samsung | 4Q 2007 | US\$493 mill. | US\$253.3 mill. |
| West Eminence            | Samsung | 3Q 2008 | US\$482 mill. | US\$102.4 mill. |
| West Sirius              | Jurong  | 2Q 2008 | US\$443 mill. | US\$120.0 mill. |
| West Taurus              | Jurong  | 4Q 2008 | US\$428 mill. | US\$123.1 mill. |
| West Hercules            | Daewoo  | 1Q 2008 | US\$536 mill. | US\$92.0 mill.  |
| West Aquarius            | Daewoo  | 3Q 2008 | US\$526 mill. | US\$87.3 mill.  |
| <i>Drillships</i>        |         |         |               |                 |
| West Polaris             | Samsung | 2Q 2008 | US\$485 mill. | US\$158.5 mill. |
| West Capella             | Samsung | 4Q 2008 | US\$480 mill. | US\$153.6 mill. |

\* Including change of order, but excluding spares, accrued interest expenses, construction supervision and operation preparation and mobilization

As of September 30, 2006, US\$1,298 million had been paid on the newbuildings as compared to approximately US\$940 million at the end of the second quarter 2006. The remaining installments to be paid on newbuildings amount to approximately US\$3.3 billion. Of the remaining installments, US\$166 million was paid in October and November 2006 with approximately US\$230 million payable in the remaining period of 2006. In addition, costs related to capital spares, contract supervision and operation preparation for the newbuilding program totaled approximately US\$20 million at the end of the third quarter 2006.

The Board is confident that the necessary external financing is available through a combination of cash flow from existing units, bank financing, lease financing and loan from other sources.

### **Contract and dayrates**

For additional information regarding the fleet status, including dayrates and contract lengths, see the fleet status report on the company web site [www.seadrill.bm](http://www.seadrill.bm).

### **Market development**

The offshore rig market continues to show strength across all categories and classes of mobile offshore drilling units. The supply-demand situation remains tight and oil companies' demand for offshore drilling units is sound. The newbuild order book continues to increase and the number cold stacked units or units engaged in alternative work (i.e. accommodation units, production duties, etc) continue to decline. This positive market sentiment is expected to continue over the next years assuming that no fundamental change to the price of oil occurs. Another feature is that the geographical location of rigs is becoming less important as oil companies are willing to compensate offshore drillers for the loss of revenues as a result of relocating units between geographical regions creating a truly global market.

### *Deepwater Floaters (>5000 ft water)*

The number of newbuilds continues to increase and at present totals 43 units. The historic high number of deepwater newbuild has so far not affected dayrates adversely. Over the last months, the offshore drillers have been able to take advantage of the strong momentum for rig demand and increased dayrates further as well as improved overall contract terms. For all practical purposes, there is no deepwater rig capacity available in 2007 and several of the major oil companies are contracting units and issuing term contract tenders for deepwater units with start-up in 2008 and 2009. As a result of the strong market sentiment, dayrates for quality deepwater units have exceeded the US\$500,000 dayrate mark.

*Premium Jack-ups (>300 ft water)*

Dayrate fixtures in the market for premium jack-ups have now reached US\$200,000 for work commencing in early 2007. As the majority of the jack-ups under construction is scheduled for delivery in 2007, some market participants are uncertain of the market's ability to absorb the significant influx of newbuildings without downward pressure on dayrates. The Company, however, is confident that growing demand from India, Middle East and West Africa will absorb the supply of newbuilds. When it comes to the market for harsh environment heavy-duty jack-ups like the West Epsilon, the North Sea demand remains strong and dayrates on recent fixtures have exceeded US\$300,000.

*Commodity Jack-ups (<= 300 ft water)*

The market development for commodity jack-ups continues to track the market development for premium jack-ups at a discount only reflecting rig specifications and geographic markets. The Company considers itself well positioned to benefit from the strong market sentiment for jack-ups such as West Larissa and West Titania.

*Tender rigs*

The market sentiment for tender rigs is sound and the increased dayrate level for jack-ups has had a positive effect on market dayrates for tender rigs. In addition, oil companies have increasingly expressed an interest for entering into term contracts well in advance of commencement. The Company expects the favorable market environment to continue and provide good opportunities for further organic growth.

**Outlook and strategy**

The Board of Seadrill has an ambition to act for consolidation in the offshore rig industry with the objective of creating a world leading offshore drilling company.

In order to reach that objective Seadrill has completed a string of takeovers and the number of units has been increased from seven to 36 (including 15 units under construction). The current fleet provides the Company with the ability to deliver offshore drilling services on a worldwide basis in all water depths. At present, the Company's offshore drilling activity includes geographical presence in Southeast Asia, West Africa and the North Sea. As a result of the contract signing with Devon Energy Corporation for the deepwater unit West Sirius, Seadrill's operation will be expanded to the Gulf of Mexico in 2008. Further, the Company presence in key offshore drilling markets will be fortified through assignments of all the newbuilds under construction over the next years.

The Board and management acknowledge the even though the new combined Company consists of high quality assets already in operations in addition to the newbuilding program, the creation of shareholder value in Seadrill heavily depends on a successful completion of the deepwater newbuilding program. As such, the Board and management monitors the

progress and development of the newbuild program closely and especially safeguards that the supervision teams for the advanced deepwater units have the necessary experience, skills and means available to assure that the deepwater newbuilds are delivered according to the agreed delivery schedule and turn key contracts. So far, the newbuild projects overall are progressing according to the initial plans and original scopes. However, in order to facilitate increased drilling efficiency and operational versatility for operation in the Gulf of Mexico, the Board approved an additional investment of US\$20 million in equipment for the deepwater unit West Sirius. Consequently, the scheduled delivery for West Sirius has been changed from first quarter 2008 to second quarter 2008 to facilitate the upgrades. As several of the deepwater units remain unallocated to specific customers situations could arise where customer specific or region specific requirements could be added at the time of signing of the contract or at delivery.

The Board would like to emphasize that the construction contracts entered into are with the most experienced yards in the offshore industry and are fixed-price turnkey. In addition, the ordered units are based on proven designs, equipped with well-known technology and in the main have a heavy back-loaded payment schedule regarding yard installments. This provides the yards with strong incentives to complete the construction within the agreed schedule. The Seadrill newbuilds are also among the first deepwater units to be delivered in this cycle, which should reduce both risk related to late delivery as well as market conditions. The Board is confident that all efforts have been made to secure timely delivery of the newbuilds.

With respect to the contract situation for the newbuilds, the Board is satisfied that three deepwater assignments have been secured since the Company reported its second quarter results. The Board considers the market conditions to be as sound as ever and believes that higher activity from oil companies in deeper waters over the next years will provide for a favorable environment creating good opportunities to enter into term contracts at increasing dayrates. Based on this existing tenders and discussions, the Board believes that multiple term contracts will be signed before end of first quarter 2007.

The tight market for experienced offshore workers continues to attract attention by market participant. Through the acquisition of Smedvig, Seadrill gained access to a large pool of seasoned offshore workers. At present, the workforce of Seadrill totals approximately 4,400 people and creates a sound starting point for development and training of new employees. Over the next two years, the Company will hire some 2,000 people in order to operate the newbuilds under construction. Based on the scale of the existing operations, the Board believes that the Company has adequate time to hire and train the required number of people. The Company will have the most modern and advanced rig fleet in the industry, which should be an attractive proposition for new employees.

The Board continues to explore various alternatives to optimize the leveraging of the assets through financing solutions such as Master Limited Partner structures, sale and leasebacks and also other alternatives. The target is to optimize the return to shareholders. The current order backlog gives Seadrill this unique opportunity.

The Company has currently 20 units generating income. The operational results has improve quarter on quarter in 2006 and is expected to continue to show growth as a function of an increased number of units in operation as well as increasing dayrates for existing units. The Board feels that the combination of the operational cash flow from the existing units and the



newbuilding orders placed at favorable terms and delivery positions create a solid basis for the company going forward.

### **Forward Looking Statements**

This press release contains forward-looking statements. These statements are based on various assumptions, many of which are based, in turn, upon further assumptions, including Seadrill management's examination of historical operating trends.

Including among others, factors that, in the Company's view, could cause actual results to differ materially from the forward looking statements contained in this press release are the following: the competitive nature of the offshore drilling industry, oil and gas prices, technological developments, government regulations, changes in economical conditions or political events, inability of the Company to obtain financing for the newbuildings on favorable terms, changes of the spending plan of our customers, changes in the Company's operating expenses including crew wages, insurance, dry-docking, repairs and maintenance, failure of shipyards to comply with delivery schedules on a timely basis and other important factors mentioned from time to time in our reports filed with Oslo Stock Exchange.

November 22, 2006  
The Board of Directors  
Seadrill Limited  
Hamilton, Bermuda

Questions should be directed to Seadrill Management AS represented by:

Kjell E Jacobsen: Chief Executive Officer  
Alf C Thorkildsen: Chief Financial Officer  
Jim Daatland: Vice President Investor Relations

## Accounts

### Condensed Consolidated Income Statement

| <i>Unaudited accounts in USD millions</i>               | 2Q06          | 3Q06         | 3Q05          | 9M06         | 9M05          | 2005          |
|---|---------------|--------------|---------------|--------------|---------------|---------------|
| <b>Revenues</b>   |               |              |               |              |               |               |
| Operating revenues                                      | 224.3         | 247.2        | 5.0           | 632.4        | 5.0           | 26.6          |
| Reimbursables   | 22.9          | 21.6         | 0.5           | 60.1         | 0.5           | 1.7           |
| Other revenues  | 28.4          | 31.5         | -             | 74.9         | -             | -             |
| <b>Total revenues</b>                                   | <b>275.6</b>  | <b>300.3</b> | <b>5.5</b>    | <b>767.4</b> | <b>5.5</b>    | <b>28.3</b>   |
| <b>Operating expenses</b>                               |               |              |               |              |               |               |
| Vessel and rig operating expenses                       | 133.3         | 149.6        | 4.2           | 390.7        | 4.2           | 23.3          |
| Reimbursable expenses                                   | 21.6          | 20.3         | 0.5           | 56.7         | 0.5           | 1.7           |
| Depreciation and amortisation                           | 46.0          | 47.0         | 5.3           | 125.2        | 5.3           | 12.9          |
| General and administrative expenses                     | 15.6          | 19.1         | 0.9           | 47.7         | 0.9           | 5.8           |
| <b>Total operating expenses</b>                         | <b>216.5</b>  | <b>236.0</b> | <b>10.9</b>   | <b>620.3</b> | <b>10.9</b>   | <b>43.7</b>   |
| <b>Operating income</b>                                 | <b>59.1</b>   | <b>64.3</b>  | <b>(5.4)</b>  | <b>147.1</b> | <b>(5.4)</b>  | <b>(15.4)</b> |
| Interest income   | 2.9           | 2.8          | 1.0           | 9.0          | 1.0           | 1.7           |
| Interest expense  | (23.9)        | (17.2)       | (2.4)         | (53.7)       | (2.4)         | (0.9)         |
| Share of results from associated companies              | 6.9           | 11.7         | (5.8)         | 23.9         | (5.8)         | 2.7           |
| Other financial items                                   | (3.6)         | 3.1          | 0.4           | 83.1         | 1.0           | 6.0           |
| <b>Net financial items</b>                              | <b>(17.7)</b> | <b>0.4</b>   | <b>(6.8)</b>  | <b>62.3</b>  | <b>(6.2)</b>  | <b>9.5</b>    |
| <b>Income before income taxes and minority interest</b> | <b>41.4</b>   | <b>64.7</b>  | <b>(12.2)</b> | <b>209.4</b> | <b>(11.6)</b> | <b>(5.9)</b>  |
| Income taxes  | (8.1)         | (6.7)        | -             | (22.1)       | -             | (1.6)         |
| Minority interest                                       | -             | (1.9)        | -             | (28.4)       | -             | (0.1)         |
| <b>Net income</b>                                       | <b>33.3</b>   | <b>56.1</b>  | <b>(12.2)</b> | <b>158.9</b> | <b>(11.6)</b> | <b>(7.6)</b>  |
| Earnings per share ( <i>in USD</i> )                    | 0.09          | 0.15         | (0.07)        | 0.46         | (0.07)        | (0.04)        |
| Diluted earnings per share ( <i>in USD</i> )            | 0.09          | 0.15         | (0.07)        | 0.46         | (0.07)        | (0.04)        |

## Condensed Consolidated Segment Information

| <b>Mobile Units Division</b>              |       |              |       |             |       |        |
|---|-------|--------------|-------|-------------|-------|--------|
| <i>Unaudited accounts in USD millions</i> | 2Q06  | <b>3Q06</b>  | 3Q05  | <b>9M06</b> | 9M05  | 2005   |
| Operating revenues                        | 112.9 | <b>134.0</b> | 5.0   | 321.7       | 5.0   | 26.6   |
| Reimbursables                             | 15.2  | <b>12.7</b>  | 0.5   | 33.8        | 0.5   | 1.7    |
| Other revenues                            | 24.3  | <b>27.4</b>  | -     | 64.5        | -     | -      |
| Total revenues                            | 152.4 | <b>174.1</b> | 5.5   | 420.0       | 5.5   | 28.3   |
| Vessel and rig operating expenses         | 59.5  | <b>70.0</b>  | 4.2   | 175.6       | 4.2   | 23.3   |
| Reimbursable expenses                     | 14.3  | <b>11.7</b>  | 0.5   | 31.3        | 0.5   | 1.7    |
| Depreciation and amortisation             | 33.9  | <b>36.2</b>  | 5.3   | 93.7        | 5.3   | 12.9   |
| General and administrative expenses       | 8.9   | <b>11.1</b>  | 0.9   | 28.4        | 0.9   | 5.8    |
| Total operating expenses                  | 116.6 | <b>129.0</b> | 10.9  | 329.0       | 10.9  | 43.7   |
| Operating profit                          | 35.8  | <b>45.1</b>  | (5.4) | <b>91.0</b> | (5.4) | (15.4) |

| <b>Tender Rigs Division</b>               |      |             |      |             |      |      |
|---|------|-------------|------|-------------|------|------|
| <i>Unaudited accounts in USD millions</i> | 2Q06 | <b>3Q06</b> | 3Q05 | <b>9M06</b> | 9M05 | 2005 |
| Operating revenues                        | 41.5 | <b>37.3</b> | -    | 110.0       | -    | -    |
| Reimbursables                             | 2.3  | <b>1.8</b>  | -    | 5.3         | -    | -    |
| Other revenues                            | 4.1  | <b>4.1</b>  | -    | 10.3        | -    | -    |
| Total revenues                            | 47.9 | <b>43.2</b> | -    | 125.6       | -    | -    |
| Vessel and rig operating expenses         | 18.6 | <b>16.5</b> | -    | 50.1        | -    | -    |
| Reimbursable expenses                     | 2.2  | <b>1.7</b>  | -    | 5.0         | -    | -    |
| Depreciation and amortisation             | 10.2 | <b>9.1</b>  | -    | 26.7        | -    | -    |
| General and administrative expenses       | 3.0  | <b>3.4</b>  | -    | 8.0         | -    | -    |
| Total operating expenses                  | 34.0 | <b>30.7</b> | -    | 89.8        | -    | -    |
| Operating profit                          | 13.9 | <b>12.5</b> | -    | <b>35.8</b> | -    | -    |

| <b>Well Services Division</b>             |      |             |      |             |      |      |
|---|------|-------------|------|-------------|------|------|
| <i>Unaudited accounts in USD millions</i> | 2Q06 | <b>3Q06</b> | 3Q05 | <b>9M06</b> | 9M05 | 2005 |
| Operating revenues                        | 69.9 | <b>75.8</b> | -    | 200.7       | -    | -    |
| Reimbursables                             | 5.3  | <b>7.2</b>  | -    | 21.1        | -    | -    |
| Total revenues                            | 75.2 | <b>83.0</b> | -    | 221.8       | -    | -    |
| Vessel and rig operating expenses         | 55.2 | <b>63.1</b> | -    | 165.0       | -    | -    |
| Reimbursable expenses                     | 5.1  | <b>7.0</b>  | -    | 20.4        | -    | -    |
| Depreciation and amortisation             | 1.8  | <b>1.8</b>  | -    | 4.8         | -    | -    |
| General and administrative expenses       | 3.7  | <b>4.4</b>  | -    | 11.3        | -    | -    |
| Total operating expenses                  | 65.8 | <b>76.3</b> | -    | 201.5       | -    | -    |
| Operating profit                          | 9.4  | <b>6.7</b>  | -    | <b>20.3</b> | -    | -    |

## Condensed Consolidated Balance Sheets

Unaudited accounts in USD millions

|   | 30.09.06       | 30.09.05     | 31.12.05       |
|---|----------------|--------------|----------------|
| <i>Current assets</i>                             |                |              |                |
| Cash and cash equivalents                         | 520.4          | 19.8         | 49.6           |
| Receivables                                       | 290.5          | 25.1         | 24.0           |
| Other investments                                 | -              | 42.4         | 302.3          |
| <b>Total current assets</b>                       | <b>810.9</b>   | <b>87.3</b>  | <b>375.9</b>   |
| <i>Non-current assets</i>                         |                |              |                |
| Investment in associated companies                | 233.4          | 212.0        | 152.8          |
| Other non-current assets                          | 41.6           | 55.0         | 2.8            |
| Newbuildings                                      | 1,622.1        | 393.5        | 439.3          |
| Drilling units                                    | 2,274.7        | 173.2        | 178.2          |
| Goodwill  | 1,179.1        | -            | -              |
| <b>Total non-current assets</b>                   | <b>5,350.9</b> | <b>833.7</b> | <b>773.1</b>   |
| <b>Total assets</b>                               | <b>6,161.8</b> | <b>921.0</b> | <b>1,149.0</b> |
| <i>Current liabilities</i>                        |                |              |                |
| Short-term interest bearing debt                  | 218.6          | 87.1         | 137.4          |
| Other current liabilities                         | 311.0          | 18.7         | 33.2           |
| <b>Total current liabilities</b>                  | <b>529.6</b>   | <b>105.8</b> | <b>170.6</b>   |
| <i>Non-current liabilities</i>                    |                |              |                |
| Deferred taxes                                    | 246.9          | -            | -              |
| Long-term interest bearing debt                   | 2,346.3        | 158.4        | 176.8          |
| Other non-current liabilities                     | 160.0          | -            | -              |
| <b>Total non-current liabilities</b>              | <b>2,753.2</b> | <b>158.4</b> | <b>176.8</b>   |
| Minority interest                                 | 207.9          | 8.4          | 1.4            |
| <i>Shareholders' equity</i>                       |                |              |                |
| Paid-in capital                                   | 2,449.8        | 660.0        | 725.3          |
| Retained earnings                                 | 221.3          | (11.6)       | 74.9           |
| <b>Total shareholders' equity</b>                 | <b>2,671.1</b> | <b>648.4</b> | <b>800.2</b>   |
| <b>Total shareholders' equity and liabilities</b> | <b>6,161.8</b> | <b>921.0</b> | <b>1,149.0</b> |

## Condensed Consolidated Cash Flow Statements

| <i>Unaudited accounts in USD millions</i>  | <b>9M06</b>      | <b>9M05</b>    | <b>2005</b>    |
|--|------------------|----------------|----------------|
| <b>Cash flow from operating activities</b>   |                  |                |                |
| Net income   | 158.9            | (11.6)         | (7.6)          |
| <i>Adjustement to reconcile net income to net cash provided by operating activities:</i> |                  |                |                |
| Depreciation and amortisation  | 125.2            | 5.3            | 12.9           |
| Gains on disposals of other investments  | (83.1)           | -              | (0.8)          |
| Share of results from associated companies   | (23.9)           | 5.8            | (2.7)          |
| Change in working capital  | 14.4             | -              | 9.4            |
| <b>Net cash from operating activities</b>  | <b>191.5</b>     | <b>(0.5)</b>   | <b>11.2</b>    |
| <b>Cash flow from investing activities</b>   |                  |                |                |
| Acquisition of goodwill  | (1,179.1)        | (3.1)          | (19.1)         |
| Acquisition of fixed assets  | (3,401.8)        | (219.7)        | (268.8)        |
| Disposal of fixed assets   | 518.8            | -              | 48.7           |
| Purchase of associated companies   | (163.5)          | -              | (31.4)         |
| Cash flow from other investments   | 195.2            | 8.8            | 14.6           |
| <b>Net cash from investing activities</b>  | <b>(4,030.4)</b> | <b>(214.0)</b> | <b>(256.0)</b> |
| <b>Cash flow from financing activities</b>   |                  |                |                |
| Proceeds from debt   | 3,200.1          | 185.0          | 255.6          |
| Repayment of debt  | (646.2)          | (159.6)        | (169.1)        |
| Proceeds from issuance of equity   | 1,724.5          | 208.9          | 207.9          |
| Treasury shares  | 31.3             | -              | -              |
| <b>Net cash from financing activities</b>  | <b>4,309.7</b>   | <b>234.3</b>   | <b>294.4</b>   |
| <b>Net change in cash and cash equivalents</b>   | <b>470.8</b>     | <b>19.8</b>    | <b>49.6</b>    |
| <b>Cash and cash equivalents at beginning of year</b>                                    | <b>49.6</b>      | <b>-</b>       | <b>-</b>       |
| <b>Cash and cash equivalents at end of period</b>  | <b>520.4</b>     | <b>19.8</b>    | <b>49.6</b>    |

## Condensed Consolidated Statement of changes in Equity

| <i>Unaudited accounts in USD millions</i> | Issued<br>share<br>capital | Share<br>premium<br>reserve | Accum.<br>compreh.<br>income | Accum.<br>earnings | Total<br>shareholders'<br>equity |
|---|----------------------------|-----------------------------|------------------------------|--------------------|----------------------------------|
| <b>Balance at 10 May, 2005</b>            | <b>0.0</b>                 | <b>0.0</b>                  | <b>0.0</b>                   | <b>(16.2)</b>      | <b>(16.2)</b>                    |
| Issue of ordinary shares, net             | 458.3                      | 440.8                       |                              |                    | 899.1                            |
| Effect of aquisition from shareholder     |                            | (173.7)                     |                              | 16.2               | (157.5)                          |
| Other comprehensive income                |                            |                             | 82.4                         |                    | 82.4                             |
| Net loss for the period                   |                            |                             |                              | (7.6)              | (7.6)                            |
| <b>Balance at 31 December, 2005</b>       | <b>458.3</b>               | <b>267.1</b>                | <b>82.4</b>                  | <b>(7.6)</b>       | <b>800.2</b>                     |
| Issue of ordinary shares, net             | 308.0                      | 1,416.4                     |                              |                    | 1,724.4                          |
| Transfer of profit and loss accounts      |                            |                             | (82.4)                       |                    | (82.4)                           |
| Unrealised loss                           |                            |                             | (4.6)                        |                    | (4.6)                            |
| Net income for the period                 |                            |                             |                              | 158.9              | 158.9                            |
| Share-based payments                      |                            |                             |                              | (16.1)             | (16.1)                           |
| Sale of treasury shares                   |                            |                             |                              | 31.4               | 31.4                             |
| Other                                     |                            |                             |                              | 59.3               | 59.3                             |
| <b>Balance at 30 September, 2006</b>      | <b>766.3</b>               | <b>1,683.5</b>              | <b>(4.6)</b>                 | <b>225.9</b>       | <b>2,671.1</b>                   |

## Note to the quarterly report

### *Pro forma condensed Consolidated Financial Statements*

The US GAAP pro forma figures shown below are a set of financial figures prepared in order to provide comparable nine months figures for Seadrill, inclusive Mosvold Drilling Ltd. and Smedvig asa. The pro forma statements include figures of Mosvold and Smedvig as if the acquisitions were made with effect from January 1, 2005.

### Condensed Pro forma Consolidated Income Statements

| <i>Unaudited accounts in USD millions</i>               | <b>Actual<br/>3Q06</b> | Pro forma<br>3Q05 | <b>Actual<br/>9M06</b> | Pro forma<br>9M05 |
|---|------------------------|-------------------|------------------------|-------------------|
| <b>Revenues</b>   |                        |                   |                        |                   |
| Operating revenues                                      | 247.2                  | 166.1             | 632.4                  | 460.4             |
| Reimbursables   | 21.6                   | 12.7              | 60.1                   | 38.1              |
| Other revenues  | 31.5                   | 28.4              | 74.9                   | 93.7              |
| <b>Total revenues</b>                                   | <b>300.3</b>           | 207.2             | <b>767.4</b>           | 592.2             |
| <b>Operating expenses</b>                               |                        |                   |                        |                   |
| Vessel and rig operating expenses                       | 149.6                  | 106.2             | 390.7                  | 310.6             |
| Reimbursable expenses                                   | 20.3                   | 12.1              | 56.7                   | 36.6              |
| Depreciation and amortisation                           | 47.0                   | 46.4              | 125.2                  | 128.7             |
| General and administrative expenses                     | 19.1                   | 10.1              | 47.7                   | 32.9              |
| <b>Total operating expenses</b>                         | <b>236.0</b>           | 174.8             | <b>620.3</b>           | 508.8             |
| <b>Operating income</b>                                 | <b>64.3</b>            | <b>32.4</b>       | <b>147.1</b>           | <b>83.4</b>       |
| Interest income   | 2.8                    | 1.8               | 9.0                    | 3.4               |
| Interest expense  | (17.2)                 | (26.9)            | (53.7)                 | (75.6)            |
| Share of results from associated companies              | 11.7                   | 1.6               | 23.9                   | 5.4               |
| Other financial items                                   | 3.1                    | 2.9               | 83.1                   | (6.9)             |
| Net financial items                                     | 0.4                    | (20.6)            | 62.3                   | (73.7)            |
| <b>Income before income taxes and minority interest</b> | <b>64.7</b>            | <b>11.8</b>       | <b>209.4</b>           | <b>9.7</b>        |
| Income taxes  | (6.7)                  | (10.4)            | (22.1)                 | (21.3)            |
| Minority interest                                       | (1.9)                  | -                 | (28.4)                 | -                 |
| <b>Net income</b>                                       | <b>56.1</b>            | <b>1.4</b>        | <b>158.9</b>           | <b>(11.6)</b>     |

## Condensed Consolidated Pro forma Segment Information

| <b>Mobile Units Division</b>              | <b>Actual</b> | <b>Pro Forma</b> | <b>Actual</b> | <b>Pro Forma</b> |
|---|---------------|------------------|---------------|------------------|
| <i>Unaudited accounts in USD millions</i> | <b>3Q06</b>   | 3Q05             | <b>9M06</b>   | 9M05             |
| Operating revenues                        | <b>134.0</b>  | 73.5             | <b>321.7</b>  | 194.5            |
| Reimbursables                             | <b>12.7</b>   | 3.6              | <b>33.8</b>   | 8.6              |
| Other revenues                            | <b>27.4</b>   | 24.3             | <b>64.5</b>   | 72.9             |
| <b>Total revenues</b>                     | <b>174.1</b>  | 101.4            | <b>420.0</b>  | 276.0            |
| Vessel and rig operating expenses         | <b>70.0</b>   | 45.0             | <b>175.6</b>  | 121.7            |
| Reimbursable expenses                     | <b>11.7</b>   | 3.2              | <b>31.3</b>   | 8.0              |
| Depreciation and amortisation             | <b>36.2</b>   | 34.5             | <b>93.7</b>   | 94.8             |
| General and administrative expenses       | <b>11.1</b>   | 5.3              | <b>28.4</b>   | 19.6             |
| <b>Total operating expenses</b>           | <b>129.0</b>  | 88.0             | <b>329.0</b>  | 244.1            |
| <b>Operating profit</b>                   | <b>45.1</b>   | 13.4             | <b>91.0</b>   | 31.9             |

| <b>Tender Rigs Division</b>               | <b>Actual</b> | <b>Pro Forma</b> | <b>Actual</b> | <b>Pro Forma</b> |
|---|---------------|------------------|---------------|------------------|
| <i>Unaudited accounts in USD millions</i> | <b>3Q06</b>   | 3Q05             | <b>9M06</b>   | 9M05             |
| Operating revenues                        | <b>37.3</b>   | 35.9             | <b>110.0</b>  | 97.6             |
| Reimbursables                             | <b>1.8</b>    | 2.2              | <b>5.3</b>    | 6.3              |
| Other revenues                            | <b>4.1</b>    | 4.1              | <b>10.3</b>   | 12.3             |
| <b>Total revenues</b>                     | <b>43.2</b>   | 42.2             | <b>125.6</b>  | 116.2            |
| Vessel and rig operating expenses         | <b>16.5</b>   | 15.1             | <b>50.1</b>   | 47.3             |
| Reimbursable expenses                     | <b>1.7</b>    | 2.1              | <b>5.0</b>    | 6.0              |
| Depreciation and amortisation             | <b>9.1</b>    | 10.0             | <b>26.7</b>   | 29.1             |
| General and administrative expenses       | <b>3.4</b>    | 2.2              | <b>8.0</b>    | 3.8              |
| <b>Total operating expenses</b>           | <b>30.7</b>   | 29.4             | <b>89.8</b>   | 86.2             |
| <b>Operating profit</b>                   | <b>12.5</b>   | 12.8             | <b>35.8</b>   | 30.0             |

| <b>Well Services Division</b>             | <b>Actual</b> | <b>Pro Forma</b> | <b>Actual</b> | <b>Pro Forma</b> |
|---|---------------|------------------|---------------|------------------|
| <i>Unaudited accounts in USD millions</i> | <b>3Q06</b>   | 3Q05             | <b>9M06</b>   | 9M05             |
| Operating revenues                        | <b>75.8</b>   | 56.8             | <b>200.7</b>  | 168.3            |
| Reimbursables                             | <b>7.2</b>    | 6.9              | <b>21.1</b>   | 23.2             |
| <b>Total revenues</b>                     | <b>83.0</b>   | 63.7             | <b>221.8</b>  | 191.5            |
| Vessel and rig operating expenses         | <b>63.1</b>   | 46.3             | <b>165.0</b>  | 141.4            |
| Reimbursable expenses                     | <b>7.0</b>    | 6.7              | <b>20.4</b>   | 22.6             |
| Depreciation and amortisation             | <b>1.8</b>    | 1.9              | <b>4.8</b>    | 5.1              |
| General and administrative expenses       | <b>4.4</b>    | 2.6              | <b>11.3</b>   | 9.5              |
| <b>Total operating expenses</b>           | <b>76.3</b>   | 57.5             | <b>201.5</b>  | 178.6            |
| <b>Operating profit</b>                   | <b>6.7</b>    | 6.2              | <b>20.3</b>   | 12.9             |



## Condensed Consolidated Pro forma Balance Sheets

Unaudited accounts in USD millions

|   | <b>Actual</b><br>30.09.06 | <b>Pro Forma</b><br>31.12.05 |
|---|---------------------------|------------------------------|
| <i>Current assets</i>                             |                           |                              |
| Cash and cash equivalents                         | 520.4                     | 529.8                        |
| Receivables                                       | 290.5                     | 154.1                        |
| Other investments                                 | -                         | 302.2                        |
| <b>Total current assets</b>                       | <b>810.9</b>              | <b>986.1</b>                 |
| <i>Non-current assets</i>                         |                           |                              |
| Investment in associated companies                | 233.4                     | 249.9                        |
| Other non-current assets                          | 41.6                      | 57.6                         |
| Newbuildings                                      | 1,622.1                   | 832.5                        |
| Drilling units                                    | 2,274.7                   | 2,201.8                      |
| Goodwill  | 1,179.1                   | 1,179.1                      |
| <b>Total non-current assets</b>                   | <b>5,350.9</b>            | <b>4,520.9</b>               |
| <b>Total assets</b>                               | <b>6,161.8</b>            | <b>5,507.0</b>               |
| <i>Current liabilities</i>                        |                           |                              |
| Short-term interest bearing debt                  | 218.6                     | 617.2                        |
| Other current liabilities                         | 311.0                     | 291.3                        |
| <b>Total current liabilities</b>                  | <b>529.6</b>              | <b>908.5</b>                 |
| <i>Non-current liabilities</i>                    |                           |                              |
| Deferred taxes                                    | 246.9                     | 244.1                        |
| Long-term interest bearing debt                   | 2,346.3                   | 1,761.6                      |
| Other non-current liabilities                     | 160.0                     | 222.1                        |
| <b>Total non-current liabilities</b>              | <b>2,753.2</b>            | <b>2,227.8</b>               |
| Minority interest                                 | 207.9                     | 82.6                         |
| <i>Shareholders' equity</i>                       |                           |                              |
| Paid-in capital                                   | 2,449.8                   | 2,178.4                      |
| Retained earnings/other equity                    | 221.3                     | 109.7                        |
| <b>Total shareholders' equity</b>                 | <b>2,671.1</b>            | <b>2,288.1</b>               |
| <b>Total shareholders' equity and liabilities</b> | <b>6,161.8</b>            | <b>5,507.0</b>               |