SEADRILL

SeaDrill Limited

Consolidated and Predecessor Combined Financial Statements

For the Periods ended December 31, 2005 and 2004

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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, 2005 and the related consolidated statement of operations, comprehensive income, cash flows and changes in shareholders' equity for the period from May 10, 2005 to December 31, 2005. 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 predecessor combined balance sheet of the predecessor to SeaDrill Limited (the "Predecessor") at December 31, 2004 and the related predecessor combined statement of operations, cash flows and changes in shareholders' equity, were audited by other auditors whose report dated 18 November, 2005, expressed an unqualified opinion on those statements.

We conducted our audits 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 financial statements referrd to above present fairly, in all material respects, the consolidated financial position of SeaDrill Limited and subsidiaries at December 31, 2005, and the (consolidated) results of their operations and their cash flows for the period then ended in conformity with US GAAP.

ERNST & YOUNG
Certified Public Accountants

Singapore
29 May 2006

SeaDrill Limited

Consolidated Statement of Operations for the period from May 10, 2005 (inception) to December 31, 2005 and Predecessor Combined Statement of Operations for the period ended December 31, 2004

(In thousands of USD, except per share data)

	Consolidated	Predecessor Combined
	Period from May 10 (inception) to December 31, 2005	**Year ended December 31, 2004**
Operating revenues	$ 26,639	$ 6,365
Operating expenses		
Vessel and rig operating expenses	23,302	5,788
General and administrative expenses	5,810	176
Depreciation	12,943	3,518
Operating loss	(15,416)	(3,117)
Interest income	1,692	–
Interest expense on derivatives	(85)	–
Interest element included in capital lease obligations	(796)	(1,904)
Other financial items	(177)	(22)
Share in results from associated companies	2,724	–
Unrealised gain on equity share swap	5,321	–
Gain on disposal of other investments	827	–
Other income (loss), net	–	71
Loss before equity in net earnings of investee income taxes and minority interest	(5,910)	(4,972)
Minority interest in net income of subsidiaries	(80)	–
Income taxes	(1,573)	–
Net loss	$ (7,563)	$ (4,972)
Basic and diluted loss per share (USD)	(0.04)	–

On behalf of the Board,

Tor Olav Trøim

Kate Blankenship

See accompanying notes that are an integral part of these Consolidated and Predecessor Combined Financial Statements.

SeaDrill Limited

Consolidated Balance Sheet as of December 31, 2005 and
Predecessor Combined Balance Sheet as of December 31, 2004

(In thousands of USD)

	Consolidated	Predecessor Combined
	December 31, 2005	December 31, 2004
ASSETS		
Current assets		
Cash and cash equivalents	$ 49,609	$ 194
Restricted cash	2,190	–
Marketable securities	302,255	–
Other receivables	504	–
Trade accounts receivables	11,466	2,114
Prepaid expenses and accrued income	4,027	306
Derivatives instruments receivable amount	5,237	–
Inventory	559	119
Total current assets	375,847	2,733
Non-current assets		
Newbuildings and rig purchase option	439,268	–
Rigs and equipment	150,940	99,875
Vessels under capital lease, net	27,277	25,791
Investment in associated companies	152,816	–
Deferred charges	2,835	–
Total non-current assets	773,136	125,666
Total assets	$ 1,148,983	$ 128,399
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 12,756	$ –
Other payables	663	–
Accrued expenses	13,841	21
Current portion of long term debt	26,600	–
Current portion of obligations under capital lease	11,272	3,377
Shareholder loan	–	115,610
Loan, related party	99,500	–
Amount due to related parties	1,217	–
Other current liabilities	4,580	1,833
Provision for tax payable	161	–
Total current liabilities	170,590	120,841
Non current liabilities		
Long-term debt	176,750	–
Non-current portion of obligations under capital lease	–	14,761
Total non current liabilities	176,750	14,761
Minority interest	1,442	–
Shareholders' equity		
Share capital	458,266	–
Additional paid in capital	267,080	–
Accumulated other comprehensive income	82,418	–
Accumulated loss	(7,563)	–
Invested equity	–	(7,203)
Total shareholders' equity	800,201	(7,203)
Total liabilities and shareholders' equity	$ 1,148,983	$ 128,399

On behalf of the Board.

Kate Blankenship

Tor Olav Trøim | Kate Blankenship

See accompanying notes that are an integral part of these Consolidated and Predecessor Combined Financial Statements.

SeaDrill Limited

Consolidated Statement of Cash Flows for the period from May 10, 2005 (inception) to December 31, 2005 and Predecessor Combined Statement of Cash Flows for the periods ended December 31, 2004

(In thousands of USD)

	Consolidated	Predecessor Combined
	Period from May 10 (inception) to December 31, 2005	**Year ended December 31, 2004**
Operating activities		
Net loss	$ (7,563)	$ (4,972)
Adjustment to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation	12,943	3,518
Amortisation of deferred charges	104	–
Share of results of associate	(2,724)	–
Fair value of equity share swap	(5,321)	–
Interest expenses on derivatives	85	–
Income attributable to minority interest	80	–
Interest element included in capital lease obligations	796	–
Gain on disposal of other investments	(827)	–
Changes in working capital items:		
Inventory	(404)	(119)
Trade accounts receivable and others	(7,224)	(2,114)
Prepaid expenses and accrued income	(1,628)	(306)
Trade accounts payable and others	8,877	1,177
Accrued expenses	14,242	21
Deferred revenue	(253)	–
Net cash provided by/(used in) operating activities	$ 11,183	$ (2,795)

See accompanying notes that are an integral part of these Consolidated and Predecessor Combined Financial Statements.

SeaDrill Limited

Consolidated Statement of Cash Flows for the period from May 10, 2005 (inception) to December 31, 2005 and Predecessor Combined Statement of Cash Flows for the period ended December 31, 2004 (Continued)

(In thousands of USD)

	Consolidated	Predecessor Combined
	Period from May 10 (inception) to December 31, 2005	Year ended December 31, 2004
Investing activities		
Additions to newbuildings	$ (247,527)	$ –
Additions to rigs and equipment	(18,945)	(102,500)
Additions to vessels	(2,374)	–
Investment of subsidiaries	(19,144)	–
Cash assumed in purchase of the subsidiaries	16,661	–
Investment in associated companies	(31,353)	–
Purchase of other investment	(2,093)	–
Disposal of other investments	48,681	–
Restricted cash	82	–
Net cash used in investing activities	(256,012)	(102,500)
Financing activities		
Proceeds from long-term debt	210,000	–
Proceeds from short term debt due to related parties	46,676	–
Repayment of short term capital lease obligations	(4,806)	(7,202)
Repayments of long term debt	(6,650)	–
Repayment of long term debt due to related party	(157,569)	–
Shareholder loan	–	112,683
Debt fees paid	(1,138)	–
Proceeds from issuance of equity net of issuance costs	207,925	2
Net cash provided by financing activities	294,438	105,483
Net increase in cash and cash equivalents	49,609	188
Cash and cash equivalents at beginning of the period	–	6
Cash and cash equivalents at the end of the period	$ 49,609	$ 194

See accompanying notes that are an integral part of these Consolidated and Predecessor Combined Financial Statements.

SeaDrill Limited

Consolidated Statements of Comprehensive Income for the period from May10, 2005 (inception) to December 31, 2005 and Predecessor Combined Statements of Comprehensive Income for the periods ended December 31, 2004

(In thousands of USD)

	Consolidated		Predecessor Combined	
	Period from May 10 (inception) to December 31, 2005		**Year ended December 31, 2004**	
Net loss	$	(7,563)	$	(4,972)
Unrealised gains on marketable securities		82,418		–
Comprehensive Income	$	74,855	$	(4,972)

See accompanying notes that are an integral part of these Consolidated and Predecessor Combined Financial Statements.

SeaDrill Limited

Consolidated Statement of Changes in Shareholders' Equity for the period from May 10, 2005 (inception) to December 31, 2005 and Predecessor Combined Statement of Changes in Shareholders' Equity for the periods ended December 31, 2004

(In thousands of USD)

	Note	Share capital	Additional paid in capital	Accumulated other comprehensive income	Accumulated loss	Invested equity	Total shareholders' equity
Balance at December 31, 2003		$ –	$ –	$ –	$ –	$ (2,233)	$ (2,233)
Issue of ordinary shares, net of issuance costs		–	–	–	–	2	2
Net loss		–	–	–	–	(4,972)	(4,972)
Balance at December 31, 2004		–	–	–	–	(7,203)	(7,203)
Balance at May 10, 2005		$ –	$ 2	$ –	$ (16,238)	$ –	$ (16,236)
Issue of ordinary shares, net of issuance costs	13	458,266	440,816	–	–	–	899,082
Effect of acquisition from shareholder		–	(173,738)	–	16,238	–	(157,500)
Other comprehensive income		–	–	82,418	–	–	82,418
Net loss		–	–	–	(7,563)	–	(7,563)
Balance at December 31, 2005		$ 458,266	$ 267,080	$ 82,418	$ (7,563)	$ –	$ 800,201

See accompanying notes that are an integral part of these Consolidated and Predecessor Combined Financial Statements.

SeaDrill Limited

Notes to Consolidated and Predecessor Combined Financial Statements

For the Periods Ended December 31, 2005 and December 31, 2004

General information

SeaDrill Limited ("SeaDrill" or the "Company") was incorporated on May 10, 2005 under the laws of Bermuda. The Company is engaged in the business of ownership and operations of offshore and onshore drilling rigs and other vessels to be used in the exploration, production and storage of crude oil.

In May 2005, the Company entered into a Purchase and Subscription Agreement ("Purchase and Subscription Agreement") with Greenwich Holdings Limited ("Greenwich") for the acquisition of five Cyprus companies (Stormont Marine Company Ltd, Covaldi Marine Company Ltd, Ashbourne Shipping Company Ltd, Golden Dream Shipping Company Ltd and Golden Wisdom Shipping Company Ltd) owning three jack-up rigs and two floating production, storage and offloading vessels ("FPSOs"). The acquisition was effective on June 30, 2005. On the same date, SeaDrill also entered into an agreement with Seatankers Management Co. Limited ("Seatankers") for the transfer of all rights and obligations of contracts for two jack-up newbuilds.

The Company's shares have been traded on the Norwegian "Over the Counter Market", since May 30, 2005. From November 22, 2005 the Company's shares are listed on the Oslo Stock Exchange.

In June 2005 Subsea Drilling Inc. (a wholly owned subsidiary of SeaDrill) entered into a building contract for one semi-submersible (plus one option) with the Jurong shipyard in Singapore, an unrelated third party.

On June 30, 2005, SeaDrill purchased 88.9% of the shares in SeaDrill Invest Limited ("SeaDrill Invest"), formerly known as Odfjell Invest Limited. Through the acquisition of SeaDrill Invest, SeaDrill acquired two additional jack-up newbuilds for delivery in May 2006 and July 2007 and an option to build an additional jack-up. SeaDrill subsequently made a voluntary offer to purchase the remainder of the shares in SeaDrill Invest at Norwegian Kroner (NOK) 20 per share. As of December 31, 2005, SeaDrill owns approximately 98.61% of SeaDrill Invest's issued shares. SeaDrill Invest was delisted from the Oslo Stock Exchange on December 23, 2005.

In July 2005, SeaDrill acquired approximately 25% of the shares in Ocean Rig ASA ("Ocean Rig") and 33.04% of PT Apexindo Pratama Duta Tbk, ("Apexindo"). The acquisitions were financed by two private placements of 35,695,822 ordinary shares at a subscription price of NOK 40 (approximately USD 6.16) and 10 million ordinary shares at a subscription price of NOK 42 (approximately USD 6.46) per share. Ocean Rig owns and operates two of the currently most advanced harsh environment, deepwater semi-submersible rigs in the world. Apexindo is the largest off and onshore drilling contractor in Indonesia. Apexindo's fleet consists of four swamp barges with drilling capacity, one jack-up rig and 11 land rigs operating for various oil companies in Indonesia. In addition the Company has one jack-up on order from PPL Shipyard Pte Ltd which is scheduled for delivery in Q1 2007.

On August 12, 2005, SeaDrill exercised the option to build a second semi-submersible rig with Jurong Shipyard. In connection with declaration of the option, SeaDrill was awarded an option for a third unit at comparable terms. The option will expire in August 2006.

General information (cont'd)

On September 21, 2005, SeaDrill entered into a new contract for the building of a third semi-submersible rig with Daewoo Shipbuilding and Marine Engineering. The unit will be delivered in February 2008 and will be an ultra-deep water harsh environment semi-submersible drilling rig capable of operating in all of the most extreme weather and water depth drilling area. In connection with the signing of this contract, the Company received two optional contracts for the building of similar rigs.

In December 2005, the Company has entered into agreement to purchase 46,412,500 shares in Mosvold Drilling Ltd ("Mosvold"), equalling 39.5% of Mosvold's share capital. The total cost of investment was $93.3 million. In order to finance the purchase, the Company had raised $63.8 million through a private placement of 9,093,454 new shares in SeaDrill Ltd. In addition the Company has acquired 675,662 shares, which costs $1.4 million, from the market. The total shareholding in Mosvold was 40.08% of the outstanding shares of the Company following the acquisition. Consequently SeaDrill has made a mandatory cash offer of NOK 14 per share for the remaining shares in Mosvold on December 23, 2005.

The issued share capital of SeaDrill Ltd as at December 31, 2005 was USD 458,266,432, equalling to 229,133,216 shares of USD 2 par value.

As at December 31, 2005, SeaDrill owns and operates three jack-up rigs and two FPSO vessels. In addition, the Company has four jack-up rigs under construction of which one is scheduled for delivery in Q2 2006, two in Q3 and one in Q4 2007 and three semi-submersible rigs under construction of which two are scheduled for delivery in Q1 2008, and the third for delivery Q4 2008. SeaDrill also holds an option to order an additional jack-up rig and three options to order further semi-submersible rigs, two of which will have harsh environment specifications.

In addition, SeaDrill owns 40.08% of the shares in Mosvold and controls 33.04% of the issued shares in Apexindo and approximately 25% of the shares in Ocean Rig.

Hemen, Greenwich and Seatankers are all ultimately controlled by Mr. John Fredriksen, a director and chairman of the Company. At December 31, 2005 Mr. Fredriksen indirectly controlled approximately 43.03% of the issued shares in SeaDrill.

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.

Basis of presentation

Consolidated Financial Statements:

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The consolidated financial statements include the assets and liabilities of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated on consolidation.

The sale of the five Cyprus companies and newbuilding contracts from Greenwich and Seatankers respectively, to SeaDrill for USD 310.12 million and USD 67.48 million respectively, represents a transfer of entities and assets under common control. As a result, the transfer was recorded in SeaDrill at Greenwich's and Seatankers', historical carrying values. In accordance with SFAS 141, "Business Combinations", mergers among such affiliated entities must be accounted for "as if" poolings, consistent with the concept of poolings as combinations of common stockholder interest under common control. The purchase was financed by a short-term loan from Hemen of USD 130.20 million, a shareholders loan from Greenwich of USD 175.02 million and a loan from related party, Seatankers, of USD 72.38 million. The equity of the five Cyprus companies was accounted in the consolidated financial statements as opening balance of the Company in accordance with SFAS 141, "Business Combinations". The difference of USD 157.5 million between the consideration paid of USD 377.60 million and the historical carrying value of the asset, after accounting for the opening balance of equity arose from the application of SFAS 141, "Business Combinations", has been reflected as a decrease to additional paid in capital.

The short-term loan from Hemen and part of the loan from related party was on June 30, 2005 subsequently set off against the shareholder receivable regarding a share issuance where Hemen subscribed to 84.994 million shares at the price of USD 2.03 per share totalling USD 172.53 million. Subsequently, the remaining shareholders loan from Greenwich of USD 175.02 million and the loan from related party, Seatankers, of USD 30.05 million were settled by way of financing from the bank, the outstanding amounts of the purchase price payable as of June 30, 2005.

(a) Summary balance sheet information for the five Cyprus companies upon transfer to SeaDrill:

		May 10, 2005
(In thousands of USD)		
Current assets	$	11,508
Rigs and equipment		142,250
Vessels under capital lease, net		25,351
Shareholder loan		(175,025)
Other current liabilities		(22,912)
Equity		16,236

Basis of presentation (cont'd)

(b) Summary information regarding the newbuilding contracts upon transfer to SeaDrill:

SeaDrill paid USD 67.48 million for the newbuilding contracts to Seatankers and Seatankers had a carrying value of USD 45.08 million. The difference between these two amounts, USD 22.40 million, has been accounted for as a decrease in SeaDrill's additional paid in capital.

Predecessor Combined Financial Statements:
The predecessor combined financial statements have been prepared in accordance with U.S. GAAP. The predecessor to SeaDrill ("Predecessor") is comprised of the five Cyprus companies sold from Greenwich to SeaDrill for the period prior to being sold to SeaDrill. The predecessor combined financial statements assumes that the Predecessor was operated as a separate corporate entity prior to the transfer of its businesses to the Company.

The combined financial statements of the Predecessor have been prepared using the historical basis in the assets and liabilities and historical results of operations of the five Cyprus rigs and vessel owning-companies. The combined financial statements generally reflect the financial position, result of operations and cash flows of the Predecessor as if it were a single consolidated group for the period presented. The combined financial statements are, however, not necessarily indicative of the financial position, result of operations and cash flows in the future or what they would have been had the Predecessor operated as a consolidated group during the period presented. The financial position, result of operations and cash flows may have been different if the Predecessor had been operated as a separate corporate entity. The effects of all significant transactions between the combined entities have been eliminated.

Based on the above, the predecessor combined statements for the periods presented only contains transactions for the five Cyprus companies mentioned above.

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.

Accounting policies (cont'd)

Basis of accounting (cont'd)

The acquisition of SeaDrill Invest has 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 acquisition, June 30, 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 in 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".

Use of estimates

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

Revenue and expense recognition

The majority of our revenues are derived from contracts including day rate based compensation for drilling and vessel operations and day rate or fixed price mobilisation and demobilisation fees. Revenues from day rate based compensation, day rate or fixed price mobilisation and demobilisation fees for drilling and vessel operations are recognised evenly over the contract periods. Incremental cost of mobilisation is deferred and demobilisation cost is accrued and recognised over the contract periods. To the extent that cost exceeds revenue to be recognised, it is expensed as incurred.

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 for the net amount billed to the customer after offsetting the costs as part of operating revenue.

Accounting policies (cont'd)

Repairs, maintenance and period surveys

Normal rigs and vessels repair and maintenance costs are charged to expense when incurred. Previously, the Company recognises the cost of periodic surveys at the time the survey takes place, that is, it applies the "expense as incurred" method. As at December 31, 2005, the Company has decided to capitalise the costs related to periodic upgrading overhauls of rigs and amortised over the anticipated periods between upgrading overhauls, which is generally five years, as required by various rules and regulations. Related costs are primarily shipyard costs and the cost of employees directly involved in the periodic upgrading overhauls.

There is no financial impact from the change in accounting policy for the periodic survey in 2005 as well as in 2004 because the Company has not incurred any periodic upgrading overhauls costs.

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. All of the Company's subsidiaries maintain their accounts in their respective functional currencies and report in U.S. Dollars as of December 31, 2005.

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with original maturities of three months or less.

Restricted cash

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.

Accounting policies (cont'd)

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.

Inventories

Inventories comprise principally of fuel, lubricating oils and rig/vessel spares. These are stated at the lower of cost or market value. Cost is determined on a first-in, first-out basis.

Accounts receivable

Accounts receivable are included in the balance sheet at their full amount less allowance for doubtful accounts receivable. Uncollectible trades accounts receivable are written off when a settlement is reached for an amount that is less than the outstanding historical balance.

Vessels under capital lease

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.

Rigs, vessels 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 life of the Company's vessels and rigs are 25 years and 30 years respectively.

During the operating life of rigs, the Company may upgrade a rig that 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.

Accounting policies (cont'd)

Rigs, vessels and equipment (cont'd)

Other equipment is depreciated over its estimated remaining useful life, which approximates 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.

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(s) ("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 may 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.

Accounting policies (cont'd)

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.

Derivatives

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.

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.

Earnings per share

Basic earnings per share ("Basic EPS") is calculated as net income or loss for the period divided by the weighted average number of shares outstanding during the period. As of December 31, 2005 there are no dilutive instruments. Diluted earnings per share is therefore equal to basic EPS.

Accounting policies (cont'd)

Deferred charges

Loan related costs, including debt arrangement fees, are capitalised and amortised on an effective interest method 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.

Financial instruments

In determining fair value of its financial instruments, the Company uses variety of methods and assumptions that are based on market conditions and risk existing at each balance sheet date. For the majority of 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 SeaDrill.

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 based on the excess, if any, of the quoted market price of the stock at the grant date of the award on other measurement date over the exercise price to be paid to acquire the stock.

In 2005, the Company did not record any compensation expense as no share option has been granted by the Company during the financial period.

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.

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

Subsidiaries and investments included in the consolidated financial statements

Name of company	Jurisdiction of incorporation	Principal activities	Percent owned
Subsidiaries			
Ashbourne Shipping Company Limited	Cyprus	Owner of "SeaDrill 7"	100
Covaldi Marine Company Limited	Cyprus	Owner of "Ekha"	100
Stormont Marine Company Limited	Cyprus	Owner of "SeaDrill 6"	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 Jack-up newbuild B277	100
Caleb Maritime S.A.	Liberia	Owner of Jack-up newbuild 2011	100
Subsea Drilling Inc	Liberia	Owner of Semi newbuild 1085	100
Subsea Drilling II Inc	Liberia	Owner of Semi newbuild 1086	100
Subsea Drilling III Ltd	Cyprus	Owner of Semi newbuild 3019	100
SeaDrill Invest Ltd	Bermuda	Holding company	98.61
SeaDrill Invest I Ltd	Bermuda	Owner of Jack-up newbuild B265	98.61
SeaDrill Invest II Ltd	Bermuda	Owner of Jack-up newbuild B272	98.61
SeaDrill Management (S) Pte Ltd	Singapore	Management company	100
Guildford Management Ltd	British Virgin Islands	Management company	100
Associated Companies			
PT Apexindo Pratama Duta Tbk	Indonesia	Off and onshore drilling contractor	33.03
Mosvold Drilling Ltd	Cayman Islands	Owner of Drillship newbuild 1657	40.08

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

Recently issued accounting pronouncements

SFAS 123 (revised 2004), Share-Based Payment

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which is a revision to SFAS 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). SFAS 123R supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and amends SFAS 95, Statement of Cash Flows. Generally, the approach in SFAS 123R is similar to SFAS 123, which requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and to recognise the related cost in the income statement over the period in which the employee services are performed, which is usually the equity instrument's vesting period. Under SFAS 123, this accounting treatment was optional with pro forma disclosures required.

The Company does not expect the adoption of SFAS 123 (revised 2004) to have a material impact on the consolidated cash flows or financial position, as no share option has been granted by the Company during the financial period.

FAS 154, Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS 154, "*Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements*" ("SFAS 154"). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The provisions of SFAS 154 are effective for accounting changes and corrections of errors made in fiscal periods beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material impact on the financial position or results of operations of SeaDrill.

Note 1 – Segment information

The Company has two reportable segments : rigs and vessels. Segment results are evaluated based on income from operations before general and administrative expenses. The accounting policies used in the reportable segments are the same as those followed in the preparation of the Company's consolidated financial statements.

The Company's management does not evaluate performance by geographical region as the operating assets of the Company are not located permanently in a particular geographical region, due to the nature of domestic and international offshore contract drilling business. As such, segmental information provided under geographical region is not meaningful to users of accounts.

During the period from May 10, 2005 (inception) to December 31, 2005, 3 customers each accounted for more than 10% of the Group operating revenue under rig segment with the amounts of $9,948,000, $6,403,000 and $3,710,000 respectively. In 2005, one customer accounted for $5,589,000 for more than 10% of the Group operating revenue under vessel segment. In predecessor combined 2004, one customer accounted for the whole Group's operating revenue under the rig segment.

SeaDrill Limited

Notes to Consolidated and Predecessor Combined Financial Statements

For the Periods Ended December 31, 2005 and December 31, 2004

Note 1 – Segment information (cont'd)

Information about the Company's reportable segments as of and for each of the following periods is as follows:

	Rigs	Vessels	Total
(In thousands of USD)			
Combined period from May 10, 2005 to December 31, 2005 (in thousands of USD)			
Total operating revenues	$ 20,110	$ 6,463	$ 26,573
Vessel and rig operating expenses	19,754	3,452	23,206
Depreciation	12,295	570	12,865
Interest income	29	45	74
Interest expense	–	796	796
Net (loss)/income	(14,745)	64	(14,681)
Rigs and equipment	150,453	–	150,453
Vessels under capital lease	–	27,277	27,277
Total assets	143,359	30,471	173,830
Capital expenditure	18,877	2,374	21,251

	Rigs	Vessels	Total
(In thousands of USD)			
Predecessor Combined period from January 1, 2004 to December 31, 2004 (in thousands of USD)			
Total operating revenues	$ 6,365	$ –	$ 6,365
Vessel and rig operating expenses	3,732	2,056	5,788
Depreciation	2,625	893	3,518
Interest expense	–	1,904	1,904
Net income (loss)	15	(4,987)	(4,972)
Rigs and equipment	99,875	–	99,875
Vessels under capital lease	–	25,791	25,791
Total assets	102,478	25,921	128,399
Capital expenditure	102,500	–	102,500

SeaDrill Limited

Notes to Consolidated and Predecessor Combined Financial Statements

For the Periods Ended December 31, 2005 and December 31, 2004

Note 1 – Segment information (cont'd)

(In thousands of USD)	Consolidated May 10 to December 31, 2005	Predecessor Combined December 31, 2004
Total operating revenues		
Total operating revenues for reportable segments	$ 26,573	$ 6,365
Other operating revenues attributable to management company	66	–
Total consolidated operating revenues	26,639	6,365
Total vessel and rig operating expenses		
Total vessel and rig operating expenses for reportable segments	23,206	5,788
Other vessel and rig operating expenses attributable to new buildings companies	96	–
Total consolidated vessel and rig operating expenses	23,302	5,788
Depreciation		
Total depreciation for reportable segments	12,865	3,518
Depreciation attributable to management company	78	–
Total consolidated depreciation	12,943	3,518
Interest income		
Total interest income for reportable segment	74	–
Interest income attributable to corporate holding, and management companies	1,618	–
Total consolidated interest income	1,692	–
Interest expense		
Total interest expense for reportable segments	796	1,904
Interest expense attributable to corporate holding and management companies	85	–
Total consolidated interest expense	881	1,904
Net loss		
Net loss for reportable segments	(14,681)	(4,972)
Minority interest	(80)	–
Net income attributable to management and new building companies	7,198	–
Total net loss	(7,563)	(4,972)

Note 1 – Segment information (cont'd)

(In thousands of USD)	Consolidated December 31, 2005	Predecessor Combined December 31, 2004
Rigs and equipment		
Rigs and equipment for reportable segments	$ 150,453	$ 99,875
Rigs and equipment attributable to management and new building companies	487	–
Total consolidated rigs and equipment	150,940	99,875
Assets		
Total assets for reportable segments	173,830	128,399
Cash and cash equivalents attributable to holding, management and newbuildings companies	46,963	–
Marketable securities held by corporate holding company	302,255	–
Derivatives	5,237	–
Investment in associated companies	152,816	–
New buildings and rig purchase option	439,268	–
Other assets attributable to corporate holding, management and newbuildings companies	28,614	–
Total consolidated assets	1,148,983	128,399
Capital expenditure		
Capital expenditure for reportable segments	21,251	102,500
Capital expenditure attributable to corporate holding, management and new building companies	248,156	–
Total consolidated capital expenditure	269,407	102,500

SeaDrill Limited

Notes to Consolidated and Predecessor Combined Financial Statements

For the Periods Ended December 31, 2005 and December 31, 2004

Note 2 – Taxation

The income taxes consist of the follows:

(In thousands of USD)		
Current tax expense:	$	
Bermuda		–
Foreign		1,573
Deferred tax expense:		
Bermuda		–
Foreign		–
Total provision	$	1,573

The income taxes for the period ended December 31, 2005 differed from the amount computed by applying the statutory income tax rate of 0% as follows:

(In thousands of USD)		
Income taxes at statutory rate	$	–
Foreign income and revenues taxed at higher rates		1,573
Total	$	1,573

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 as follows:

	Consolidated	Predecessor Combined
	May 10 to December 31, 2005	December 31, 2004
(In thousands of USD)		
Net loss available to shareholders	$ (7,563)	$ (4,972)

Note 3 – Earnings per share (cont'd)

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

	Consolidated	Predecessor Combined
	May 10 to December 31, 2005	December 31, 2004
Basic earnings per share:		
Weighted average number of ordinary shares outstanding	190,917,701	–
Basic earnings per share (USD)	(0.04)	–

EPS calculation for predecessor combined for year ended December 31, 2004 is not performed, as there is no issued and fully paid share capital as at December 31, 2004.

Note 4 – Restricted cash

Restricted cash of USD 2.19 million is a bank deposit which acts as cash collateral of a performance guarantee issued by a bank against the charter of a subsidiary's vessel.

Note 5 – Marketable securities

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

	Consolidated	Predecessor Combined
	December 31, 2005	December 31, 2004
(In thousands of USD)		
Cost	$ 219,837	$ –
Gross unrealised holding gain	82,418	–
Fair value	$ 302,255	$ –

The unrealised holding gain on marketable securities, of $82.4 million includes a component of foreign exchange translation, is included in the consolidated statements of comprehensive income.

Note 5 – Marketable securities (cont'd)

On July 14, 2005, SeaDrill acquired 24.5% (21,414,028 shares) ownership of Ocean Rig for NOK 1,392 million (USD 212 million). Ocean Rig is an offshore drilling company listed on the Oslo Stock Exchange. In addition, SeaDrill entered into an agreement for the purchase of the Ocean Rig 04/07 Convertible Bond with a nominal value of NOK 10.5 million which can be converted into 552,632 shares in Ocean Rig. Subsequently, SeaDrill has converted the Convertible Bond to 552,632 shares in Ocean Rig. Ocean Rig owns two of the most advanced harsh environment deepwater semi-submersible drilling rigs in the world. As at December 31, 2005, SeaDrill owns a total of 21,966,660 shares in Ocean Rig. The shares in the Ocean Rig have, subsequent to the balance sheet date, been disposed off from the Group. Please see note 22 - subsequent events note for further details.

On December 23, 2005, SeaDrill acquire from the market 119,100 shares of Smedvig's Class B Shares for NOK 14.06 million (USD 2.09 million).

Note 6 – Trade accounts receivable and prepaid expenses

Trade accounts receivables and prepaid expenses are presented net of allowances for doubtful debt. There is no allowances for doubtful debt for the period ended December 31, 2005 and predecessor combined period ended December 31, 2004.

Note 7 – Newbuildings and rig purchase options

	Consolidated December 31, 2005	Predecessor Combined December 31, 2004
(In thousands of USD)		
Newbuildings	$ 424,268	$ –
Rig purchase option	15,000	–
Total	$ 439,268	$ –

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 and others. The period from May 10, 2005 (inception) to December 31, 2005, the value of the rig purchase option is based on the purchase price allocation from the acquisition of SeaDrill Invest.

Note 7 – Newbuildings and rig purchase options (cont'd)

Included in cost of newbuildings during the period ended December 31, 2005, there are interest expenses and loan related costs of $5,879,000 and $1,773,000, respectively.

Note 8 – Rigs and equipment

The following table discloses cost and accumulated depreciation of the Group's rigs and equipment:

	Consolidated	Predecessor Combined
	December 31, 2005	December 31, 2004
(In thousands of USD)		
Other fixed asset:		
Cost - Office equipment, furniture and fittings	$ 608	$ –
Accumulated depreciation	(121)	–
Net book value	487	–
Rigs:		
Cost	170,877	102,500
Accumulated depreciation	(20,424)	(2,625)
Net book value	150,453	99,875
Total net book value of rigs and equipment	$ 150,940	$ 99,875

Note 9 – Vessels under capital lease, net

As at December 31, 2005, the Group held two vessels under capital lease. These leases are for a term of three years. The Group has a purchase option for both of these two vessels that management considers to be a bargain purchase option. The option to purchase the vessels can be exercised at any time during the lease period, but no later than October 15, 2006. The exercise price decreases from the time the lease contracts were signed until October 15, 2006.

	Consolidated	Predecessor Combined
	December 31, 2005	December 31, 2004
(In thousands of USD)		
Cost	$ 29,221	$ 26,847
Accumulated depreciation	(1,944)	(1,056)
Net book value	$ 27,277	$ 25,791

Depreciation expense for vessels under capital lease was USD 0.57 million for the period from May 10, 2005 (inception) to December 31, 2005, and USD 0.89 million for predecessor combined period for the year ended 2004, respectively.

The outstanding obligations under capital leases are all payable within December 31, 2006 because management expects that the option to purchase the vessels will be exercised within December 31, 2006.

Year ended December 31, 2005	
(In thousands of USD)	
Minimum lease payments	$ 11,391
Less imputed interest	(119)
Present value of obligations under capital leases	$ 11,272

Note 10 – Investment in associated companies

At December 31, 2005, the Company has the following participation in investments that are recorded using the equity method:

	Consolidated December 31, 2005	Predecessor Combined December 31, 2004
PT Apexindo Pratama Duta Tbk	33.04%	–
Mosvold Drilling Ltd	40.08%	–

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

(In thousands of USD)		
Current assets	$ 122,163	$ –
Non current assets	113,103	–
Current liabilities	(15,081)	–
Non current liabilities	$ (77,346)	$ –

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

(In thousands of USD)		
Net operating revenues	$ 10,712	$ –
Net operating expense	(7,989)	–
Net income	$ 2,723	$ –

Purchase of shares in PT Apexindo Pratama Duta Tbk

On July 22, 2005, SeaDrill acquired subscription rights in a scheduled capital increase in Apexindo, which provided SeaDrill with an ownership interest in Apexindo of 32.3% after closing the transaction. As at December 31, 2005, SeaDrill owns 33.04% of shares in Apexindo.

Apexindo is an onshore and offshore drilling company listed on Jakarta Stock Exchange. The company is the largest national onshore and offshore drilling company in Indonesia and their fleet consists of four swamp barges contracted to Total Indonesia in Indonesia, one jack-up operating for Staoil in the Middle-East, one newbuild jack-up rig to be delivered in December 2006, and eleven land rigs operating in Indonesia for various oil companies including Unocal, Vico-Indonesia, Petrochina and Medco E&P.

Note 10 – Investment in associated companies (cont'd)

Purchase of shares in Mosvold Drilling Ltd

On December 8, 2005, SeaDrill announced its acquisition of 46,412,500 shares in Mosvold to a price of NOK 14 per share. On December 21, 2005, SeaDrill acquired a total of 675,662 shares in Mosvold in the market at a price of NOK 14 per share. As at December 31, 2005, SeaDrill owns a total of 47,088,162 shares, 40.08% of the share capital in Mosvold.

Mosvold was incorporated on 23 September 2005 by Mosvold Shipping Ltd. The Mosvold's shares trade on the Norwegian "over the counter market".

Mosvold is engaged in the business of owning and operating offshore drilling rigs to be used in the exploration for, production and transportation of crude oil. As of December 31, 2005, Mosvold owns one 6-generation drilling rig under construction with Samsung, which is scheduled for delivery in June 2008.

Mosvold has further been granted options by Samsung for the construction of two additional drillships of the same design. Subsequent to year end, Mosvold exercised the option to build second drillship at the Samsung yard.

Note 11 – Deferred charges

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

	Consolidated December 31, 2005	Predecessor Combined December 31, 2004
(In thousands of USD)		
Debt arrangement fees	$ 3,309	$ –
Accumulated amortisation	(103)	–
	3,206	–
Less: short-term portion	(371)	–
	$ 2,835	$ –

Note 12 – Debt

	Consolidated December 31, 2005	Predecessor Combined December 31, 2004
(In thousands of USD)		
US Dollars denominated floating rate term loan (LIBOR + 1.75%) due on 2010	$ 178,350	$ –
US Dollars denominated floating rate pre and post deliver facility (LIBOR + 0.55%) due on 2010	25,000	–
Total debt	203,350	–
Less: Short term and current portion of long term debt	(26,600)	–
	$ 176,750	$ –

The outstanding debt as of December 31, 2005, is repayable as follows:

	(in thousands of USD)
Year ending December 31,	
2006	$ 26,600
2007	28,683
2008	34,933
2009	34,934
2010	78,200
	$ 203,350

USD 185 million "Term Loan Facility"

To finance the acquisition of the two jack-up newbuilds from Seatankers and to refinance the Company's debt to Greenwich, a USD 185 million loan was obtained on July 22, 2005. This loan bore interest at LIBOR plus a margin of 1.75% and is repayable over 5 years. The loan is collateralised by mortgage over the rigs "Ekha", "SeaDrill 6" and " SeaDrill 7" and the two FPSOs "Crystal Ocean" and "Crystal Sea", a charge over the earnings accounts and pledge of shares of the five subsidiaries.

Note 12 – Debt (cont'd)

USD 100 million "Pre and Post Delivery Loan Facility"

SeaDrill has accepted a Pre and Post Delivery facility in the amount of USD 100 million, of which USD 25 million has been drawn down during 2005, to finance the construction of two jack-up rigs "Hull number B-277" and "Hull number B-2011. This facility bore interest at LIBOR plus a margin of 0.55% and is repayable by 2010 with the first quarterly repayment commences 3 months after the first delivery. The loan is secured, amongst other things, by the equity interest of rigs owning subsidiaries and a first priority perfected security interest in the Company's rights under the shipbuilding contracts, insurance and refund guarantee during the construction period and thereafter by mortgage over the rigs and charge over the earnings accounts. In addition the loan facility is guaranteed by Greenwich jointly and severally with the rigs owning subsidiaries.

Both of the above two loan facilities contain certain covenants which require compliance with certain financial ratios. Such ratios include minimum value ratio, maximum debt ratio, minimum interest cover ratio and requirement with regard to free cash flow and working capital.

Debt obligations of SeaDrill Invest I (former Odfjell Invest I) relating to hull number B-265 (Jackup newbuild) "KFELS limited optional take-out financing"

The optional take-out financing gives SeaDrill Invest I (a wholly owned subsidiary of SeaDrill Invest), the right to obtain take-out financing of the 80% of the contract price outstanding and payable on hull number B-265 in early May 2006. If SeaDrill Invest I want to use the optional take-out financing, SeaDrill Invest I must serve a written notice on KFELS no later than 60 days prior to the delivery date for hull number B-265, but in any event not later than February 1, 2006. The detailed terms for the loan from the approved banks or the deferred payment have been agreed and enclosed to the First Construction Contract through an amendment agreement dated March 14, 2004.

The take out facility described above contains certain covenants which require compliance with certain financial covenants. Such covenants include restrictions on dividend payments, working capital ratios, equity ratio for SeaDrill Invest I Limited and certain other covenants.

The Company pays a commitment fee of 0.5% of the facility amount per year. The loan will be secured against the jack-up rig "Hull number B-265" and shall be repaid in twelve successive quarterly instalments.

Note 12 – Debt (cont'd)

"Debt Obligations of SeaDrill Invest II (former Odfjell Invest II) relating to hull number B-272 (Jackup newbuild)"

SeaDrill Invest II has entered into loan agreements with DnB NOR Bank ASA for the part financing of hull number B-272 at KFELS, providing SeaDrill Invest II with a USD 70,000,000 first priority term loan facility and a USD 10,000,000 second priority term loan facility.

The loan facilities are structured as construction loan facilities which will be converted into long term facilities at the time of delivery of the rig. The construction loan facilities are structured in three tranches where the first tranche can be drawn at the earliest at the date that the keel laying has been carried out and USD 40,000,000 in equity payments have been paid by SeaDrill Invest II to KFELS as installments under the construction contract.

The facilities shall be drawn on a pro rata basis.

The loan facility described above contains certain covenants which require compliance with certain financial ratios. Such ratios include liability ratio covenants, earnings ratio covenants, requirements with regards to free cash flow, working capital ratio, requirement regarding market value of the rig and certain other covenants.

The Company pays a commitment fee of 1.0% of the facility amount per year. The loan will be secured against the jack-up rig "Hull number B-272" and shall be repaid in quarterly instalments of USD 1.25 million and a balloon payment equal to outstanding loan amount of USD 45 million together with the last installment.

SeaDrill Limited

Notes to Consolidated and Predecessor Combined Financial Statements

For the Periods Ended December 31, 2005 and December 31, 2004

Note 13 – Share capital

	Consolidated December 31, 2005
Authorised share capital :	
(in thousands of USD, except share number)	
(At Date of Incorporation) 200,000,000 shares of USD 2.00 each	400,000
Increased during the period:	
200,000,000 shares of USD 2.00 each	400,000
At December 31, 2005	800,000
Issued and fully paid share capital:	
(in thousands of USD, except share number)	
229,133,216 ordinary share of USD 2.00 each	458,266

SeaDrill's shares have traded on the Norwegian "Over the Counter Market", since May 30, 2005. From November 22, 2005 the Company's ordinary shares are listed on Oslo Stock Exchange.

The Company was incorporated on May 10, 2005 and 6,000 ordinary shares of USD 2.00 each was issued to initial shareholder. The table below shows the historical development of SeaDrill's share capital and the number of outstanding shares since the date of incorporation:

Date	Change in number of shares issued	Issued price per share (USD)	No. of shares following change	Change in share capital USD	Purpose
10/05/2005	6,000	2.00	6,000	12,000	Issue to initial shareholder
11/05/2005	84,994,000	2.03	85,000,000	169,988,000	Subscribed by Heman as part of the Purchase & Subscription Agreement
11/05/2005	15,000,0000	2.03	100,000,000	30,000,000	Increase share capital
02/06/2005	10,000,000	3.00	110,000,000	20,000,000	Increase share capital
10/06/2005	10,000,000	3.80	120,000,000	20,000,000	Increase share capital
28/06/2005	42,343,940	4.54	162,343,940	84,687,880	Finance acquisition of SeaDrill Invest
14/07/2005	35,695,822	6.16	198,039,762	71,391,644	Finance acquisition of Ocean Rig
25/07/2005	1,960,238	6.46	200,000,000	3,920,476	Finance acquisition of Apexindo
11/08/2005	8,039,762	6.46	208,039,762	16,079,524	Finance acquisition of Apexindo
19/8/2005	12,000,000	9.00	220,039,762	24,000,000	Finance first installment payment of Semi newbuild 1086 and increase working capital
08/12/2005	9,093,454	7.02	229,133,216	18,186,908	Finance acquisition of Mosvold
Total share capital (USD)				458,266,432	

Note 14 – Share option plans

In May 2005, the Board of Directors approved and authorised 5,000,000 options to acquire ordinary shares of the Company with a strike price of USD 2.23 per share. As of December 31, 2005 no options have been granted pursuant to the terms of the employee share option plan.

Note 15 – 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, 2005 Mr. Fredriksen indirectly controlled approximately 43.03% of SeaDrill.

On May 10, 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. Please see basis of presentation under consolidated financial statements for further information regarding these transactions.

In May 2005, the Company entered into a service agreement with Seatankers covering the overall management of the Company and its subsidiaries effective from May 15, 2005. The service agreement includes day-to-day management of the Company's activities including the assignment of Mr. Tor Olav Trøim as the Company's Chief Executive Officer. SeaDrill will pay Seatankers USD 400,000 per annum for the services.

The management fee payable to Seatankers is approximately USD 200,000 for the period from May 10, 2005 (inception) to December 31, 2005. In addition, Seatankers has also managed the operations of the two FPSOs for a fee of USD 267,000 during 2005 and recharged SeaDrill an amount of USD 86,762 at costs for the share of general office expenses. As at December 31, 2005 the Company owed USD 708,072 to Seatankers.

Frontline Management (Bermuda) Ltd (Frontline") and Golden Ocean Group Ltd and ("Golden Ocean") are indirectly controlled by Mr. John Fredriksen, a director and chairman of the Company. A subsidiary of SeaDrill has provided management support and administrative services to Frontline and Golden Ocean. The total management fees charged for the period May 10, 2005 to December 31, 2005 are USD 24,000. The subsidiary has also recharge rental and general office expense to Frontline and Golden Ocean. The total rental income for the period from May 10, 2005 to December 31, 2005 is USD 7,106. In addition, Frontline has charged the Company a fee of USD 300,000 for providing management support and administrative services for the period from May 10, 2005 to December 31, 2005.

Management believes transactions with related parties are under terms similar to those that would be arranged with other parties.

Note 16 – Acquisition and minority interest

On June 21, 2005 SeaDrill entered into agreements for the purchase of a total of 71,129,942 shares in SeaDrill Invest equalling 88.9% of SeaDrill Invest's outstanding share capital at a price of NOK 17 per share. Total purchase price for the shares amounted to USD 185.89 million. The purchase was paid with cash of USD 3.68 million and the remainder through the issuance of 40.13 million shares of SeaDrill common stock resulting in an increase of USD 182.21 million in equity. The purchase price for SeaDrill Invest was determined using fair value of the SeaDrill Invest shares acquired. Given that SeaDrill was not publicly traded at that time, management has determined that the fair value of SeaDrill Invest shares was the more appropriate indicator of fair value.

Through the acquisition of SeaDrill Invest , SeaDrill acquired two additional jack-up newbuilds for delivery in May 2006 and July 2007 and an option to build an additional jack-up.

The acquisition has 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 acquisition, June 30, 2005.

The allocation of purchase price of the net assets acquired was based on a valuation. The difference between the purchase price and book values at the time of the purchase has been fully allocated to the rigs under construction (newbuilds) and the vessel purchase option.

The purchase price of SeaDrill Invest has been allocated as follows:

	Consolidated
	June 30, 2005
(In thousands of USD)	
Other current assets	$ 12
Marketable securities	42,399
Cash and cash equivalents	20,195
Newbuildings	124,533
Rig purchase option	15,000
Current liabilities	(4,842)
Minority interests	(11,407)
Purchase price	$ 185,890

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

SeaDrill Invest is only involved in the building of two jackup rigs and currently, they do not have any drilling operations. Based on this, the Company has not provided any proforma statement of operations information related to this acquisition.

Note 16 – Acquisition and minority interest (cont'd)

SeaDrill has subsequently made a voluntary offer to purchase the remainder of the shares in SeaDrill Invest at NOK 17 and NOK 20 per share. In December 2005, SeaDrill owns 78,886,388 shares constituting 98.61% of the outstanding share capital. SeaDrill Invest was delisted from the Oslo Stock Exchange on December 23, 2005. Subsequent to year end, SeaDrill owns up to 79,996,900 shares, representing closed to 100% of the outstanding share capital.

Note 17 – Financial instruments

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's borrowings, which are exposed to interest rates risk arising from changing market conditions are kept at a minimum level. It is SeaDrill's policy to obtain the most favorable 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.

Foreign currency risk

The majority of the rigs' and vessels' gross earnings are receivable in USD. The majority of the Company's transactions, assets and liabilities are denominated in USD, 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 has not entered into derivative contracts for either transaction or translation risk. From time to time the Company may enter into forward currency contracts for speculative purposes. There is no forward currency contract outstanding as at December 31, 2005.

Equity shares swap

In December 2005, the Company has entered into the equity shares swap for speculative purposes and the notional amount subject to such equity shares swap was NOK 378,954,489 (USD 56,524,852).

Note 17 – Financial instruments (cont'd)

Fair values

The carrying value and estimated fair value of the Company's financial instruments at consolidated December 31, 2005 and predecessor combined December 31, 2004 are as follows :

The carrying value of cash and cash equivalents, which are highly liquid and short term in nature, is a reasonable estimate of fair value.

	Consolidated December 31, 2005		Predecessor Combined December 31, 2004	
	Fair value	Carrying value	Fair value	Carrying value
(In thousands of USD)				
Non-Derivatives				
Cash and cash equivalents	$ 49,609	$ 49,609	$ 194	$ 194
Restricted cash	2,190	2,190	–	–
Marketable securities	302,255	302,255	–	–
Current portion of long term floating rate debt	26,600	26,600		
Long term floating rate debt	176,750	176,750	–	–
Current portion of long term obligations under capital lease	11,272	11,272	3,377	3,377
Long term obligations under capital lease	–	–	14,761	14,761
Derivatives				
Equity shares swap	5,237	5,237	–	–

The estimated fair value of marketable securities is based on the quoted market price of these or similar instruments when available.

The estimated fair value for floating rate long-term debt is considered to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis.

The estimated fair value of long-term lease obligations under capital lease are considered to be equal to carrying value since they bear interest at rates, which are reset on a quarterly basis.

The fair value of equity shares rate swap is estimated amount that the Company would receive or pay to terminate the agreements at the reporting date.

Note 17 – Financial instruments (cont'd)

Concentration of credit risk

The Group markets its services to the offshore oil and gas industry, and its customers consist primarily of major integrated international oil companies, independent oil and gas producers and government-owned oil companies. These companies are reputable and credible companies. Accordingly, we believe the Group is not exposed to any significant risk of credit loss. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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 Group'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.

During the period from May 10, 2005 (inception) to December 31, 2005, four customers each accounted for more than 10% of the Group's operating revenue under reportable segments. In predecessor combined 2004, one customer accounted for the whole Group's operating revenue under reportable segments.

Note 18 - Liquidity

As of December 31, 2005, the Company has entered into newbuilding contracts for the construction of 4 jackup rigs and 3 semi-submersible rigs. The timing of payment installments to the shipyards varies from contract to contract.

SeaDrill management 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 19 – Commitments and contingencies

At December 31, 2005, the Company had seven contracts for the construction of four jackup rigs and three semi-submersible rigs. One of the jackup rigs is scheduled for delivery in 2006, and three jackup rigs are scheduled for delivery in 2007. The three semi-submersible rigs are scheduled for delivery in 2008. At December 31, 2005 the Company is committed to make further instalments of USD 1,485.5 million.

Note 20 – Subsequent events

Disposal of shares in Ocean Rig ASA

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

Further acquisition of shares in Mosvold

In January 2006, the Company has further acquired 12,000,000 Mosvold shares at NOK 17 through a private placement, 100,025 shares at NOK 14 from the cash offer and 14,545,085 shares at NOK 18.25 from the open market. This brings the total investment in Mosvold to 49.99% of the enlarged share capital before the Company launched an mandatory offer of NOK 17 per share for the remaining shares in Mosvold. The Company has through an EGM on February 16, 2006 had full control of the board of Mosvold. The acceptance of offer and subsequent purchases from the market have brought the total investment to 97.48% with a value of USD 343.5 million as at April 18, 2006.

Acquisition of Smedvig ASA ("Smedvig") and establishment of Smedig Holding AS ("Smedvig Holding")

On January 4, 2006 SeaDrill disclosed its interest to put forward a voluntary offer on Smedvig, conditional upon receiving a 50% pre-acceptance to the offer of NOK 201 per class A-share and NOK 165 per class B-share. As a consequence of a non-satisfactory acceptance level, this offer was withdrawn on 6 January 2006.

On January 9, 2006, the Company made a voluntary offer for all outstanding shares in Smedvig ASA, NOK 205 per share for class A-shares and NOK 165 per share for class B-shares, subject to a total acceptance level of more than 50%. Following the offer, including the already owned shares of 2,245,600 through share swaps, SeaDrill owns a total of 27,899,609 class shares and 15,508,082 class B-shares in Smedvig, constituting 51.89% of the Smedvig votes and 53.11 % of the Smedvig capital. The investment costs of USD 1.22 billion were financed through a combination of available cash, bank loan of USD 609.4 million from a USD 1.2 billion facility and the private placement of 75 million shares at NOK 66 per share (NOK 4,950 million equivalent to USD 724.3 million).

Note 20 – Subsequent events (cont'd)

On March 6, 2006 SeaDrill made a mandatory offer for all of the outstanding Class A and Class B-shares in Smedvig pursuant to the rules of the Norwegian Securities Trading Act (the "Mandatory Offer"). The offer is NOK 205 per Class A-share and NOK 165 per Class B-share, payable in cash and will end on March 31, 2006. Simultaneously with the launching of the Mandatory Offer, the Company also make a tender offer for the shares in Smedvig owned by shareholders residing in the US in accordance with applicable US laws. The terms of the tender offer are identical to the terms of the Mandatory Offer.

In addition, SeaDrill has established a wholly owned subsidiary, Smedvig Holding to own the shares in Smedvig. On April 6, 2006, SeaDrill entered into a Share Purchase Agreement with Smedvig Holding transferring its right to purchase Smedvig's shares under the mandatory offer to Smedvig Holding and setting forth the terms of Smedvig Holding's acquisitions of SeaDrill's existing shares at NOK 205 per Class A-share and NOK 165 per Class B-share. On April 7, 2006, SeaDrill's shares in Smedvig have been transferred to Smedvig Holding.

As at April 10, 2006, including both the accepted shares and the already owned shares, Smedvig Holding controls 53,425,695 Class A-shares and 25,697,413 class B-shares, constituting approximately 99.4% of the Smedvig votes and 96.8% of the Smedvig capital. Adjusted for Smedvig's own shares (1,998,000 Class B-shares), Smedvig Holding controls 99.2% of the Smedvig capital.

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 265 per class B share as compensation.

The compulsory acquisition became effective on 2 May from which date Smedvig Holding became the sole shareholder of Smedvig.

On 12 May 2006, Smedvig changed its name to SeaDrill Norge AS. Smedvig will be delisted from the OSE following the expiry of the creditor notice period on or about 3 July 2006.

Financing of the acquisition of Smedvig's Class A Shares and Class B Shares

On January 23, 2006, SeaDrill took up a bridge loan of USD 1.2 billion to part finance the acquisition of up to 100% of the outstanding Class A-Shares and Class B-Shares in Smedvig.

On January 25, 2006, SeaDrill drew down an amount of $609.44 million for the settlement of Smedvig's shares. The loan has an interest of LIBOR plus 1.25% and USD 400 million of the total loan facility is repayable in January, 2007 and the remaining loan is repayable in January 2008. The loan is secured by first priority over the pledge of Smedvig shares and negative pledge against shares in Mosvold. In addition the facility contains certain covenants which require compliance with certain financial ratios such as maximum debt ratio, minimum interest cover ratio and requirement with regard to minimum free cash and working capital.

Note 20 – Subsequent events (cont'd)

Financing of the acquisition of Smedvig's Class A Shares and Class B Shares (cont'd)

On April 5, 2006, Smedvig Holding entered into the $1.2 billion bridge loan facility agreement with identical terms of the existing loan. On April 6, 2006, Smedvig Holding drewdown $609.44 million and paid the amount to SeaDrill for part settlement of the shares in Smedvig. On the same day SeaDrill repaid the outstanding loan and cancelled the remaining loan under the existing facility. Smedvig Holding withdrew $535 million on April 7, 2006 to finance the acquisition of Smedvig's shares under the mandatory offer. In addition SeaDrill had made available unsecured credit facility to Smedvig Holding for the purpose of part financing the acquisition of Smedvig.

Exercising of option to build a second Semi Submersible Drilling Rig at Daewoo Shipbuilding

In January 2006 the Company declared its option to build a second semi-submersible ultra deepwater drilling rig with Daewoo Shipbuilding in Korea. The rig is of the design GVA-7500-N and is fully capable of operating in harsh environment in water depth up to 10,000 feet. The contract price for the unit which includes some extra upgrades versus the first unit is approximately USD 495 million out of which only 30% of the contract price is payable prior to delivery of a fully operational unit.

Ekha's punched through

In January 2006, Ekha suffered a "punch through" in India and as a result the legs sustained some damage. The rig is currently under repair assessment at a Singapore yard. The jacking operation of the rig was performed based on soil information provided by the oil company and according to the contract the rig remains on the payroll at standby rate whilst repairs are effected. The physical damage to the leg and the repair needed is fully insured.

Guarantee Facility Agreement entered into with Nordea Bank Norge ASA and DNB Nor Bank ASA

On February 17, 2006, SeaDrill has entered into a Guarantee Facility Agreement with Nordea Bank Norge ASA and DNB Nor Bank ASA to enable SeaDrill to provide the OSE with a guarantee for its settlements obligation under the mandatory bid for the shares in Smedvig.

The guarantee facility is secured by first priority over the account which shall be and remain credited with an amount of USD 200 million and pledge of Smedvig shares. On April 7, 2006, the guarantee is withdrawn from OSE after the Company fulfilled its settlement obligations under the mandatory offer for the shares in Smedvig.

Note 20 – Subsequent events (cont'd)

Private placement

Subsequent to year end, SeaDrill has raised NOK 9.8 billion (approximately $1.5 billion) from three private placements :

(1) On January 22, 2006, SeaDrill placed a total of 75 million new shares at a subscription price of NOK 66 per share. Gross proceeds from the equity issue amounted to NOK 4.95 billion (approximately $724.3 million). The purpose of the share issue was to fund the acquisition of Smedvig and finance the firm contract for another semi-submersible drilling rig at Daewoo, as announced on January 20, 2006.

(2) On February 21, 2006, the Company completed another private placement of 20,000,000 shares (the "New Shares") at NOK 70.75 per share raising approximately $209.6 million to partly finance the acquisition of Mosvold and for general corporate purposes including financings for the mandatory offer of Smedvig.

(3) On April 2, 2006, SeaDrill placed an additional of 39 million new shares to a subscription price of NOK 90 per share. Gross proceeds from the equity issue amounted to NOK 3.5 billion (approximately $535.8 million). The purpose of the share issue was to fund the acquisition of shares in Smedvig as a consequence of the Mandatory Offer.

The New Shares will be admitted for trading on the OSE on par with SeaDrill's existing shares once the OSE has approved an introductory prospectus to be prepared by SeaDrill's Board (the "Prospectus"). Hemen Holdings Ltd ("Hemen") has agreed to lend 126,000,000 of Hemen's existing shares in SeaDrill (the "Borrowed Shares") for the purpose of delivering the same to the subscribers in settlement of SeaDrill's obligations under subscription terms for the private placement. Hemen receives no consideration for the lending of the Borrowed Shares as described above.

The issued share capital of SeaDrill after the private placement was USD 726,266,432, equalling 363,133,216 shares of USD 2 par value.

Note 20 – Subsequent events (cont'd)

Exercising of option to build another jack-up with KFELS

In March 2006, SeaDrill declared its option to build a fourth jack-up rig with Keppel FELS in Singapore. The rig will be of the KFELS B Class design, capable of operating in water depths of up to 400 feet and drilling depth of 30,000 feet. The contract price for the unit is USD 132 million and is composed of a basis price of USD 117 million, plus additional upgrades on the specification of USD 15 million in order to make the unit to a sister rig of SeaDrill 1 (Hull B- 277) presently under construction by the same yard. The delivery of the rig is expected to take place in the second quarter 2008. This order was secured via an option given to Odfjell Partners Ltd (Odfjell) when it ordered its first rig in March 2004. The Company was given the right to exercise the option when it acquired SeaDrill Invest in June 2005.

Provisions/requirements relating to take out financing – Hull B265 and Hull B272

The Company has been negotiating with Keppel Fels regarding the financing of the two newbuild units B265 and B272. On March 28, 2006 Keppel Fels confirmed that the provisions/requirements relating to take out financing in respect of Hull B265 and $80 million part-financing in respect of Hull B272 have been cancelled and are no longer the requirements under the construction contracts for Hull B265 and B272, respectively. Instead SeaDrill has provided the performance guarantee to Keppel Fels in respect of the Building Contract of units B265, B272 and the newly declared option rig.

Subsequently, the Company had cancelled both the take out financing with Keppel Fels and $80 million loan with DnB NOR Bank ASA.

Delivery of Hull B-265 from KFELS

SeaDrill Invest I took delivery of Hull B 265 from KFELS on 2 May 2006. The unit was named "SeaDrill 3".

Employee Share Ownership Programme (ESOP)

SeaDrill has established an employee share ownership plan under which employees, directors and officers of the SeaDrill Group may be allocated options to subscribe for new shares in SeaDrill. In May 2005 the Board has authorised five million shares to be allocated to this program at a subscription price of USD 2.23. In connection with the final takeover of Smedvig and the establishment of the new SeaDrill Management organisation, the initial grant of options has been allocated to certain individuals. A total of 800,000 options in line with the terms established in the original grant have been awarded to individuals who have worked for the Group since its start up in 2005. A further 670,000 options have been allocated to employees who since that time have been recruited directly in SeaDrill or employed through the takeover with Smedvig. The option strike price for these later options has increased to a weighted average of NOK 99.85 per share to represent the share price at the time their employment contract with SeaDrill came into effect. The Board intends currently to allocate a further 2,780,000 shares of the programme to cover second and third level managers. The strike price for this allocation will be set at the time of allocation. The remaining part of the option programme estimated to 750,000 shares will for the time being remain unallocated to meet new recruitments. Total outstanding options are thereby 4,250,000 shares or 1.17 % of the total outstanding share capital.

Note 20 – Subsequent events (cont'd)

Employee Share Ownership Programme (ESOP) (Cont'd)

The ESOP is, as stated above, intended to stimulate long term employment. The major part of the options have thereby been given five years validity from the date of an individuals effective date of employment. The options generally become exercisable 1/3 annually with the first callable date for any options to be at least one year after the option holders' effective date of employment.