

No•ble (nō'bel), *adj.*, 1: focused on achieving the highest return on capital 2: consistent adherence to the highest governance standards 3: to act with integrity, a disciplined management 4: commitment to do what is right...environmentally, socially, safely 5: passion for doing what we do better than anyone else.

The definition for success

FINANCIAL HIGHLIGHTS

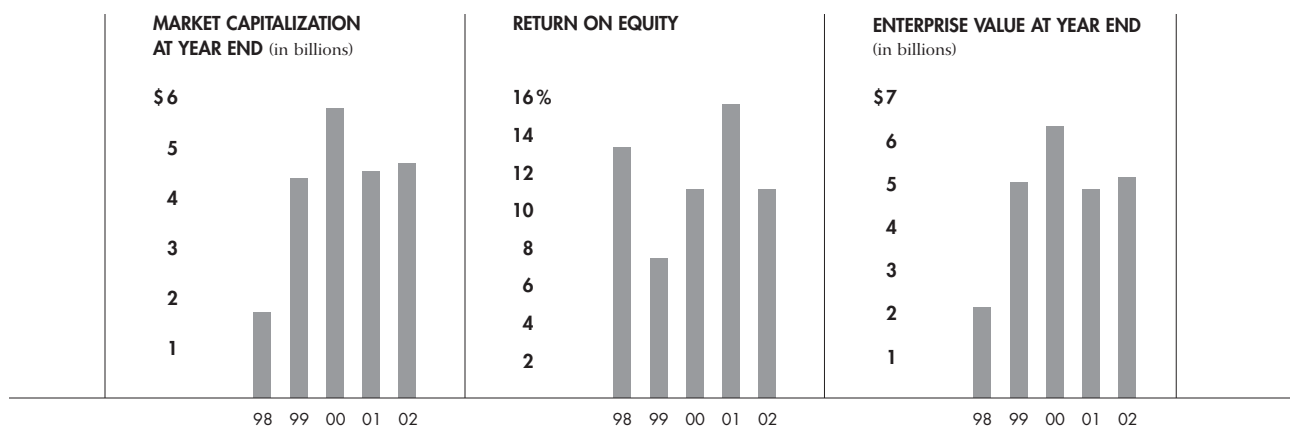
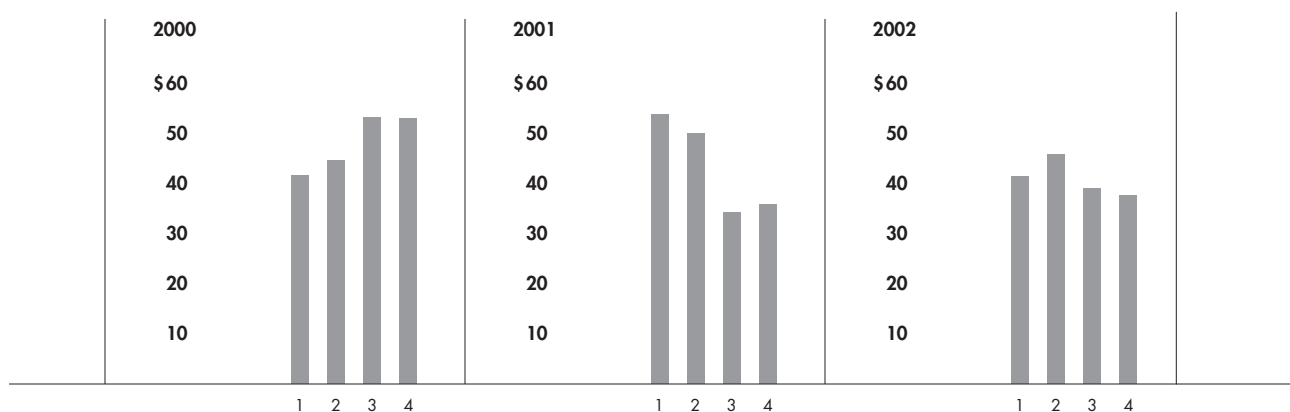
(In thousands, except per share amounts and ratios)

Year Ended December 31,

| | 2002 | 2001 | 2000 |
|---|------------|--------------|------------|
| Operating revenues | \$ 986,356 | \$ 1,029,760 | \$ 898,224 |
| Operating income | 275,001 | 384,287 | 268,624 |
| Income before income taxes | 243,325 | 348,472 | 226,307 |
| Net income | 209,503 | 262,922 | 165,554 |
| Per share - diluted | 1.57 | 1.96 | 1.22 |
| Net cash provided by operating activities | 445,364 | 451,046 | 330,736 |
| Capital investments | 521,125 | 191,269 | 193,756 |
| Return on capital employed | 9.6% | 12.6% | 9.4% |
| At year end: | | | |
| Total assets | 3,065,714 | 2,750,740 | 2,595,531 |
| Property and equipment, net | 2,471,043 | 2,149,217 | 2,095,129 |
| Total debt | 670,139 | 605,561 | 699,642 |
| Shareholders' equity | 1,989,210 | 1,778,319 | 1,576,719 |
| Book value per share | 14.90 | 13.47 | 11.80 |
| Current ratio | 1.66 | 2.38 | 1.85 |

STOCK INFORMATION

High price of ordinary shares by quarter

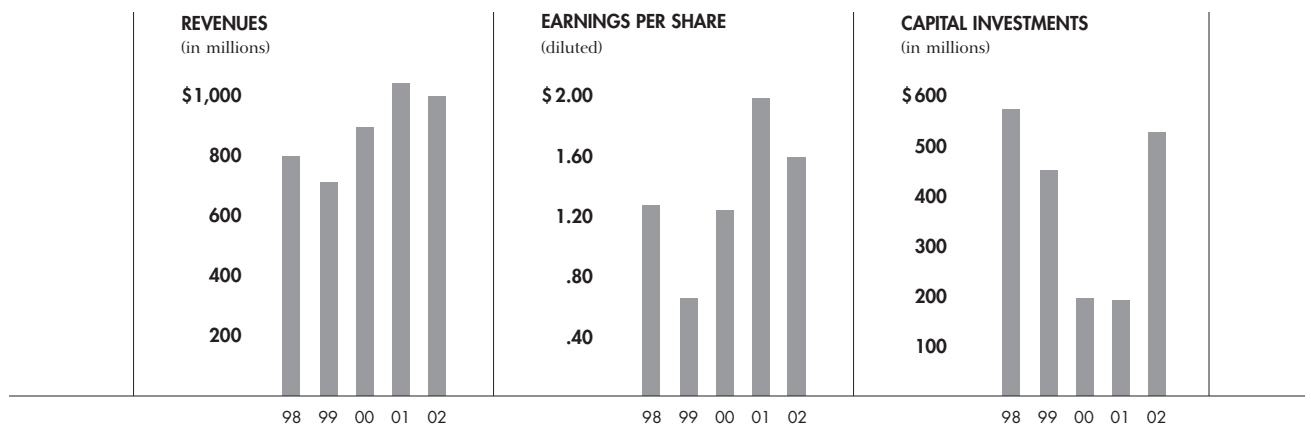


The many dynamics that impacted our Company in 2002 provided wonderful experiences for our management team. Oil prices have varied over a 12-month period from \$18.00 to \$33.00 per barrel; domestic inventories for oil have also fallen below 270 million barrels, the lowest level in 28 years. Equally, natural gas prices have varied from \$2.03 to \$5.16 per Mcf, with January 2004 futures price of natural gas of \$5.24 and storage numbers falling precipitously to 1,729 bcf down 52% year-on-year. Add to the mix our confrontation with Iraq, and this results in a “fun time” for skilled managers.

Ralph Waldo Emerson said that “common sense is genius dressed in its working clothes.” A great deal of common sense has allowed this Company to grow and evolve during uncertain times. Successfully dealing with these unpredictable times resulted in again recording the highest return on capital of any other drilling contractor in 2002. In fact, we were 52% higher than our next closest competitor.

The Noble team achieved operating revenues of \$986.4 million for the year compared to \$1 billion for the previous year. Net income per share for the year was \$1.57 as compared to the previous year of \$1.96. Cash provided by operations was \$445.4 million compared to \$451.0 million for the previous year. Coupled with our outstanding financial results, I am most pleased to report that our worldwide safety results improved year-on-year. Safety is a paradigm within the Company and these results are the product of hard work, training and focus. Of course, these achievements would not be attained without strong support from our outstanding client base.

We also set the stage for future growth with the acquisition of two jackups, two semisubmersibles, and options to purchase two additional jackups. Importantly, the two jackups are currently working and do not require any major refurbishment. The two semisubmersibles – renamed the *Noble Lorris Bouzigard* and *Noble Therald Martin* – are undergoing major refurbishments to allow them to work in 4,000 feet of water. We are excited about these additions and what they will mean to our earnings in the future.



Other exciting efforts that made progress during the year were through our Maurer Technology group, which is being led by Dr. William Maurer and Steve Manz. This team has made excellent inroads in the application of new innovative products. Their goal is to have a positive financial impact on the operations over the next 24 months. In addition, we deployed our first string of aluminum alloy riser on the drillship *Noble Leo Segerius* in Brazil, working for a very important client, Petrobras. Additional strings of aluminum alloy riser will be deployed on the *Noble Therald Martin* and *Noble Lorris Bouzigard*.

An additional project that is underway is the upgrade of the *Noble Clyde Boudreaux* semisubmersible which will operate in up to 10,000 feet of water with a dual derrick drilling capability. This project was initiated during a period of low activity in shipyards. We would accelerate this undertaking if a contract is awarded. This unit will be the most sophisticated drilling asset in our fleet and we anticipate it operating in West Africa, Brazil, or the Mexican or U.S. Gulf of Mexico.

The Company's consistent performance has paid off by being recognized in two magazines. The *Chief Executive Officer* magazine recognized the Company as the fourth best performer in the oil service sector in terms of shareholder return, spanning approximately 27 years. *Institutional Investor* magazine surveyed portfolio managers and sell side equity analysts to choose the top performing Chief Executive Officers in 26 different sectors. We were honored that Noble Corporation was selected the company in the oil service sector. These are the results of an exceptional team from all aspects of the Noble operation.

I am proud to be part of an organization that is comprised of dedicated, focused, ethical and hard-working individuals. Aesop said "please all and you will please none." This Company has developed and followed a strategy since 1985 that, while fluid during different parts of the cycle, was focused and pursued with a vengeance. Our team is confident that the results achieved today are but a precursor of what lies ahead. We are most appreciative of those shareholders who support the strategy of building value over time.

Finally, to all the individuals who comprise the Noble family, thank you for your contributions in making this Company truly unique.



James C. Day,
Chairman and Chief Executive Officer



2002 was the second best year in Noble's history from a financial standpoint. Given the fact that world events had a negative impact on the global economy and, in turn, weakened the demand for energy and offshore drilling services, we are proud of this accomplishment. Noble's philosophy of fleet geographic and geologic diversity provided the foundation for strong earnings, cash flow and return on capital employed. For the third straight year, we led the offshore drilling sector in earnings per share and ROCE. It should also be noted that our prudent reinvestment of free cash flow has paved the way for future growth in earnings and cash flow, even if current dayrates remain flat. We achieved these milestones without sacrificing our goals of protecting the environment and providing a safe workplace for our employees.

Financial results for 2002 reflected net income of \$209.5 million or \$1.57 per diluted share, 20 percent below 2001's record results. Net cash provided by operating activities was \$445.4 million in 2002 compared to \$451.0 million in 2001, and this was the fifth consecutive year where our net cash provided by operating activities exceeded \$250 million.

In 2002, international drilling operations contributed 65 percent of revenues and 86 percent of net income. As a result of our long term growth strategy and recognizing the increased significance of international results to the overall financial performance of the Company, we requested and received shareholder approval to complete a corporate restructuring, with over 96 percent of the shares voting on the restructuring in favor of the proposal. This action was taken as a means to remain competitive in the global marketplace. Under our new structure, we gain flexibility to reduce our worldwide corporate effective tax rate, increase operational efficiencies, and believe we have a structure that is more favorable for the expansion of our business.

We also continued our focus on maintaining a strong balance sheet. Even with our expenditures of \$171 million for the acquisition of six drilling units, \$93 million for refurbishment costs and \$34 million for stock repurchases, our debt to total capitalization of 25 percent remained flat from year-end 2001 to year-end 2002.

Our world class fleet of rigs increased to 55 units, with an option to purchase two additional units, during 2002, through the completion of three separate transactions. We believe the newly acquired units will be additive to earnings and cash flow and will provide a return on capital investment that exceeds Noble's cost of capital. In keeping with our long-term growth strategy, we will continue to seek acquisitions that exceed our investment hurdle rate and complement our existing drilling fleet.

The *Noble Lorris Bouzigard* and *Noble Therald Martin*, both pentagon design semisubmersibles, were added to the fleet in March 2002. Both units have undergone modifications and upgrades. The *Noble Lorris Bouzigard* is currently working under a short-term contract with Anadarko Petroleum

OPERATIONS

Corporation in the U.S. Gulf of Mexico. The *Noble Therald Martin* is scheduled for completion in the second quarter 2003 and will be outfitted with Noble's proprietary aluminum alloy riser.

We expect to complete our mobilization of a total of six drilling rigs to Mexico by the second quarter of 2003. The *Noble Gene Rosser* commenced a 917-day contract for Petroleos Mexicanos S.A. (Pemex) in late September 2002 and the *Noble Sam Noble* commenced a 1,082-day contract for Pemex in late October 2002. The *Noble John Sandifer* and the *Noble Johnnie Hoffman* commenced work for Pemex in November 2002. The *Noble Earl Frederickson* and *Noble Leonard Jones* are scheduled to commence work for Pemex in Mexico in the second quarter 2003.

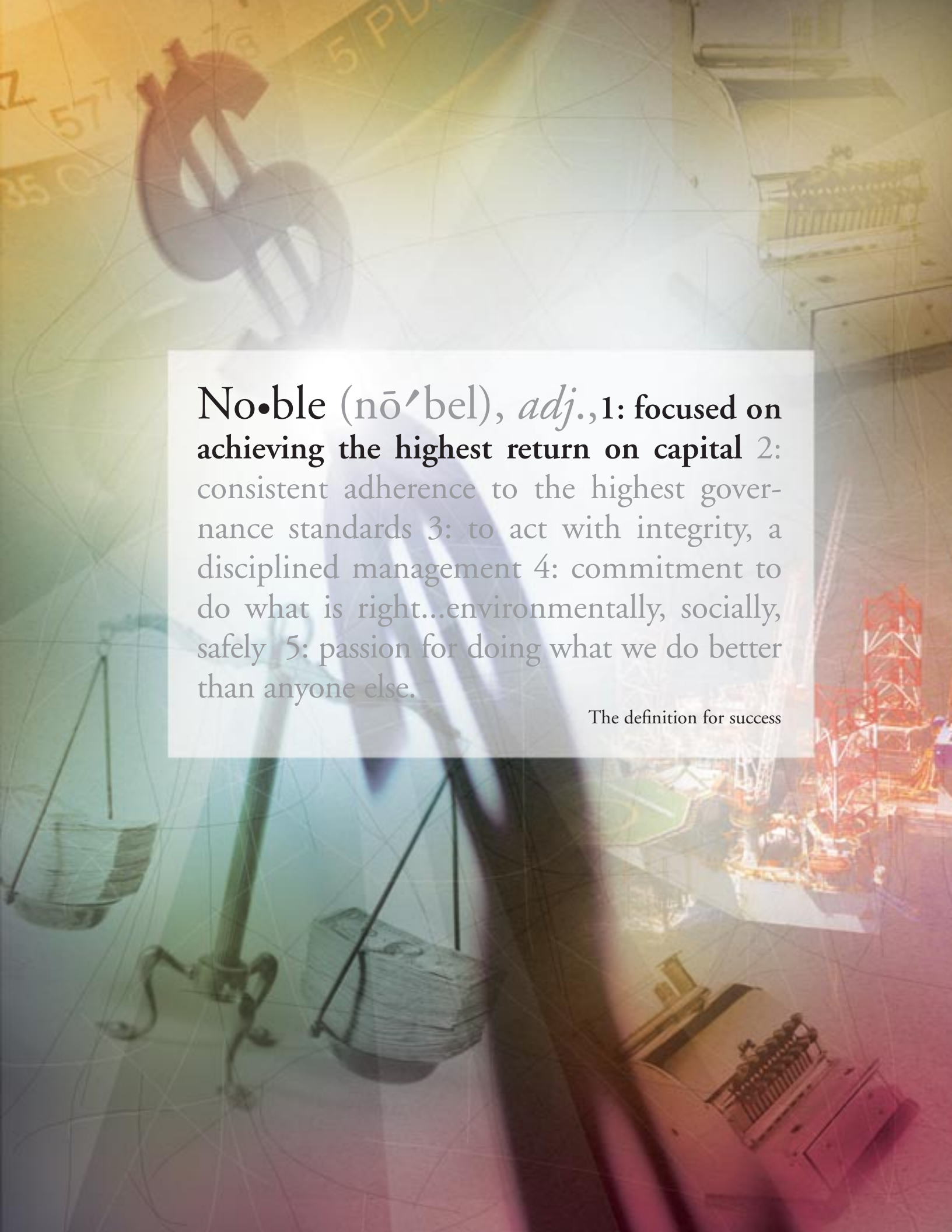
With the acquisitions of the *TRIDENT III* and the *DHABI II* jackup drilling units from a subsidiary of Schlumberger Limited in December 2002, we now operate nine rigs in the Middle East region, representing a 26 percent market share of the premium jackup market in the area. The *TRIDENT III*, a Marathon LeTourneau 116-C independent leg cantilevered unit, is operating under a long-term contract with Dubai Petroleum Company and the *DHABI II*, a Baker Marine design independent leg cantilever unit, is under contract to Abu Dhabi Oil Company Ltd. (Japan). Both units are operating in the territorial waters of the United Arab Emirates.

In December 2002, we entered into option agreements with the subsidiary of Schlumberger for the right to acquire two additional jackup units, the *TRIDENT XVIII* and *TRIDENT XIX*, once the rigs have completed their current contracts and are safely jacked up in the territorial waters of the United Arab Emirates.

In order to ensure continuous improvement throughout our operations, we implemented Six Sigma methodologies in 2002. Six Sigma is a powerful strategy used to accelerate improvements in processes and services, to reduce operating and administrative costs and to improve quality within an organization. This is achieved by relentless focus on the elimination of waste and variations. These strategies are being rolled out to every operating division and throughout all functions within our Company to continue our focus on lower costs and shareholder value.

PEOPLE, SAFETY AND THE ENVIRONMENT

Our goal is to achieve an incident free working environment for our employees and customers. This objective permeates every aspect of our operation. Safety performance for 2002 stood at a 0.17 lost time incident (LTI) rate for worldwide operations and a recordable rate of 1.20. 2002 marks the tenth consecutive year in which Noble has realized an improvement in our LTI rate and the tenth consecutive year we were below the industry average. Currently 40 of our units have operated more than one year without an LTI, 13 of which have five or more years with zero LTIs. We will



No•ble (nō'bel), *adj.*, **1: focused on achieving the highest return on capital 2: consistent adherence to the highest governance standards 3: to act with integrity, a disciplined management 4: commitment to do what is right...environmentally, socially, safely 5: passion for doing what we do better than anyone else.**

The definition for success

remain focused and committed to the continued improvement of our safety performance.

The safety of our employees extends beyond the rig and we remain committed to the security of all employees worldwide. In these uncertain and volatile times, we have taken additional measures to try to do all we can to protect our employees located around the world and we continually rededicate ourselves to this endeavor.

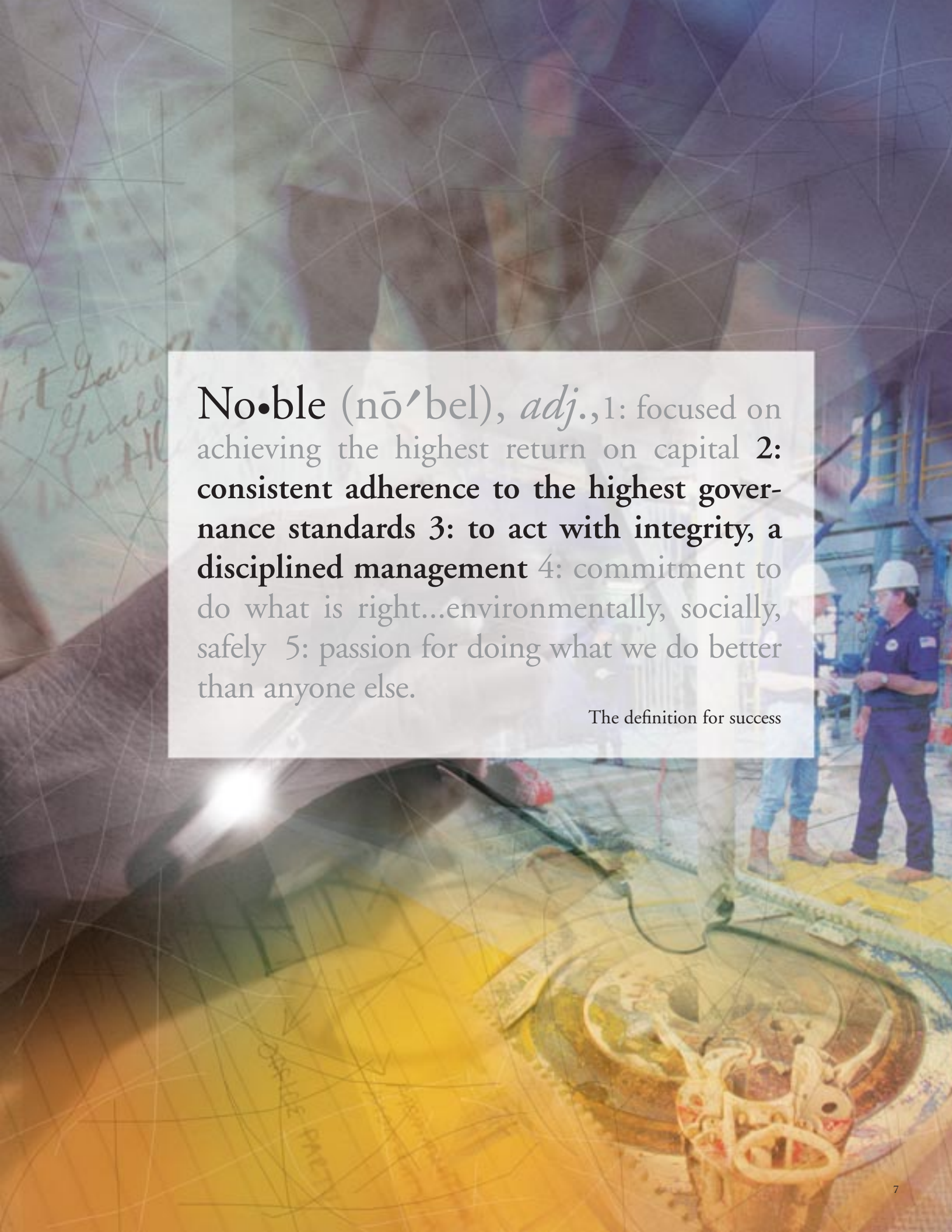
A safe and efficient working environment is achieved through continuous employee training and planning. Our Safety Leadership Workshops (SLW), first introduced in 1999, continued through 2002 and over 3,500 employees have participated in the three-day safety and environmental awareness sessions. Phase V of SLW, to be conducted throughout 2003, will also include a focus on continuous improvement through the application of Six Sigma methodologies.

In early 2002 the Brazil division expanded the scope of its International Safety Management (ISM) certification with four additional drilling units being certified. This achievement completes the ISM certification in Brazil for the shorebase facility and all drilling rigs and in the third quarter 2002, the Mexico division also achieved ISM certification.

The U.S. Gulf of Mexico shorebase operation and five drilling units achieved ISO 14001 certification in mid-2002. The remaining units in the U.S. Gulf are expected to receive certification prior to the end of 2003. Our Canadian operation achieved a joint ISO 14001 and ISO 9001:2000 certification in late 2002. Noble is the first drilling contractor to achieve certification under the new 2000 revision of ISO 9001.

In addition to these certifications, we continued building on our efforts to protect and preserve the environment by reducing the NOx emissions from our rigs with the installation of Ecotip Injector systems. In 2002, we completed a voluntary greenhouse gas emissions inventory pilot program on a rig in the U.S. Gulf of Mexico and in 2003, a global emissions inventory will be conducted for our entire rig fleet. We proactively study alternatives for reducing and mitigating the volume of greenhouse gas emissions from our rigs that could contribute to global warming. During the year we completed our Recycle the Gulf program, which is the implementation of a closed loop recycling program on our rigs located in the U.S. Gulf of Mexico. The program is designed to minimize the amount of waste that is generated aboard the rig, as well as collecting and recycling materials such as various types of paper, plastic, liquid, metal and medical waste.

Our commitment to our people and their safety, and the environment in which we live and work, accentuates our most important core value – our employees are our greatest asset. It is our employees who make Noble the driller of choice. In these uncertain times, we have rededicated ourselves to protecting this irreplaceable asset.



No•ble (nō'bel), *adj.*, 1: focused on achieving the highest return on capital 2: consistent adherence to the highest governance standards 3: to act with integrity, a disciplined management 4: commitment to do what is right...environmentally, socially, safely 5: passion for doing what we do better than anyone else.

The definition for success

TECHNOLOGY

Noble continued its initiatives in 2002 to meet customer demands for new drilling technology that addresses our customers' objectives for production growth at a reasonable development cost. Our goal remains to invest in technologically advanced products and services that complement our core contract drilling business and have the potential to generate significant financial returns.

During 2002, Noble acquired the shares of Welldone Engineering Services GmbH ("Welldone") and a related subsidiary, which developed a rotary steerable drilling system known as Well Director[®]. The acquisition complemented a number of technologies that have been developed and commercialized over the years by another of Noble's subsidiaries, Maurer Technology Incorporated (Maurer), which was acquired in 2001.

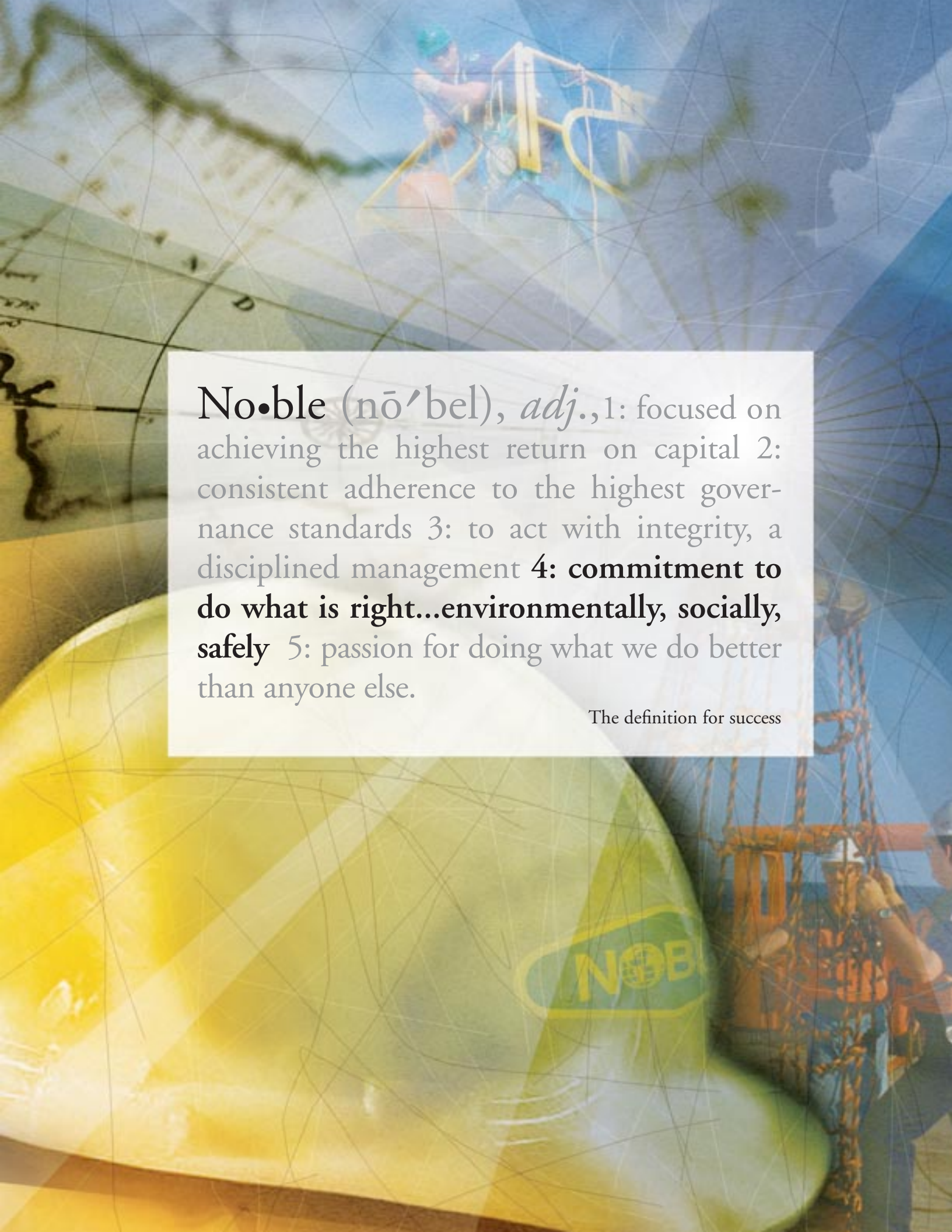
Rotary steerable drilling systems are downhole tools that are used for improving both the accuracy and performance of directional drilling activities. The tools generally allow for increased rates of penetration and lower drilling costs over conventional directional drilling equipment. Although there are a number of competitive rotary steerable systems already in the market, Noble anticipates that demand growth for these systems will be strong as the reliability of these systems increases to levels common for other types of drilling equipment.

In addition to our investment in the shares of Welldone, we also acquired a number of the Well Director[®] drilling tools. These tools are being upgraded by the engineering staffs at Maurer and Welldone and will be marketed by Noble Downhole Technology Ltd. once the upgrades are complete. The upgrades incorporate new electronics and sensors that will make Noble's rotary steerable system capable of operating with increased accuracy in high temperature environments.

We anticipate that the tools will be available for full commercial use during 2003, and we have signed agreements with several large oil and gas companies for worldwide use of the Well Director[®]. Noble will support the Well Director[®] with other proprietary technologies like the Noble DrillSmart System[®], which provide for improvement in rates of penetration and the ability to analyze drilling data.

Another area where we believe technology can improve our return on capital employed is through the use of innovative ideas to reduce construction costs associated with drilling to deeper water depths. Simply put, weight is our enemy and, if heavier metals can be replaced with lighter alloys, then significant cost savings can be achieved.

This concept was the driver behind development of aluminum alloy drilling riser. Years of hard work were brought to fruition in January of 2003 when the first full string was deployed on the *Noble Leo Segerius* in Brazil. This dynamically positioned drillship is currently operating in water



No•ble (nō'bel), *adj.*, 1: focused on achieving the highest return on capital 2: consistent adherence to the highest governance standards 3: to act with integrity, a disciplined management 4: **commitment to do what is right...environmentally, socially, safely** 5: passion for doing what we do better than anyone else.

The definition for success

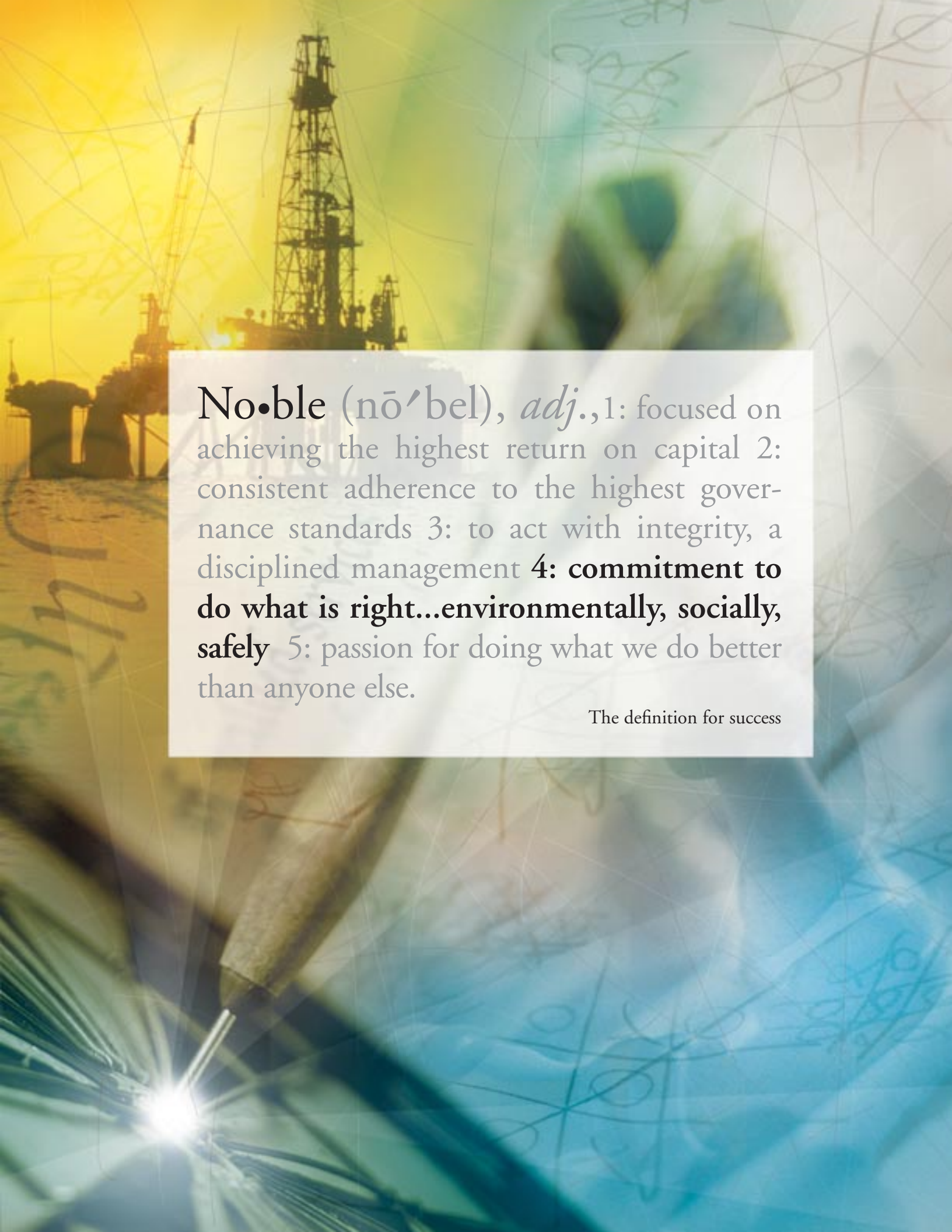
OPERATIONS

depths of 5,000 feet, but has the capacity to now reach depths of 6,000 feet with this technology. Initial performance results were very encouraging, and extensive testing will be performed on this unit and on two additional deepwater units in 2003.

In addition to the investment in rotary steerable drilling systems and the aluminum alloy riser, Noble continued work on a number of technology development projects. Maurer continued work on its dual gradient drilling technology and successfully completed Phase I of the related joint industry project. Noble is in discussions with several oil and gas companies to evaluate beginning Phase II.

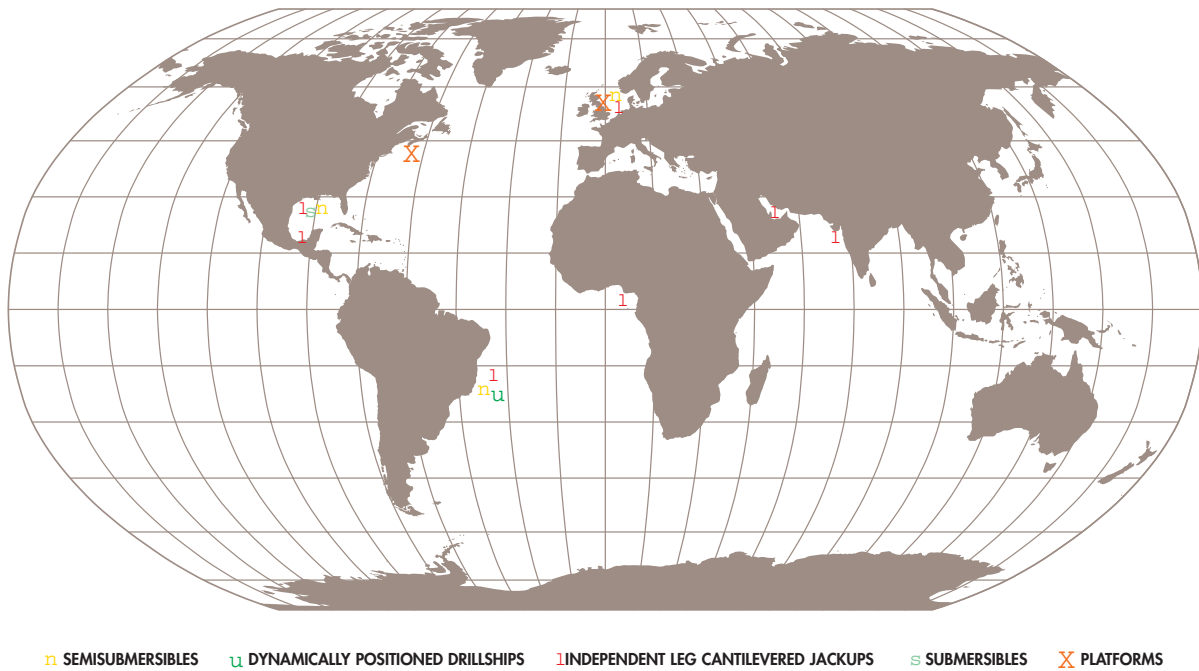
Maurer and Noble Engineering & Development Limited also continued work with Anadarko Petroleum Corporation on the U.S. Department of Energy sponsored project for the recovery of natural gas hydrates in Alaska. If successful, the project would result in the development of new technology to unlock production of a vast source of natural gas reserves around the world.

We will continue to focus on specific investment opportunities in technology, both internal and external, which have potential to differentiate our core businesses and generate high financial returns for our shareholders. Although Noble's technology group is relatively small, we believe that our prospects for successfully meeting these objectives are good given the level of our industry expertise and our clear management focus within the technology activities.



No•ble (nō'bel), *adj.*, 1: focused on achieving the highest return on capital 2: consistent adherence to the highest governance standards 3: to act with integrity, a disciplined management 4: **commitment to do what is right...environmentally, socially, safely** 5: passion for doing what we do better than anyone else.

The definition for success



THE CHAIRMAN'S AWARD is presented annually to the rigs that achieve outstanding results in the areas of health, safety, environment and operations. The winners for 2002 are as follows:

| | <u>WESTERN HEMISPHERE</u> | <u>EASTERN HEMISPHERE</u> |
|--------------------------|------------------------------|------------------------------|
| CHAIRMAN'S AWARD | <i>Noble Johnnie Hoffman</i> | <i>Noble Piet van Ede</i> |
| FIRST RUNNER UP | <i>Noble Eddie Paul</i> | <i>Noble Chuck Syring</i> |
| HONORABLE MENTION | <i>Noble Sam Noble</i> | <i>Noble Tommy Craighead</i> |

These rigs and their crews exemplify the very best in Noble. The outstanding manner in which they conduct their daily operations, maintain the rig's appearance, their professionalism and emphasis on safety all set them apart.

The *Noble Johnnie Hoffman* had worked 2,814 days without an LTI as of December 31, 2002. The crew is continually focused on rig efficiency and maintaining the rig's appearance. As one of the oldest units in Noble's fleet, this proves that the age of an asset is not a measurement of its success.



NOBLE JOHNNIE HOFFMAN



NOBLE PIET VAN EDE

The *Noble Piet van Ede* had worked 1,320 days without an LTI as of the end of 2002. The rig has experienced very low downtime, all crew members have achieved 100 percent competency under the European Competency Program and the rig has achieved ISO 14001 certification.

MARKET FOR REGISTRANT'S ORDINARY SHARES AND RELATED SHAREHOLDER MATTERS

Noble's ordinary shares are listed and traded on the New York Stock Exchange under the symbol "NE". The following table sets forth for the periods indicated the high and low sales prices of our ordinary shares:

| | High | Low |
|----------------|----------|----------|
| 2002 | | |
| First quarter | \$ 41.39 | \$ 28.36 |
| Second quarter | 45.79 | 38.15 |
| Third quarter | 38.70 | 28.15 |
| Fourth quarter | 37.79 | 30.34 |
| 2001 | | |
| First quarter | \$ 54.00 | \$ 37.25 |
| Second quarter | 50.01 | 30.87 |
| Third quarter | 33.75 | 20.80 |
| Fourth quarter | 35.62 | 22.85 |

We have not paid any cash dividends on our ordinary shares, and Noble Drilling did not pay any cash dividends on shares of its common stock since it became a publicly held corporation in October 1985. We do not anticipate paying dividends on our ordinary shares at any time in the foreseeable future.

At March 6, 2003, there were 1,653 record holders of ordinary shares.

During 2002, we sold European-style put options covering 1,300,000 of our ordinary shares in 12 separate private transactions (11 transactions of 100,000 put options each and another transaction of 200,000 put options). The options gave the holder the right to require us to purchase our ordinary shares from the holder at their respective exercise prices on their respective expiration dates. If we were required to purchase the shares covered by the options, we had the option to settle in cash or net shares of Noble. The strike price under each option represented between 90 and 95 percent of the spot price of the ordinary shares at the date of the transaction.

The following table sets forth certain information with respect to each of these 12 transactions:

| Date of Transaction | Number of Put Options | Purchaser | Premium Price Per Option | Strike Price Per Option | Cash Consideration Received | Put Option Expiration Date |
|---------------------|-----------------------|--------------------|--------------------------|-------------------------|-----------------------------|----------------------------|
| 01/14/2002 | 100,000 | Jefferies | \$ 2.40 | \$26.99 | \$240,000 | 07/15/2002 |
| 01/18/2002 | 100,000 | SalomonSmithBarney | 2.76 | 26.24 | 276,000 | 07/18/2002 |
| 01/30/2002 | 100,000 | SalomonSmithBarney | 2.45 | 26.60 | 245,000 | 07/30/2002 |
| 02/28/2002 | 100,000 | Goldman Sachs | 2.78 | 31.78 | 278,000 | 08/30/2002 ⁽¹⁾ |
| 05/29/2002 | 100,000 | Goldman Sachs | 2.84 | 37.93 | 284,000 | 11/28/2002 ⁽¹⁾ |
| 06/03/2002 | 100,000 | SalomonSmithBarney | 2.80 | 37.12 | 280,000 | 12/03/2002 ⁽¹⁾ |
| 06/05/2002 | 100,000 | Merrill Lynch | 2.77 | 35.10 | 277,000 | 12/05/2002 ⁽¹⁾ |
| 07/29/2002 | 100,000 | SalomonSmithBarney | 2.79 | 28.48 | 279,000 | 01/29/2003 |
| 07/31/2002 | 100,000 | Merrill Lynch | 2.73 | 29.03 | 273,000 | 01/31/2003 |
| 08/05/2002 | 100,000 | Goldman Sachs | 3.18 | 27.11 | 318,000 | 02/04/2003 |
| 08/29/2002 | 100,000 | Merrill Lynch | 2.65 | 27.87 | 265,000 | 02/28/2003 |
| 09/04/2002 | 200,000 | Merrill Lynch | 3.22 | 26.87 | 644,000 | 03/04/2003 |

(1) 100,000 ordinary shares were issued upon the exercise of these put options.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this annual report, including, without limitation, statements contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, regarding our financial position, business strategy, plans and objectives of management for future operations, industry conditions, and indebtedness covenant compliance, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, changes in United States tax laws, or the enactment of new United States tax laws, that may result in Noble Corporation being subject to taxation in the United States on its worldwide earnings, other material changes in the tax laws of the United States or other countries in which we operate which could increase our effective tax rate, volatility in crude oil and natural gas prices, the discovery of significant additional oil and/or gas reserves or the construction of significant oil and/or gas delivery or storage systems that impact regional or worldwide energy markets, potential deterioration in the demand for our drilling services and resulting declining dayrates, changes in our customers’ drilling programs or budgets due to factors discussed herein or due to their own internal corporate events, the cancellation by our customers of drilling contracts or letter agreements or letters of intent for drilling contracts or their exercise of early termination provisions generally found in our drilling contracts, intense competition in the drilling industry, changes in oil and gas drilling technology or in our competitors’ drilling rig fleets that could make our drilling rigs less competitive or require major capital investment to keep them competitive, political and economic conditions in the United States and in international markets where we operate, acts of war or terrorism and the aftermath of the September 11, 2001 terrorist attacks on the United States, cost overruns or delays on shipyard repair, maintenance, conversion or upgrade projects, adverse weather (such as hurricanes or monsoons) and seas, operational risks (such as blowouts and fires), limitations on our insurance coverage, and requirements and potential liability imposed by governmental regulation of the drilling industry (including environmental regulation). All of the foregoing risks and uncertainties are beyond our ability to control, and in many cases, we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward-looking statements. When used in this annual report, the words “believes”, “anticipates”, “expects”, “plans” and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements.

SELECTED FINANCIAL DATA

(In thousands, except per share amounts)

Year Ended December 31,

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|--|-------------|--------------|--------------|--------------|--------------|
| Statement of Income Data | | | | | |
| Operating revenues ⁽¹⁾ | \$ 986,356 | \$ 1,029,760 | \$ 898,224 | \$ 715,598 | \$ 800,472 |
| Net income ⁽²⁾ | 209,503 | 262,922 | 165,554 | 84,469 | 162,032 |
| Per share: | | | | | |
| Basic | \$ 1.58 | \$ 1.98 | \$ 1.24 | \$ 0.64 | \$ 1.24 |
| Diluted | 1.57 | 1.96 | 1.22 | 0.64 | 1.23 |
| Balance Sheet Data (at end of period) | | | | | |
| Property and equipment, net | \$2,471,043 | \$ 2,149,217 | \$ 2,095,129 | \$ 2,049,769 | \$ 1,649,133 |
| Total assets | 3,065,714 | 2,750,740 | 2,595,531 | 2,432,324 | 2,178,633 |
| Long-term debt | 589,562 | 550,131 | 650,291 | 730,893 | 460,842 |
| Total debt ⁽³⁾ | 670,139 | 605,561 | 699,642 | 790,353 | 609,628 |
| Shareholders' equity | 1,989,210 | 1,778,319 | 1,576,719 | 1,398,042 | 1,310,473 |
| Other Data | | | | | |
| Net cash provided by operating activities | \$ 445,364 | \$ 451,046 | \$ 330,736 | \$ 277,443 | \$ 263,081 |
| Capital expenditures | 268,054 | 133,776 | 125,199 | 421,679 | 540,571 |

- (1) During 2002, we adopted Emerging Issues Task Force No. 01-14, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred* ("EITF 01-14"). EITF 01-14 requires that "out-of-pocket" expenses incurred be included in direct costs and the reimbursements received from customers related to such expenses be included in operating revenues. Accordingly, pursuant to EITF 01-14, we have reclassified the reimbursements from customers that were recorded as a reduction to direct costs to operating revenues for all periods presented. The impact on operating revenues and direct costs was an increase of \$27,431,000, \$15,624,000, \$9,695,000 and \$12,231,000 for 2001, 2000, 1999 and 1998, respectively. This adoption had no impact on operating income or net income.
- (2) The 1999 amount includes a non-recurring restructuring charge of \$4,861,000, net of tax, related to early retirement packages offered to a number of domestic employees and the relocation of our Lafayette, Louisiana office to Sugar Land, Texas.
- (3) Consists of long-term debt (\$589,562,000 at December 31, 2002), and short-term debt and current maturities of long-term debt (\$80,577,000 at December 31, 2002). The December 31, 2002 amount includes \$38,401,000 principal amount of fixed rate senior secured notes issued by an indirect, wholly-owned subsidiary of Noble, which notes are non-recourse except to the issuer thereof.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist you in understanding our financial position as of December 31, 2002 and 2001, and our results of operations for each of the three years in the period ended December 31, 2002. You should read the accompanying consolidated financial statements and their notes in conjunction with this discussion.

BUSINESS ENVIRONMENT

Demand for drilling services depends on a variety of economic and political factors, including worldwide demand for oil and gas, the ability of OPEC to set and maintain production levels and pricing, the level of production of non-OPEC countries and the policies of the various governments regarding exploration and development of their oil and gas reserves.

Our results of operations depend on the levels of activity in offshore oil and gas exploration, development and production in markets worldwide. Historically, oil and gas prices and market expectations of potential changes in these prices have significantly affected that level of activity. These prices are extremely volatile. Despite generally higher oil prices in 2002 as compared to 2001, drilling activity in many international markets, which are influenced more by oil prices than natural gas prices, remained flat during 2002. We believe that operators in international markets were reluctant to increase drilling activity in 2002, despite these higher prices, due to the uncertainty surrounding the worldwide economy and the political unrest in the Middle East and Venezuela, which contributed to the higher oil prices.

Natural gas prices also rose during 2002 as inventory storage has fallen below average historical levels. The decline in natural gas inventory storage is attributable to reduced North American natural gas production in 2002 and increased demand for natural gas due to winter temperatures that were colder than the previous year. Although natural gas prices continued to rise during 2002, operators on average have not increased drilling activities. We believe this is due to the uncertainty surrounding the world economy. The reduced drilling activity in the U.S. Gulf of Mexico has resulted in continued depressed utilization rates and dayrates for drilling rigs in that region. Oil companies continue to work through the effects of industry consolidation, which has inhibited capital spending on exploration and development. We expect that further consolidation among our customer base would dampen drilling activity levels near-term. We cannot predict the future level of demand for our drilling services or future conditions in the offshore contract drilling industry.

In recent years, we have focused on increasing the number of rigs in our fleet capable of deepwater offshore drilling. We have incorporated this focus into our broader, long-standing business strategy to actively expand our international and offshore deepwater capabilities through acquisitions, rig upgrades and modifications and to deploy assets in important geological areas.

RESULTS OF OPERATIONS**2002 Compared to 2001***General*

Net income for 2002 was \$209,503,000, or \$1.57 per diluted share, on operating revenues of \$986,356,000, compared to net income of \$262,922,000, or \$1.96 per diluted share, on operating revenues of \$1,029,760,000 for 2001.

Rig Utilization, Operating Days and Average Dayrate

The following table sets forth the average rig utilization, operating days and average dayrate for our offshore fleet for 2002 and 2001:

| | Average Rig Utilization ⁽¹⁾ | | Operating Days | | Average Dayrate | |
|-------------------------|--|------|----------------|-------|------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Offshore | | | | | | |
| International | 95% | 90% | 10,052 | 8,718 | \$ 61,708 | \$ 56,879 |
| Domestic ⁽²⁾ | 84% | 90% | 4,934 | 6,035 | 58,802 | 74,578 |

(1) Utilization reflects our policy of reporting on the basis of the number of actively marketed rigs in our fleet.

Percentages reflect the results of rigs only during the period in which they are owned or operated by us.

(2) "Domestic" encompasses the U.S. Gulf of Mexico.

International Operations

The following table sets forth the operating revenues and gross margin (operating revenues less direct operating expenses) for our international operations for 2002 and 2001:

| (In thousands) | Revenues | | Gross Margin | |
|-----------------------------------|-------------------|------------|-------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| Contract drilling services | \$ 620,289 | \$ 495,870 | \$ 294,459 | \$ 229,097 |
| Reimbursables ⁽¹⁾ | 15,537 | 16,991 | 1,732 | 483 |
| Labor contract drilling services | 26,416 | 31,292 | 5,465 | 5,547 |
| Engineering, consulting and other | 11,197 | 11,393 | 1,290 | 3,902 |
| Total | \$ 673,439 | \$ 555,546 | \$ 302,946 | \$ 239,029 |

(1) For information on the reclassification of reimbursements from customers, see "Accounting Pronouncements" below.

Operating Revenues. International contract drilling services revenues increased \$124,419,000 due to higher average dayrates in the North Sea, the Middle East and West Africa and additional operating days in Mexico and the Middle East. The additional operating days in Mexico were attributable to the mobilization of four jack-up rigs to Mexico from the U.S. Gulf of Mexico for long-term contracts beginning in the latter part of 2002. International labor contract drilling services revenues decreased \$4,876,000 due to fewer equipment rentals on the Hibernia project in Canada and lower utilization on our North Sea labor contracts. International engineering, consulting and other revenues decreased \$196,000 due to a reduction in equipment fabrication services in the North Sea, partially offset by an additional engineering services contract in the North Sea and the expansion of our technology initiative to certain international markets during 2002.

Gross Margin. International contract drilling services gross margin increased \$65,362,000 due to higher average dayrates in the North Sea, the Middle East and West Africa and additional operating days in Mexico and the Middle East. International engineering, consulting and other gross margin decreased \$2,612,000 due to additional operating costs related to the testing and development of the Well Director[®] drilling tools acquired in May 2002 and a reduction in equipment fabrication services in the North Sea.

Domestic Operations

The following table sets forth the operating revenues and gross margin (operating revenues less direct operating expenses) for our domestic operations for 2002 and 2001:

| (In thousands) | Revenues | | Gross Margin | |
|-----------------------------------|------------|------------|--------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| Contract drilling services | \$ 290,130 | \$ 450,079 | \$ 127,331 | \$ 285,088 |
| Reimbursables ⁽¹⁾ | 10,646 | 12,131 | 1,393 | 1,208 |
| Engineering, consulting and other | 12,141 | 12,004 | (4,576) | 1,834 |
| Total | \$ 312,917 | \$ 474,214 | \$ 124,148 | \$ 288,130 |

(1) For information on the reclassification of reimbursements from customers, see "Accounting Pronouncements" below.

Operating Revenues. Domestic contract drilling services revenues decreased \$159,949,000, as soft market conditions in the U.S. Gulf of Mexico resulted in lower average dayrates and lower utilization. In addition, we moved four jackup rigs out of the U.S. Gulf of Mexico for long-term contracts in Mexico during the latter part of 2002. Domestic engineering, consulting and other revenues increased \$137,000 due to a significant project management engagement by our Triton Engineering ("Triton") subsidiary, partially offset by fewer of our Noble Engineering & Development Limited ("NED") subsidiary's Noble DrillSmart System® units on third-party rigs.

Gross Margin. Domestic contract drilling services gross margin decreased \$157,757,000 due to lower average dayrates and fewer operating days. Domestic engineering, consulting and other gross margin decreased \$6,410,000 due to additional research and development expenditures by NED and lower margins on engineering consulting engagements conducted by Triton.

Other Items

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$6,579,000 due to various capital upgrades to our rig fleet and the acquisition in August 2001 of the remaining 50 percent equity interest in the joint venture that owned the *Noble Julie Robertson*. As a result of this acquisition, the results of operations of the *Noble Julie Robertson* are included in our Consolidated Statements of Income from the purchase date. Prior to that date, the investment was accounted for under the equity method.

Selling, General and Administrative Expenses. Selling, general and administrative ("SG&A") expenses increased \$2,642,000 due primarily to professional fees and filing fees incurred in 2002 related to our corporate restructuring.

Interest Expense. Interest expense decreased \$5,130,000 due to lower average debt balances in 2002.

Other, net. Other, net decreased \$991,000 due to recognition of a realized loss of \$9,758,000 in 2002 on an investment in marketable equity securities resulting from a decline in value considered by management to be permanent. This loss was partially offset by a gain in 2002 of \$5,908,000 on the sale of a five percent working interest in one of Mariner Energy, Inc.'s deepwater exploration properties to Pioneer Natural Resources USA, Inc. for \$6,200,000 in cash and the assumption of liabilities related to our share of drilling and development costs on this property, and \$2,638,000 of income from working interests in other producing deepwater exploration properties. We also incurred a \$400,000 loss on the purchase and retirement of \$5,000,000 principal amount of our 7.50% Senior Notes due 2019 during 2002. In 2001, we reported a \$1,520,000 loss on the purchase and retirement of \$45,305,000 principal amount of our 7.50% Senior Notes. In addition, interest income was lower in 2002 due to a lower average yield earned on our cash balances and investments in marketable securities.

Income Tax Provision. Income tax provision decreased \$51,728,000 due to a lower effective tax rate and lower pretax earnings. The effective tax rate was 14 percent in 2002 compared to 25 percent in 2001. The lower effective

tive tax rate in 2002 was a result of a higher percentage of our pretax earnings being derived from international operations, which generally have lower effective tax rates than our domestic operations, and the tax benefits attributable to our corporate restructuring.

2001 Compared to 2000

General

Net income for 2001 was \$262,922,000, or \$1.96 per diluted share, on operating revenues of \$1,029,760,000, compared to net income of \$165,554,000, or \$1.22 per diluted share, on operating revenues of \$898,224,000 for 2000.

Rig Utilization, Operating Days and Average Dayrate

The following table sets forth the average rig utilization, operating days and average dayrate for our offshore fleet for 2001 and 2000:

| | Average Rig Utilization ⁽¹⁾ | | Operating Days | | Average Dayrate | |
|-------------------------|--|------|----------------|-------|-----------------|-----------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Offshore | | | | | | |
| International | 90% | 81% | 8,718 | 8,133 | \$ 56,879 | \$ 45,810 |
| Domestic ⁽²⁾ | 90% | 91% | 6,055 | 5,705 | 74,578 | 67,101 |

(1) Utilization reflects our policy of reporting on the basis of the number of actively marketed rigs in our fleet.

Percentages reflect the results of rigs only during the period in which they are owned or operated by us.

(2) "Domestic" encompasses the U.S. Gulf of Mexico.

International Operations

The following table sets forth the operating revenues and gross margin (operating revenues less direct operating expenses) for our international operations for 2001 and 2000:

| (In thousands) | Revenues | | Gross Margin | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2001 | 2000 | 2001 | 2000 |
| Contract drilling services | \$ 495,870 | \$ 372,572 | \$ 229,097 | \$ 141,552 |
| Reimbursables ⁽¹⁾ | 16,991 | 9,203 | 483 | 223 |
| Labor contract drilling services | 31,292 | 29,480 | 5,547 | 6,095 |
| Engineering, consulting and other | 11,393 | 6,378 | 3,902 | 4,400 |
| Total | \$ 555,546 | \$ 417,633 | \$ 239,029 | \$ 152,270 |

(1) For information on the reclassification of reimbursements from customers, see "Accounting Pronouncements" below.

Operating Revenues. International contract drilling services revenues increased \$123,298,000 due to higher average dayrates and rig utilization in West Africa, the North Sea and the Middle East, partially offset by the expiration of contracts in Venezuela. Labor contract drilling services revenues increased \$1,812,000 due to escalation clauses on our labor contract for the Hibernia project in Canada, partially offset by the expiration of a North Sea labor contract. International engineering, consulting and other revenues increased \$5,015,000 due to an engineering services contract in the North Sea which began during the fourth quarter of 2000.

Gross Margin. International contract drilling services gross margin increased \$87,545,000 due to higher average dayrates and rig utilization in West Africa, the North Sea and the Middle East. Labor contract drilling services gross margin decreased \$548,000 due to the expiration of a North Sea labor contract, partially offset by escalation clauses on our labor contract for the Hibernia project in Canada. Despite higher revenues, international engineering, consulting and other gross margin decreased \$498,000. This was due to the fact that we stopped

charging management fees to our joint venture that owned the *Noble Julie Robertson* once we acquired the entire interest in the joint venture in the third quarter of 2001.

Domestic Operations

The following table sets forth the operating revenues and gross margin (operating revenues less direct operating expenses) for our domestic operations for 2001 and 2000:

| (In thousands) | Revenues | | Gross Margin | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2001 | 2000 | 2001 | 2000 |
| Contract drilling services | \$ 450,079 | \$ 382,814 | \$ 285,088 | \$ 247,259 |
| Reimbursables ⁽¹⁾ | 12,131 | 7,580 | 1,208 | 956 |
| Turnkey drilling services | - | 82,047 | - | 2,495 |
| Engineering, consulting and other | 12,004 | 8,150 | 1,834 | 254 |
| Total | \$ 474,214 | \$ 480,591 | \$ 288,130 | \$ 250,924 |

(1) For information on the reclassification of reimbursements from customers, see "Accounting Pronouncements" below.

Operating Revenues. Domestic contract drilling services revenues increased \$67,265,000 due to higher average dayrates and increased operating days on our jackup rigs. The higher operating statistics on our domestic jackup rigs reflected improved market conditions in the Gulf of Mexico for most of 2001. There was no turnkey drilling activity in 2001 as Triton revised its business model during the fourth quarter of 2000 to focus on well site management, project management and technical services. Domestic engineering, consulting and other revenues increased \$3,854,000 due to additional revenues from NED and our Maurer Technology Incorporated ("Maurer") subsidiary.

Gross Margin. Domestic contract drilling services gross margin increased \$37,849,000 due to higher average dayrates and increased operating days on our jackup rigs. There was no turnkey drilling activity in 2001 due to Triton's revised business model. Domestic engineering, consulting and other gross margin increased \$1,580,000 due to contributions from NED and Maurer.

Other Items

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$7,788,000 due to various capital upgrades to our rig fleet.

Selling, General and Administrative Expenses. SG&A expenses increased \$514,000 due to higher labor costs.

Interest Expense. Interest expense decreased \$6,826,000 due to lower average debt balances in 2001.

Income Tax Provision. Income tax provision increased \$24,797,000 due to higher pretax earnings, partially offset by a lower effective tax rate. The effective tax rate was 25 percent in 2001 compared to 27 percent in 2000.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal capital resource in 2002 was net cash provided by operating activities of \$445,364,000, which compared to \$451,046,000 and \$330,736,000 in 2001 and 2000, respectively. At December 31, 2002, we had cash and cash equivalents of \$192,509,000, \$66,150,000 of marketable debt securities and approximately \$48,054,000 of funds available under our bank credit facility. We had working capital, including cash, of \$184,983,000 and \$286,500,000 at December 31, 2002 and 2001, respectively. Total debt as a percentage of total debt plus shareholders' equity was 25 percent at December 31, 2002 and December 31, 2001.

We repurchased 1,055,000 of our ordinary shares at a total cost of \$33,966,000 during 2002. Additional repurchases, if any, may be made on the open market or in private transactions at prices determined by us.

During 2002, we sold put options covering an aggregate of 1,300,000 of our ordinary shares in private transactions at an average price paid to us of \$2.81 per option. Of the 1,300,000 options sold during 2002, 300,000 expired unexercised and 400,000 were exercised during 2002, which resulted in 600,000 options outstanding at December 31, 2002. All of these had options expired unexercised as of March 4, 2003. We no longer have any purchase requirement with regard to any put options previously sold by us.

These share repurchases and sales of put options were effected pursuant to our share repurchase program covering up to 15,000,000 shares which was adopted and authorized by the board of directors of Noble. Giving effect to prior transactions, as of March 6, 2003, 10,249,000 shares remained available and unreserved under this authorization.

Capital Expenditures

Capital expenditures totaled \$268,054,000 and \$133,776,000 for 2002 and 2001, respectively. During 2002, we also purchased two semisubmersible drilling rigs, two baredeck hulls and two jackup drilling rigs for \$171,000,000 in the aggregate, as well as options to purchase two additional jackup rigs for \$24,900,000. In addition, deferred repair and maintenance expenditures totaled \$42,771,000 and \$33,507,000 for 2002 and 2001, respectively. We expect that our capital expenditures and deferred repair and maintenance expenditures for 2003 will aggregate approximately \$330,000,000 and \$50,000,000, respectively, including \$58,100,000 for the exercise of the options to purchase the two additional jackup drilling rigs. We had no joint venture fundings in 2002 and anticipate none in 2003. For information on deferred repair and maintenance expenditures and joint venture fundings, see Notes 1 and 6 of our accompanying consolidated financial statements.

In connection with several projects, we have entered into agreements with various vendors to purchase or construct property and equipment that generally have long lead times for delivery in connection with several projects. If we do not proceed with any particular project, we may either seek to cancel outstanding purchase commitments related to that project or complete the purchase of the property and equipment. Any equipment purchased for a project on which we do not proceed would be used, where applicable, as capital spares for other units in our fleet. If we cancel any of the purchase commitments, the amounts ultimately paid by us, if any, would be subject to negotiation. As of December 31, 2002, we had approximately \$95,000,000 of outstanding purchase commitments related to these projects, which are included in the projected 2003 capital expenditure and deferred repair and maintenance amounts above.

Certain projects currently under consideration could require, if they materialize, capital expenditures or other cash requirements not included in the 2003 budget. In addition, we will continue to evaluate acquisitions of drilling units from time to time. Factors that could cause actual project capital expenditures to materially exceed the planned capital expenditures include delays and cost overruns in shipyards, shortages of equipment, latent damage or deterioration to hull, equipment and machinery in excess of engineering estimates and assumptions, and changes in design criteria or specifications during repair or construction.

Credit Facilities and Long-Term Debt

Noble Drilling has in place a \$200,000,000 bank credit agreement (the "Credit Agreement"), which extends through May 30, 2006. In connection with our restructuring, Noble and its wholly-owned subsidiary, Noble Holding (U.S.) Corporation, have unconditionally guaranteed the performance of Noble Drilling under the Credit Agreement. As of December 31, 2002, we had outstanding borrowings and outstanding letters of credit of \$125,000,000 and \$26,946,000, respectively, under the Credit Agreement, with \$48,054,000 remaining available thereunder. Additionally, as of December 31, 2002, we had other letters of credit and third-party corporate guarantees totaling \$15,700,000, of which \$3,300,000 is supported by a restricted cash deposit, and \$28,383,000 of performance and customs bonds that had been supported by surety bonds.

At December 31, 2002, our total long-term debt had increased to \$670,139,000, including current maturities of \$80,577,000, due to a \$125,000,000 borrowing on our bank credit facility during 2002, net of paydowns in 2002 on other debt of \$60,431,000, including the purchase and retirement of \$5,000,000 principal amount of our 7.50% Senior Notes due 2019. At December 31, 2002 and 2001, we had no off-balance sheet debt. For additional information on long-term debt, see Note 7 to our accompanying consolidated financial statements.

We believe that our cash and cash equivalents, net cash provided by operating activities, available borrowings under lines of credit, and access to other financing sources will be adequate to meet our anticipated short-term and long-term liquidity requirements, including capital expenditures and scheduled debt repayments.

Summary of Obligations and Commitments

The following table summarizes our obligations and commitments at December 31, 2002 (dollar amounts are in thousands):

| | Payments Due by Period | | | | |
|---|------------------------|---------------------|------------------|-------------------|-------------------|
| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Contractual Obligations | | | | | |
| Long-Term Debt | \$ 670,139 | \$ 80,577 | \$ 53,395 | \$ 143,604 | \$ 392,563 |
| Operating Leases | 16,485 | 2,080 | 3,450 | 3,141 | 7,814 |
| Purchase Commitments | 95,000 | 95,000 | - | - | - |
| Total Contractual Cash Obligations | \$ 781,624 | \$ 177,657 | \$ 56,845 | \$ 146,745 | \$ 400,377 |

| | Amount of Commitment Expiration Per Period | | | | |
|-------------------------------------|--|---------------------|------------------|------------------|-----------------|
| | Total Amounts Committed | Less than 1 year | 1-3 years | 4-5 years | Over 5 years |
| Other Commercial Commitments | | | | | |
| Letters of Credit | \$ 33,646 | \$ 6,909 | \$ 26,737 | \$ - | \$ - |
| Third Party Corporate Guarantees | 9,000 | - | 9,000 | - | - |
| Surety Bonds | 28,383 | 1,551 | 5,656 | 21,196 | - |
| Total Commercial Commitments | \$ 71,029 | \$ 8,440 | \$ 41,393 | \$ 21,196 | \$ - |

CORPORATE RESTRUCTURING

On April 30, 2002, Noble Corporation, a Cayman Islands company (which we sometimes refer to in this report as "Noble"), became the successor to Noble Drilling Corporation, a Delaware corporation (which we sometimes refer to as "Noble Drilling"), as part of the internal corporate restructuring of Noble Drilling and its subsidiaries. This restructuring was approved by the stockholders of Noble Drilling at its 2002 annual stockholders meeting. The proposal to adopt the restructuring passed with 106,694,424 shares voted in favor of the proposal (representing 96.4 percent of the shares voted on the proposal). The restructuring was accomplished through the merger of an indirect, wholly-owned subsidiary of Noble Drilling with and into Noble Drilling. Noble Drilling survived the merger and is now an indirect, wholly-owned subsidiary of Noble. In addition, as a result of the merger, all of the outstanding shares of common stock (and the related preferred stock purchase rights) of Noble Drilling were exchanged for ordinary shares (and related preferred share purchase rights) of Noble. Noble and its subsidiaries, including Noble Drilling, continue to conduct the businesses previously conducted by the Noble Drilling corporate group prior to the merger. We accounted for the restructuring as a reorganization of entities under common control. Consequently, the consolidated amounts of assets, liabilities and shareholders' equity did not change as a result of the restructuring.

Noble Drilling sought stockholder approval of and effected the restructuring as a means to remain competitive in the global marketplace to provide diversified services to the oil and gas industry. Under the restructured organization, we gain flexibility to reduce our worldwide corporate effective tax rate, increase the operational efficiencies of our business, and create a corporate structure that is generally more favorable for expansion of our business. Additionally, we believe Noble could be a more attractive investment alternative to a wider range of investors.

For the year ended December 31, 2002, 65 percent of our revenues and 86 percent of our net income was derived from drilling operations outside of the United States. Our restructuring was in part driven by inequitable treatment under current U.S. tax laws, which impose taxes on the worldwide income of U.S. companies. This method of taxation places U.S.-based multinationals at a competitive disadvantage. The parent companies of certain of our competitors, including our two largest competitors, are incorporated in the Cayman Islands and other non-U.S. countries that impose either no tax or tax at rates substantially less than the United States.

As previously disclosed and widely reported in the media, during the 107th Congress several bills had been introduced in the U.S. House of Representatives and the U.S. Senate which dealt with various aspects of corporate "inversions". Although previously proposed legislation, if enacted in its form as originally filed, would have substantially reduced or eliminated the benefits of the restructuring to Noble, other proposed legislation would have allowed Noble to maintain the benefits of the restructuring. Proposed legislation was also directed towards leveling the playing field with respect to provisions in the U.S. Internal Revenue Code that put U.S. companies competing in a global marketplace at a competitive disadvantage.

Legislation similar to bills proposed in 2002 has been, or likely will be, introduced in the 108th Congress. Our consolidated financial statements for the year ended December 31, 2002 include a reduction in the income tax provision of \$9,000,000 for tax benefits attributable to this restructuring.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. Critical accounting policies and estimates that most impact our consolidated financial statements are those that relate to our property and equipment, insurance retention, revenue recognition and income taxes.

Property and equipment is stated at cost, reduced by provisions to recognize economic impairment in value when management determines that such impairment has occurred. Major replacements and improvements are capitalized. When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and the gain or loss is recognized. Repair and maintenance costs are generally charged to expense as incurred; however, overhauls related to large-scale maintenance projects are deferred when incurred and amortized into contract drilling expense over a 36-month period. Drilling equipment and facilities are depreciated using the straight-line method over the estimated useful lives as of the in-service date or date of major refurbishment. Estimated useful lives of our drilling equipment range from three to twenty-five years. Other property and equipment is depreciated using the straight-line method over useful lives ranging from two to twenty years.

We evaluate the realization of our long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any impairment loss recognized represents the excess of the asset's carrying value as compared to its estimated fair value. Prior to an impairment loss being recognized, an independent appraisal would be performed to determine the asset's estimated fair value. No impairment losses were recorded on our property and equipment balances during the years ended December 31, 2002, 2001 and 2000. However, on March 31, 2002, we recognized an impairment loss of \$9,758,000 on an investment in equity securities resulting from a decline in value considered by management to be permanent. There were no other impairment losses during the years ended December 31, 2002, 2001 and 2000.

We maintain insurance coverage against certain marine liabilities, including liability for physical damage to our drilling rigs and personal injury to our drilling crews. Our marine package policy insures us for physical damage to our drilling rigs up to the fair value of each rig. During 2002, we retained the first \$1,000,000 per occurrence under this policy and continued to retain a portion of each loss in excess of \$1,000,000 to a maximum of \$10,000,000. If a claim exceeded \$10,000,000, the amount in excess of \$10,000,000 was fully covered. Our protection and indemnity policy, which insures us for personal injury to our drilling crews, had a standard

deductible of \$100,000 per occurrence. In addition, we retained \$7,250,000 of claims in the aggregate beyond the standard deductible. We accrue for these deductibles during the year and the insurance retention reserve is adjusted based on actual claims losses. Our marine package also included loss of hire coverage for certain high-dayrate rigs. Under this policy, we did not recover any lost revenue until the rig was off-rate beyond 21 days due to an insured physical damage claim. We did not accrue for such losses. Instead, these losses were recorded as revenue was lost.

Due to significant losses suffered by the insurance industry in the past several years, the offshore drilling industry is facing significant increases in premium and retention levels. Based on an evaluation of our claims history, increased pricing in the insurance market and our ability to accept a higher retention level, we have raised our retention level on our marine package policy to \$10,000,000 per occurrence in 2003. The retention level on our protection and indemnity policy remains unchanged in 2003.

Revenues generated from our dayrate-basis drilling contracts, labor contracts, and engineering services and project management engagements are recognized as services are performed. We may receive lump-sum fees for the mobilization of equipment and personnel. The net of mobilization fees received and costs incurred to mobilize an offshore rig from one market to another is recognized over the term of the related drilling contract. Costs incurred to relocate drilling units to more promising geographic areas in which a contract has not been secured are expensed as incurred. Lump-sum payments received from customers relating to specific contracts are deferred and amortized to income over the term of the drilling contract.

During 2002, we adopted Emerging Issues Task Force No. 01-14, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred* ("EITF 01-14"). Pursuant to EITF 01-14, we record reimbursements from customers for "out-of-pocket" expenses as revenue and the related cost as direct costs. See "Accounting Pronouncements" below for additional information.

Noble is a Cayman Islands company. The Cayman Islands does not impose corporate income taxes. Consequently, income taxes have been provided based on the laws and rates in effect in the countries in which operations are conducted, or in which Noble and/or its subsidiaries are considered resident for income tax purposes. Applicable U.S. and foreign income and withholding taxes have not been provided on undistributed earnings of Noble's subsidiaries. We do not intend to repatriate such undistributed earnings for the foreseeable future except for distributions upon which incremental income and withholding taxes would not be material. In certain circumstances, we expect that, due to changing demands of the offshore drilling markets and the ability to redeploy our offshore drilling units, certain of such units will not reside in a location long enough to give rise to future tax consequences. As a result, no deferred tax liability has been recognized in these circumstances. Should our expectations change regarding the length of time an offshore drilling unit will be used in a given location, we will adjust deferred taxes accordingly.

For additional information on our accounting policies, see Note 1 to our accompanying consolidated financial statements.

ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* ("SFAS 141"), and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. As we had no business combinations in process upon this statement becoming effective, adoption of SFAS 141 did not have an impact on our consolidated results of operations, cash flows or financial position. SFAS 142 requires that goodwill and other intangible assets no longer be amortized, but rather tested for impairment at least annually. SFAS 142 is effective for fiscal years beginning after December 15, 2001. In conjunction with the adoption of SFAS 142 on January 1, 2002, we completed the initial transition impairment test required by SFAS 142, as well as our annual impairment test as of December 31, 2002, and determined that our existing goodwill was not impaired. Our adoption of SFAS 142 did not have a material impact on our consolidated results of operations, cash flows or financial position.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). SFAS 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* ("SFAS 121") and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* ("APB 30"), for the disposal of a segment of a business (as defined in that Opinion). SFAS 144 retains the fundamental provisions of SFAS 121 concerning the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale but provides additional guidance with regard to discontinued operations and assets to be disposed of. Furthermore, SFAS 144 excludes goodwill from its scope and, therefore, eliminates the requirement under SFAS 121 to allocate goodwill to long-lived assets to be tested for impairment. SFAS 144 is effective for fiscal years beginning after December 15, 2001. Our adoption of SFAS 144 on January 1, 2002 did not have a material impact on our consolidated results of operations, cash flows or financial position.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("SFAS 145"). SFAS 145 rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*, and an amendment of that statement, FASB Statement No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements*. SFAS 145 also rescinds FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers* and amends FASB Statement No. 13, *Accounting for Leases*, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Under FASB Statement No. 4, all gains and losses from the extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income taxes. Under SFAS 145, gains and losses from the extinguishment of debt should be classified as extraordinary items only if they meet the criteria of APB 30. APB 30 distinguishes the transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. The provisions of SFAS 145 related to the rescission of FASB Statement No. 4 are effective for fiscal years beginning after May 15, 2002. The remaining provisions of SFAS 145 are effective for all financial statements issued after May 15, 2002. During 2002, we elected to adopt early the provisions of SFAS 145. Pursuant to our early adoption, we have included a \$400,000 loss on the purchase and retirement of \$5,000,000 principal amount of our 7.50% Senior Notes due 2019 during 2002 in income before income taxes in our Consolidated Statements of Income for the year ended December 31, 2002. In addition, we reclassified the extraordinary charge of \$1,520,000 (before tax effect of \$532,000), related to the purchase and retirement of \$43,305,000 principal amount of our 7.50% Senior Notes during 2001 to income before income taxes in our Consolidated Statements of Income for the year ended December 31, 2001.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 expands existing accounting guidance and disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for financial statements ending after December 15, 2002. The remaining provisions of FIN 45 are effective for guarantees issued or modified after December 31, 2002. We do not expect the adoption of FIN 45 to have a material impact on our consolidated results of operations, cash flows or financial position.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure* ("SFAS 148"). SFAS 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure provisions of SFAS 123 to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS 148 does not amend SFAS 123 to require companies to account for their employee stock-based

awards using the fair value method. However, the disclosure provisions are required for all companies with stock-based employee compensation, regardless of whether they utilize the fair value method of accounting described in SFAS 123 or the intrinsic value method described in APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 148's amendment of the transition and annual disclosure provisions of SFAS 123 are effective for fiscal years ending after December 15, 2002. We have adopted the annual disclosure provisions of SFAS 123. We do not believe that the adoption of this standard will have a material impact on our consolidated results of operations, cash flows or financial position.

During 2002, we adopted EITF 01-14. EITF 01-14 requires that "out-of-pocket" expenses incurred be included in direct costs and the reimbursements received from customers related to such expenses be included in operating revenues. Prior to EITF 01-14, we recorded reimbursements received from customers for "out-of-pocket" expenses as a reduction to the related direct cost to the extent of the amount of the expense. Any amount received in addition to the related expense was included in operating revenues. Pursuant to EITF 01-14, we have reclassified the reimbursements from customers that were recorded as a reduction to direct costs to operating revenues for all periods presented. The impact of adopting EITF 01-14 on operating revenues and direct costs was an increase of \$27,431,000 and \$15,624,000 for 2001 and 2000, respectively. This adoption had no impact on operating income or net income.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires a company to consolidate a variable interest entity, as defined, when the company will absorb a majority of the variable interest entity's expected losses or receive a majority of the variable interest entity's expected residual returns. FIN 46 also requires certain disclosures relating to consolidated variable interest entities and unconsolidated variable interest entities in which a company has a significant variable interest. The disclosure provisions of FIN 46 are effective for financial statements issued after January 31, 2003. The consolidation provisions of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which a company obtains an interest after January 31, 2003. With respect to variable interest entities in which a company holds a variable interest that it acquired before February 1, 2003, the consolidation provisions are required to be applied no later than the first fiscal or interim period beginning after June 15, 2003. We do not expect to consolidate our equity interest in our Noble Crosco Drilling Ltd. joint venture under the provisions of FIN 46 and do not expect its adoption to have a material impact on our consolidated results of operations, cash flows or financial position.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Noble Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows, of shareholders' equity and of comprehensive income present fairly, in all material respects, the financial position of Noble Corporation and its subsidiaries (the "Company") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Houston, Texas
January 30, 2003

CONSOLIDATED BALANCE SHEETS

| (In thousands) | December 31, | |
|---|--------------------|---------------------|
| | 2002 | 2001 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 192,509 | \$ 236,709 |
| Restricted cash | 8,668 | 9,366 |
| Investment in marketable securities | 72,957 | 41,597 |
| Accounts receivable | 164,613 | 169,008 |
| Inventories | 3,628 | 3,626 |
| Prepaid expenses | 6,595 | 5,314 |
| Other current assets | 16,673 | 28,429 |
| Total current assets | <u>465,643</u> | <u>494,049</u> |
| PROPERTY AND EQUIPMENT | | |
| Drilling equipment and facilities | 3,153,509 | 2,739,574 |
| Other | 63,296 | 30,964 |
| | <u>3,216,805</u> | <u>2,770,538</u> |
| Accumulated depreciation | (745,762) | (621,321) |
| | <u>2,471,043</u> | <u>2,149,217</u> |
| INVESTMENTS IN AND ADVANCES TO JOINT VENTURES | 22,538 | 24,918 |
| OTHER ASSETS | 106,490 | 82,556 |
| | <u>\$3,065,714</u> | <u>\$ 2,750,740</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 80,577 | \$ 55,430 |
| Accounts payable | 64,783 | 46,996 |
| Accrued payroll and related costs | 51,125 | 39,775 |
| Taxes payable | 41,997 | 35,136 |
| Interest payable | 10,089 | 10,444 |
| Other current liabilities | 32,089 | 19,768 |
| Total current liabilities | <u>280,660</u> | <u>207,549</u> |
| LONG-TERM DEBT | 589,562 | 550,131 |
| DEFERRED INCOME TAXES | 206,351 | 202,646 |
| OTHER LIABILITIES | 5,635 | 17,029 |
| COMMITMENTS AND CONTINGENCIES (Note 13) | - | - |
| MINORITY INTEREST | (5,704) | (4,934) |
| | <u>1,076,504</u> | <u>972,421</u> |
| SHAREHOLDERS' EQUITY | | |
| Ordinary Shares—par value \$0.10 per share; 400,000 shares authorized and 133,534 issued and outstanding in 2002; 200,000 shares authorized, 138,175 issued and 132,015 outstanding in 2001 | 13,353 | 13,818 |
| Capital in excess of par value | 905,865 | 1,041,017 |
| Retained earnings | 1,140,472 | 930,969 |
| Treasury stock, at cost | (51,317) | (177,408) |
| Restricted stock (unearned compensation) | (12,871) | (18,340) |
| Accumulated other comprehensive loss | (6,292) | (11,737) |
| | <u>1,989,210</u> | <u>1,778,319</u> |
| | <u>\$3,065,714</u> | <u>\$ 2,750,740</u> |

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

Year Ended December 31,

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-------------------------------------|-------------------|-------------------|-------------------|
| OPERATING REVENUES | | | |
| Contract drilling services | \$ 910,419 | \$ 945,949 | \$ 755,386 |
| Reimbursables | 26,183 | 29,122 | 16,783 |
| Labor contract drilling services | 26,416 | 31,292 | 29,480 |
| Turnkey drilling services | - | - | 82,047 |
| Engineering, consulting and other | 23,338 | 25,397 | 14,528 |
| | <u>986,356</u> | <u>1,029,760</u> | <u>898,224</u> |
| OPERATING COSTS AND EXPENSES | | | |
| Contract drilling services | 488,629 | 431,764 | 366,595 |
| Reimbursables | 23,058 | 27,431 | 15,624 |
| Labor contract drilling services | 20,951 | 25,745 | 23,385 |
| Turnkey drilling services | - | - | 79,552 |
| Engineering, consulting and other | 26,624 | 17,661 | 9,874 |
| Depreciation and amortization | 125,154 | 118,575 | 110,787 |
| Selling, general and administrative | 26,939 | 24,297 | 23,783 |
| | <u>711,355</u> | <u>645,473</u> | <u>629,600</u> |
| OPERATING INCOME | 275,001 | 384,287 | 268,624 |
| OTHER INCOME (EXPENSE) | | | |
| Interest expense | (42,622) | (47,752) | (54,578) |
| Other, net | 10,946 | 11,937 | 12,261 |
| | <u>243,325</u> | <u>348,472</u> | <u>226,307</u> |
| INCOME BEFORE INCOME TAXES | 243,325 | 348,472 | 226,307 |
| INCOME TAX PROVISION | (33,822) | (85,550) | (60,753) |
| | <u>209,503</u> | <u>262,922</u> | <u>165,554</u> |
| NET INCOME | \$ 209,503 | \$ 262,922 | \$ 165,554 |
| NET INCOME PER SHARE: | | | |
| Basic | \$ 1.58 | \$ 1.98 | \$ 1.24 |
| Diluted | 1.57 | 1.96 | 1.22 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands) | Year Ended December 31, | | |
|---|-------------------------|-------------------|-------------------|
| | 2002 | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ 209,503 | \$ 262,922 | \$ 165,554 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 125,154 | 118,575 | 110,787 |
| Deferred income tax provision | 16,870 | 56,062 | 93,893 |
| Deferred repair and maintenance amortization | 29,315 | 22,927 | 19,009 |
| Realized loss on impairment of investment | 9,758 | - | - |
| Gain on sale of interest in deepwater exploration property | (5,908) | - | - |
| Gain on sales of property and equipment | (1,155) | (806) | (1,513) |
| Loss (gain) on sales of marketable securities | 168 | (8) | (423) |
| Loss on debt repurchases | 400 | 1,520 | - |
| Equity in (income) loss of joint ventures | (1,780) | 1,153 | 3,910 |
| Compensation expense from stock-based plans | 4,878 | 4,110 | 2,139 |
| Other | 4,678 | 2,241 | 2,265 |
| Changes in current assets and liabilities, net of acquired working capital: | | | |
| Accounts receivable | 4,395 | 7,781 | (58,121) |
| Other current assets | 4,942 | (12,202) | 5,364 |
| Accounts payable | 14,509 | (22,195) | (4,201) |
| Other current liabilities | 29,637 | 8,966 | (7,927) |
| Net cash provided by operating activities | <u>445,364</u> | <u>451,046</u> | <u>350,736</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditures | (268,054) | (133,776) | (125,199) |
| Acquisitions | (185,400) | (6,090) | - |
| Purchase of options to purchase rigs | (24,900) | - | - |
| Proceeds from sales of property and equipment | 1,879 | 887 | 2,142 |
| Proceeds from sale of interest in deepwater exploration property | 6,200 | - | - |
| Investment in and advances to joint ventures, net | 4,160 | (17,896) | (48,118) |
| Deferred repair and maintenance expenditures | (42,771) | (33,507) | (20,439) |
| Investment in marketable securities | (69,082) | (43,068) | (18,860) |
| Proceeds from sales of marketable securities | 38,419 | 7,747 | 19,283 |
| Net cash used for investing activities | <u>(539,549)</u> | <u>(225,703)</u> | <u>(191,191)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowing on credit facility | 125,000 | - | - |
| Payment of long-term debt | (60,772) | (95,137) | (91,272) |
| Proceeds from issuance of ordinary shares, net | 15,367 | 13,374 | 42,604 |
| Proceeds from sales of put options on ordinary shares | 3,658 | 1,568 | - |
| Repurchase of ordinary shares | (33,966) | (76,197) | (50,590) |
| Decrease (increase) in restricted cash | 698 | (5,477) | 121 |
| Net cash provided by (used for) financing activities | <u>49,985</u> | <u>(161,869)</u> | <u>(99,137)</u> |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | <u>(44,200)</u> | <u>63,474</u> | <u>40,408</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>236,709</u> | <u>173,235</u> | <u>132,827</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 192,509</u> | <u>\$ 236,709</u> | <u>\$ 173,235</u> |

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

| | 2002 | | 2001 | | 2000 | |
|--|----------------|---------------------|----------------|---------------------|----------------|---------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| ORDINARY SHARES | | | | | | |
| Balance at beginning of year | 138,175 | \$ 13,818 | 137,437 | \$ 15,744 | 134,716 | \$ 15,472 |
| Exercise stock options | 775 | 77 | 660 | 66 | 2,575 | 257 |
| Treasury shares cancelled upon restructuring | (4,298) | (430) | - | - | - | - |
| Restricted shares surrendered for employee taxes | (63) | (6) | - | - | - | - |
| Repurchase ordinary shares | (1,055) | (106) | - | - | - | - |
| Other | - | - | 78 | 8 | 146 | 15 |
| Balance at end of year | 133,534 | 13,353 | 138,175 | 13,818 | 137,437 | 13,744 |
| CAPITAL IN EXCESS OF PAR VALUE | | | | | | |
| Balance at beginning of year | | 1,041,017 | | 1,019,615 | | 960,803 |
| Exercise stock options | | 19,954 | | 16,991 | | 55,740 |
| Treasury shares cancelled upon restructuring | | (122,729) | | - | | - |
| Repurchase ordinary shares | | (33,860) | | - | | - |
| Restricted shares surrendered for employee taxes | | (1,369) | | - | | - |
| Restricted shares returned to treasury | | (291) | | 681 | | (763) |
| Sales of put options on ordinary shares | | 3,658 | | 1,568 | | - |
| Other | | (515) | | 2,162 | | 3,835 |
| Balance at end of year | | 905,865 | | 1,041,017 | | 1,019,615 |
| RETAINED EARNINGS | | | | | | |
| Balance at beginning of year | | 930,969 | | 668,047 | | 502,493 |
| Net income | | 209,503 | | 262,922 | | 165,554 |
| Balance at end of year | | 1,140,472 | | 930,969 | | 668,047 |
| TREASURY STOCK | | | | | | |
| Balance at beginning of year | (6,160) | (177,408) | (3,846) | (104,894) | (2,834) | (65,072) |
| Treasury shares cancelled upon restructuring | 4,298 | 123,158 | - | - | - | - |
| Contribution to restricted stock plan | - | - | 216 | 6,533 | 253 | 10,869 |
| Contribution to employee benefit plans | 102 | 3,579 | 92 | 3,268 | - | - |
| Restricted stock plan shares returned | (15) | (219) | (215) | (2,893) | (49) | (1,341) |
| Repurchase ordinary shares | - | - | (2,282) | (76,197) | (1,414) | (50,590) |
| Shares in restoration plan | (13) | (368) | (45) | (1,735) | - | - |
| Other | (3) | (59) | (80) | (1,490) | 198 | 1,240 |
| Balance at end of year | (1,791) | (51,317) | (6,160) | (177,408) | (3,846) | (104,894) |
| RESTRICTED STOCK (UNEARNED COMPENSATION) | | | | | | |
| Balance at beginning of year | | (18,340) | | (15,670) | | (6,778) |
| Issuance of restricted shares | | - | | (6,533) | | (10,436) |
| Compensation expense recognized | | 4,878 | | 4,110 | | 1,544 |
| Other | | 591 | | (247) | | - |
| Balance at end of year | | (12,871) | | (18,340) | | (15,670) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | | | | | |
| Balance at beginning of year | | (11,737) | | (4,123) | | (6,876) |
| Realized loss on impairment of investment | | 9,758 | | - | | - |
| Other comprehensive gain (loss) | | (4,313) | | (7,614) | | 2,753 |
| Balance at end of year | | (6,292) | | (11,737) | | (4,123) |
| TOTAL SHAREHOLDERS' EQUITY | 131,743 | \$ 1,989,210 | 132,015 | \$ 1,778,319 | 133,591 | \$ 1,576,719 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

| | Year Ended December 31, 2002 |
|--|---------------------------------|
| NET INCOME | <u>\$ 209,503</u> |
| OTHER COMPREHENSIVE INCOME, NET OF TAX: | |
| Foreign currency translation adjustments | 1,223 |
| Unrealized holding loss on securities arising during period | (707) |
| Minimum pension liability adjustment (net of tax benefit of \$2,600) | (4,829) |
| Realized loss for impairment of investment included in net income | <u>9,758</u> |
| Other comprehensive income | <u>5,445</u> |
| COMPREHENSIVE INCOME | <u>\$ 214,948</u> |
| | Year Ended December 31, 2001 |
| NET INCOME | <u>\$ 262,922</u> |
| OTHER COMPREHENSIVE LOSS, NET OF TAX: | |
| Foreign currency translation adjustments | (507) |
| Unrealized holding loss on securities arising during period | (5,729) |
| Minimum pension liability adjustment (net of tax benefit of \$742) | <u>(1,378)</u> |
| Other comprehensive loss | <u>(7,614)</u> |
| COMPREHENSIVE INCOME | <u>\$ 255,308</u> |
| | Year Ended December 31, 2000 |
| NET INCOME | <u>\$ 165,554</u> |
| OTHER COMPREHENSIVE INCOME, NET OF TAX: | |
| Foreign currency translation adjustments | 1,617 |
| Unrealized holding gain on securities arising during period | 1,638 |
| Minimum pension liability adjustment (net of tax expense of \$270) | <u>(502)</u> |
| Other comprehensive income | <u>2,753</u> |
| COMPREHENSIVE INCOME | <u>\$ 168,307</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Noble Corporation (“Noble” or, together with its consolidated subsidiaries, unless the context requires otherwise, the “Company”, “we”, “our” and words of similar import) is primarily engaged in contract drilling services in key markets worldwide. We provide technologically advanced drilling-related products and services designed to create value for all our customers. We also provide labor contract drilling services, well site and project management services, and engineering services. Our operations are conducted in the U.S. Gulf of Mexico, the North Sea, Brazil, West Africa, the Middle East, Mexico, India and Canada.

Noble Drilling (Paul Romano) Inc. (“NDPRI”) was formed on April 3, 1998 for the purpose of owning the *Noble Paul Romano* and financing its conversion to a Noble EVA-4000™ semisubmersible. NDPRI is an indirect, wholly-owned subsidiary of Noble and is operated in a fashion that is intended to ensure that its assets and liabilities are distinct and separate from those of Noble and its affiliates and that the creditors of NDPRI would be entitled to satisfy their claims from the assets of NDPRI prior to any distribution to Noble or its affiliates. (See Note 7.)

Consolidation

The consolidated financial statements include the accounts of Noble and its wholly- and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in affiliates where we have a significant influence but not a controlling interest. (See Note 6.)

Certain reclassifications have been made in prior year consolidated financial statements to conform to the classifications used in the 2002 consolidated financial statements. These reclassifications have no impact on net income. (See “Revenue Recognition” and “Accounting Pronouncements” below for additional information on reclassifications.)

Foreign Currency Translation

We follow a translation policy in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 52, *Foreign Currency Translation*. In international locations where the U.S. Dollar has been designated as the functional currency based on an evaluation of such factors as the markets in which the subsidiary operates, inflation, generation of cash flow, financing activities and intercompany arrangements, translation gains and losses are included in net income. In international locations where the local currency is the functional currency, assets and liabilities are translated at the rates of exchange on the balance sheet date, while income and expense items are translated at average rates of exchange. The resulting gains or losses arising from the translation of accounts from the functional currency to the U.S. Dollar are included in “Accumulated other comprehensive loss” in the Consolidated Balance Sheets. We did not recognize any material gains or losses on foreign currency transactions or translations during the years ended December 31, 2002, 2001 and 2000.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and all highly liquid investments with original maturities of three months or less. Our cash, cash equivalents and short-term investments are subject to potential credit risk. Our cash management and investment policies restrict investments to lower risk, highly liquid securities and we perform periodic evaluations of the relative credit standing of the financial institutions with which we conduct business.

In accordance with SFAS No. 95, *Statement of Cash Flows*, cash flows from our operations in the United Kingdom and Canada are calculated based on their respective functional currencies. As a result, amounts related to assets and liabilities reported on the Consolidated Statements of Cash Flows will not necessarily agree with changes in the corresponding balances on the Consolidated Balance Sheets. The effect of exchange rate changes on cash balances held in foreign currencies was not material in 2002, 2001 or 2000.

Derivative Instruments

We periodically enter into derivative instruments to manage our exposure to fluctuations in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for trading purposes. We designate and assign the financial instruments as hedges of specific assets, liabilities or anticipated transactions. Cash flows from hedge transactions are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the underlying assets, liabilities or anticipated transactions. We did not utilize any derivative financial instruments in 2002, 2001 or 2000.

Inventories

Inventories consist of spare parts, material and supplies held for consumption and are stated principally at the lower of average cost or fair value.

Property and Equipment

Property and equipment is stated at cost, reduced by provisions to recognize economic impairment in value when management determines that such impairment has occurred. At December 31, 2002 and 2001, there was \$371,882,000 and \$163,396,000, respectively, of construction in progress. Such amounts are included in "Drilling equipment and facilities" in the accompanying Consolidated Balance Sheets. Major replacements and improvements are capitalized. When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and the gain or loss is recognized.

Scheduled maintenance of equipment and overhauls are performed on a basis of number of hours operated in accordance with our preventative maintenance program. Repair and maintenance costs are generally charged to expense as incurred; however, overhauls related to large-scale maintenance projects are deferred when incurred and amortized into contract drilling services expense over a 36-month period. The deferred portion of these large-scale maintenance projects is included in "Other assets" in the Consolidated Balance Sheets. Such amounts totaled \$53,052,000 and \$59,830,000 at December 31, 2002 and 2001, respectively. Total maintenance and repair expenses for the years ended December 31, 2002, 2001 and 2000 were \$110,788,000, \$97,497,000 and \$83,452,000, respectively. Drilling equipment and facilities are depreciated using the straight-line method over the estimated remaining useful lives as of the in-service date or date of major refurbishment. Estimated useful lives of our drilling equipment range from three to twenty-five years. Other property and equipment is depreciated using the straight-line method over useful lives ranging from two to twenty years.

Long-Lived Assets

We evaluate the realization of our long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any impairment loss recognized represents the excess of the asset's carrying value as compared to its estimated fair value. Prior to an impairment loss being recognized, an independent appraisal would be performed to determine the asset's estimated fair value. In 2002, we recognized an impairment loss on an investment in marketable securities resulting from a decline in value considered by management to be permanent. There were no other impairment losses during the years ended December 31, 2002, 2001 and 2000.

Other Assets

Prepaid insurance is amortized over the terms of the insurance policies. Deferred debt issuance costs, which totaled \$3,855,000 and \$5,569,000 at December 31, 2002 and 2001, respectively, are being amortized over the life of the debt securities. Amortization related to debt issuance costs was \$1,664,000, \$1,549,000 and \$1,417,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Debt issuance costs are amortized using the straight-line method, which approximates the interest method.

Insurance Retention

We maintain insurance coverage against certain marine liabilities, including liability for physical damage to our drilling rigs and personal injury to our drilling crews. Our marine package policy insures us for physical damage to our drilling rigs up to the fair value of each rig. During 2002, we retained the first \$1,000,000 per occurrence under this policy and continued to retain a portion of each loss in excess of \$1,000,000 to a maximum of \$10,000,000. If a claim exceeded \$10,000,000, the amount in excess of \$10,000,000 was fully covered. Our protec-

tion and indemnity policy, which insures us for personal injury to our drilling crews, had a standard deductible of \$100,000 per occurrence. In addition, we retained \$7,250,000 of claims in the aggregate beyond the standard deductible. We accrue for these deductibles during the year and the insurance retention reserve is adjusted based on actual claims losses. Our marine package also included loss of hire coverage for certain high-dayrate rigs. Under this policy, we did not recover any lost revenue until the rig was off-rate beyond 21 days due to an insured physical damage claim. We did not accrue for such losses. Instead, these losses were recorded as revenue was lost.

Revenue Recognition

Revenues generated from our dayrate-basis drilling contracts, labor contracts, and engineering services and project management engagements are recognized as services are performed. Our turnkey drilling contracts during 2000 were of a short-term, fixed fee nature, and accordingly, revenues and expenses were recognized using the completed contract method. Provisions for future losses on turnkey contracts were recognized if it became probable that expenses to be incurred on a specific contract would exceed the revenue from the contract. In the fourth quarter of 2000, we revised our Triton Engineering ("Triton") subsidiary's business model to focus on well site management, project management and technical services.

We may receive lump-sum fees for the mobilization of equipment and personnel. The net of mobilization fees received and costs incurred to mobilize an offshore rig from one market to another is recognized over the term of the related drilling contract. Costs incurred to relocate drilling units to more promising geographic areas in which a contract has not been secured are expensed as incurred. Lump-sum payments received from customers relating to specific contracts are deferred and amortized to income over the term of the drilling contract.

During 2002, we adopted Emerging Issues Task Force No. 01-14, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred* ("EITF 01-14"). Pursuant to EITF 01-14, we record reimbursements from customers for "out-of-pocket" expenses as revenue and the related cost as direct costs. See "Accounting Pronouncements" below for additional information.

Income Taxes

Noble is a Cayman Islands company. The Cayman Islands does not impose corporate income taxes. Consequently, income taxes have been provided based on the laws and rates in effect in the countries in which operations are conducted, or in which Noble and/or its subsidiaries are considered resident for income tax purposes. Applicable U.S. and foreign income and withholding taxes have not been provided on undistributed earnings of Noble's subsidiaries. We do not intend to repatriate such undistributed earnings for the foreseeable future except for distributions upon which incremental income and withholding taxes would not be material. In certain circumstances, we expect that, due to changing demands of the offshore drilling markets and the ability to redeploy our offshore drilling units, certain of such units will not reside in a location long enough to give rise to future tax consequences. As a result, no deferred tax liability has been recognized in these circumstances. Should our expectations change regarding the length of time an offshore drilling unit will be used in a given location, we will adjust deferred taxes accordingly.

Concentration of Credit Risk

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

In 2002, one customer accounted for \$149,258,000 of contract drilling services revenues, or a total of 15 percent of consolidated operating revenues, of which \$97,431,000 was included in our domestic contract drilling services segment, \$51,064,000 was included in our international contract drilling services segment and \$763,000 was included in our engineering and consulting services segment. Another customer accounted for \$123,251,000 of contract drilling services revenues, or a total of 12 percent of consolidated operating revenues, of which all was included in

our international contract drilling services segment. No other customer accounted for more than 10 percent of consolidated operating revenues in 2002. In 2001, one customer accounted for \$130,872,000 of contract drilling services revenues, or a total of 13 percent of consolidated operating revenues, of which \$102,951,000 was included in our domestic contract drilling services segment, \$26,412,000 was included in our international contract drilling services segment and \$1,509,000 was included in our engineering and consulting services segment. Another customer accounted for \$121,623,000 of contract drilling services revenues, or a total of 12 percent of consolidated operating revenues, of which all was included in our international contract drilling services segment. No other customer accounted for more than 10 percent of consolidated operating revenues in 2001. In 2000, one customer accounted for \$116,838,000 of contract drilling services revenues, or a total of 13 percent of consolidated operating revenues, of which \$115,492,000 was included in our domestic contract drilling services segment, \$1,178,000 was included in our international contract drilling services segment and \$168,000 was included in our engineering and consulting services segment. Another customer accounted for \$111,966,000 of contract drilling services revenues, or a total of 12 percent of consolidated operating revenues, of which all was included in our international contract drilling services segment. No other customer accounted for more than 10 percent of consolidated operating revenues in 2000.

Net Income Per Share

We compute and present earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Net income per share has been computed on the basis of the weighted average number of ordinary shares and, where dilutive, ordinary share equivalents outstanding during the indicated periods.

The following table reconciles the basic and diluted earnings per share computations for net income for the years ended December 31, 2002, 2001 and 2000:

| | Net Income | Basic Shares | Basic EPS | Diluted Shares | Diluted EPS |
|-------------|-------------------|-----------------|----------------|-------------------|----------------|
| 2002 | \$ 209,503 | 132,204 | \$ 1.58 | 133,452 | \$ 1.57 |
| 2001 | 262,922 | 132,911 | 1.98 | 134,174 | 1.96 |
| 2000 | 165,554 | 133,439 | 1.24 | 135,461 | 1.22 |

Included in diluted shares are ordinary share equivalents relating primarily to outstanding stock options covering 1,248,000, 1,263,000 and 2,022,000 shares for the years ended December 31, 2002, 2001 and 2000, respectively. The computation of diluted earnings per share for 2002, 2001 and 2000 did not include options to purchase 1,913,432, 3,791,000 and 1,862,200 ordinary shares, respectively, because the options' exercise prices were greater than the average market price of the ordinary shares.

Supplemental Cash Flow Information

| (In thousands) | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| Cash paid (received) during the period for: | | | |
| Interest (net of amounts capitalized) | \$ 41,364 | \$ 45,606 | \$ 53,020 |
| Income taxes (net of refunds) | 8,667 | 29,940 | (24,016) |
| Noncash investing and financing activities: | | | |
| Insurance financing agreement | - | - | 1,761 |
| Acquired working capital | - | (401) | (2,818) |

Stock-Based Compensation Plans

We have several stock-based compensation plans, which are described below. As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("SFAS 148"), we have chosen to continue using the intrinsic value method of accounting for stock-based compensation awards in accordance with APB Opinion 25. Accordingly, no compensation expense was recognized in 2002, 2001 and 2000 related to stock option awards. For U.S. federal income tax purposes, we realized a reduction in income taxes related to the exercises of employee stock options of \$3,257,000, \$5,201,000 and \$16,672,000 in the years ended December 31, 2002, 2001 and 2000, respectively.

1991 Stock Option and Restricted Stock Plan

Our 1991 Stock Option and Restricted Stock Plan, as amended (the "1991 Plan"), provides for the granting of options to purchase our ordinary shares, with or without stock appreciation rights, and the awarding of restricted shares to selected employees. At December 31, 2002, 3,944,473 shares were available for grant or award under the 1991 Plan. In general, all options granted under the 1991 Plan have a term of 10 years, an exercise price equal to the fair market value of an ordinary share on the date of grant and vest one-third annually, commencing one year after the grant date.

1992 Nonqualified Stock Option Plan

Our 1992 Nonqualified Stock Option Plan for Non-Employee Directors (the "1992 Plan") provides for the granting of nonqualified stock options to non-employee directors of Noble. At December 31, 2002, 327,500 shares were available for grant under the 1992 Plan. We grant options at fair market value on the grant date. The options are exercisable from time to time over a period commencing one year from the grant date and ending on the expiration of 10 years from the grant date, unless terminated sooner as described in the 1992 Plan.

A summary of the status of our stock options under both the 1991 Plan and 1992 Plan as of December 31, 2002, 2001 and 2000 and the changes during the year ended on those dates is presented below (actual amounts):

| | 2002 | | 2001 | | 2000 | |
|--------------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | Number of Shares Underlying Options | Weighted Average Exercise Price | Number of Shares Underlying Options | Weighted Average Exercise Price | Number of Shares Underlying Options | Weighted Average Exercise Price |
| Outstanding at beginning of the year | 8,494,250 | \$ 28.40 | 7,339,684 | \$ 26.89 | 8,052,753 | \$ 19.72 |
| Granted | 1,630,000 | 31.53 | 1,965,017 | 31.28 | 1,893,200 | 42.57 |
| Exercised | (775,118) | 19.99 | (660,114) | 20.11 | (2,574,559) | 16.03 |
| Forfeited | (161,474) | 32.82 | (150,337) | 28.62 | (31,710) | 21.85 |
| Outstanding at end of year | <u>9,187,658</u> | <u>\$ 29.64</u> | <u>8,494,250</u> | <u>\$ 28.40</u> | <u>7,339,684</u> | <u>\$ 26.89</u> |
| Exercisable at end of year | <u>5,682,838</u> | <u>\$ 27.41</u> | <u>4,668,124</u> | <u>\$ 24.84</u> | <u>4,412,915</u> | <u>\$ 21.42</u> |

The following table summarizes information about stock options outstanding at December 31, 2002 (actual amounts):

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 1.72 to \$ 5.00 | 300 | .1 | \$ 4.69 | 300 | \$ 4.69 |
| 5.01 to 7.69 | 88,176 | 2.1 | 6.32 | 88,176 | 6.32 |
| 7.70 to 14.00 | 174,301 | 4.3 | 10.98 | 174,301 | 10.98 |
| 14.01 to 28.31 | 3,601,058 | 5.4 | 22.92 | 3,520,858 | 22.95 |
| 28.32 to 48.81 | 5,323,823 | 8.5 | 35.19 | 1,899,203 | 37.57 |
| \$ 1.72 to \$ 48.81 | 9,187,658 | 7.2 | \$ 29.64 | 5,682,838 | \$ 27.41 |

Additional disclosures required by SFAS 123 are as follows:

| | December 31, | | |
|--|--------------|----------|----------|
| | 2002 | 2001 | 2000 |
| Weighted average fair value per option granted | \$ 11.57 | \$ 13.61 | \$ 19.01 |
| Valuation assumptions: | | | |
| Expected option term (years) | 5 | 5 | 5 |
| Expected volatility | 43.72% | 41.41% | 41.24% |
| Expected dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 4.42% | 4.72% | 5.70% |

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share amounts)

The following table reflects pro forma net income and earnings per share had we elected to adopt the fair value approach of SFAS 123:

| | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2002 | 2001 | 2000 |
| Net income – as reported | \$ 209,503 | \$ 262,922 | \$ 165,554 |
| Compensation expense, net of tax – pro forma | (19,279) | (15,976) | (12,719) |
| Net income – pro forma | \$ 190,224 | \$ 246,946 | \$ 152,835 |
| Earnings per share: | | | |
| Basic – as reported | \$ 1.58 | \$ 1.98 | \$ 1.24 |
| Basic – pro forma | \$ 1.44 | \$ 1.86 | \$ 1.15 |
| Diluted – as reported | \$ 1.57 | \$ 1.96 | \$ 1.22 |
| Diluted – pro forma | \$ 1.43 | \$ 1.84 | \$ 1.13 |

Other Stock Based Compensation

In January 1998, we awarded selected employees 22,000 restricted (i.e., nonvested) shares that vest 20 percent per year over a five-year period commencing on the first anniversary date of the award. In January 1999, we awarded one employee 15,000 restricted shares that vest one-third per year over a three-year period commencing on the first anniversary date of the award. In February 1999 and October 1999, we awarded selected employees 190,000 restricted shares and 230,000 restricted shares, respectively, that vest 20 percent per year over a five-year period commencing on the first anniversary date of the award. In September 2000, we awarded one employee 25,000 restricted shares that vest 20 percent per year over a five-year period commencing on the first anniversary date of the award. In October 2000 and October 2001, we awarded selected employees 227,500 restricted shares and 215,500 restricted shares, respectively, that vest 20 percent per year over a five-year period commencing on the first anniversary date of the award. No restricted shares were issued in 2002.

A summary of the restricted share awards and the amounts recognized as compensation expense for the years ended December 31, 2002, 2001 and 2000 are as follows:

| | 2002 | 2001 | 2000 |
|-----------------------------------|----------|----------|----------|
| Restricted shares: | | | |
| Shares awarded | - | 215,500 | 252,500 |
| Average share price at award date | \$ - | \$ 30.32 | \$ 43.04 |
| Compensation expense recognized | \$ 4,878 | \$ 4,110 | \$ 2,139 |

Put Options on Ordinary Shares

During 2002, we sold European-style put options covering 1,300,000 of our ordinary shares in 12 separate private transactions (11 transactions of 100,000 put options each and another transaction of 200,000 put options) at an average price paid to us of \$2.81 per option. The options gave the holder the right to require us to purchase our ordinary shares from the holder at their respective exercise prices on their respective expiration dates. If we were required to purchase the shares covered by the options, we had the option to settle in cash or net shares of Noble. The strike price under each option represented between 90 and 95 percent of the spot price of the ordinary shares at the date of the transaction. Of the 1,300,000 options sold during 2002, 300,000 expired unexercised and 400,000 were exercised during 2002, which resulted in 600,000 options outstanding at December 31, 2002. All of these options expired unexercised as of March 4, 2003. We no longer have any purchase requirement with regard to the shares covered by expired or previously exercised options.

Certain Significant Estimates

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

Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, *Business Combinations* ("SFAS 141"), and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. As we had no business combinations in process upon this statement becoming effective, adoption of SFAS 141 did not have an impact on our consolidated results of operations, cash flows or financial position. SFAS 142 requires that goodwill and other intangible assets no longer be amortized, but rather tested for impairment at least annually. SFAS 142 is effective for fiscal years beginning after December 15, 2001. In conjunction with the adoption of SFAS 142 on January 1, 2002, we completed the initial transition impairment test required by SFAS 142, as well as our annual impairment test as of December 31, 2002, and determined that our existing goodwill was not impaired. Our goodwill balance at December 31, 2002 and 2001 was \$12,712,000 and \$4,849,000, respectively. The increase in our goodwill balance was attributable entirely to the acquisition of two related downhole drilling technology companies in 2002. (See Note 3 for additional information.) All of our goodwill is attributable to our engineering and consulting services segment. Our adoption of SFAS 142 did not have a material impact on our consolidated results of operations, cash flows or financial position. The impact to our net income and diluted earnings per share in 2001 and 2000 would not have been material had SFAS 142 been in effect in those years.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). SFAS 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* ("SFAS 121") and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* ("APB 30"), for the disposal of a segment of a business (as defined in that Opinion). SFAS 144 retains the fundamental provisions of SFAS 121 concerning the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale but provides additional guidance with regard to discontinued operations and assets to be disposed of. Furthermore, SFAS 144 excludes goodwill from its scope and, therefore, eliminates the requirement under SFAS 121 to allocate goodwill to long-lived assets to be tested for impairment. SFAS 144 is effective for fiscal years beginning after December 15, 2001. Our adoption of SFAS 144 on January 1, 2002 did not have a material impact on our consolidated results of operations, cash flows or financial position.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("SFAS 145"). SFAS 145 rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*, and an amendment of that statement, FASB Statement No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements*. SFAS 145 also rescinds FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers* and amends FASB Statement No. 13, *Accounting for Leases*, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Under FASB Statement No. 4, all gains and losses from the extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income taxes. Under SFAS 145, gains and losses from the extinguishment of debt should be classified as extraordinary items only if they meet the criteria of APB 30. APB 30 distinguishes the transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. The provisions of SFAS 145 related to the rescission of FASB Statement No. 4 are effective for fiscal years beginning after May 15, 2002. The remaining provisions of SFAS 145 are effective for all financial statements issued after May 15, 2002. During 2002, we elected to early adopt the provisions of SFAS 145. Pursuant to our early adoption, we have included a \$400,000 loss on the purchase and retirement of \$5,000,000 principal amount of our 7.50% Senior Notes due 2019 during 2002 in income before income taxes in our Consolidated Statements of Income for the year ended December 31, 2002. In addition, we reclassified the extraordinary charge of \$1,520,000 (before tax effect of \$532,000), related to the purchase and retirement of \$43,305,000 principal amount of our 7.50% Senior Notes during 2001 to income before income taxes in our Consolidated Statements of Income for the year ended December 31, 2001.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 expands existing accounting guid-

ance and disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for financial statements ending after December 15, 2002. The remaining provisions of FIN 45 are effective for guarantees issued or modified after December 31, 2002. We do not expect the adoption of FIN 45 to have a material impact on our consolidated results of operations, cash flows or financial position.

In December 2002, the FASB issued SFAS 148. SFAS 148 amends SFAS 123 to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure provisions of SFAS 123 to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS 148 does not amend SFAS 123 to require companies to account for their employee stock-based awards using the fair value method. However, the disclosure provisions are required for all companies with stock-based employee compensation, regardless of whether they utilize the fair value method of accounting described in SFAS 123 or the intrinsic value method described in APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 148's amendment of the transition and annual disclosure provisions of SFAS 123 are effective for fiscal years ending after December 15, 2002. We have adopted the annual disclosure provisions of SFAS 123. We do not believe that the adoption of this standard will have a material impact on our consolidated results of operations, cash flows or financial position.

During 2002, we adopted Emerging Issues Task Force No. 01-14, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred* ("EITF 01-14"). EITF 01-14 requires that "out-of-pocket" expenses incurred be included in direct costs and the reimbursements received from customers related to such expenses be included in operating revenues. Prior to EITF 01-14, we recorded reimbursements received from customers for "out-of-pocket" expenses as a reduction to the related direct cost to the extent of the amount of the expense. Any amount received in addition to the related expense was included in operating revenues. Pursuant to EITF 01-14, we have reclassified the reimbursements from customers that were recorded as a reduction to direct costs to operating revenues for all periods presented. The impact of adopting EITF 01-14 on operating revenues and direct costs was an increase of \$27,431,000 and \$15,624,000 for 2001 and 2000, respectively. This adoption had no impact on operating income or net income.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires a company to consolidate a variable interest entity, as defined, when the company will absorb a majority of the variable interest entity's expected losses or receive a majority of the variable interest entity's expected residual returns. FIN 46 also requires certain disclosures relating to consolidated variable interest entities and unconsolidated variable interest entities in which a company has a significant variable interest. The disclosure provisions of FIN 46 are effective for financial statements issued after January 31, 2003. The consolidation provisions of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which a company obtains an interest after January 31, 2003. With respect to variable interest entities in which a company holds a variable interest that it acquired before February 1, 2003, the consolidation provisions are required to be applied no later than the first fiscal or interim period beginning after June 15, 2003. We do not expect to consolidate our equity interest in our Noble Croscos Drilling Ltd. joint venture under the provisions of FIN 46 and do not expect its adoption to have a material impact on our consolidated results of operations, cash flows or financial position.

NOTE 2 – CORPORATE RESTRUCTURING

On April 30, 2002, Noble Corporation, a Cayman Islands company, became the successor to Noble Drilling Corporation, a Delaware corporation (which we sometimes refer to as "Noble Drilling"), as part of the internal

corporate restructuring of Noble Drilling and its subsidiaries. This restructuring was approved by the stockholders of Noble Drilling at its 2002 annual stockholders meeting. The proposal to adopt the restructuring passed with 106,694,424 shares voted in favor of the proposal (representing 96.4 percent of the shares voted on the proposal). The restructuring was accomplished through the merger of an indirect, wholly-owned subsidiary of Noble Drilling with and into Noble Drilling. Noble Drilling survived the merger and is now an indirect, wholly-owned subsidiary of Noble. In addition, as a result of the merger, all of the outstanding shares of common stock (and the related preferred stock purchase rights) of Noble Drilling were exchanged for ordinary shares (and related preferred share purchase rights) of Noble. Noble and its subsidiaries, including Noble Drilling, continue to conduct the businesses previously conducted by the Noble Drilling corporate group prior to the merger. We accounted for the restructuring as a reorganization of entities under common control. Consequently, the consolidated amounts of assets, liabilities and shareholders' equity did not change as a result of the restructuring.

Noble Drilling sought stockholder approval of and effected the restructuring as a means to remain competitive in the global marketplace to provide diversified services to the oil and gas industry. Under the restructured organization, we gain flexibility to reduce our worldwide corporate effective tax rate, increase the operational efficiencies of our business, and create a corporate structure that is generally more favorable for expansion of our business. Additionally, we believe Noble could be a more attractive investment alternative to a wider range of investors.

For the year ended December 31, 2002, 65 percent of our revenues and 86 percent of our net income was derived from drilling operations outside of the United States. Our restructuring was in part driven by inequitable treatment under current U.S. tax laws, which impose taxes on the worldwide income of U.S. companies. This method of taxation places U.S.-based multinationals at a competitive disadvantage. The parent companies of certain of our competitors, including our two largest competitors, are incorporated in the Cayman Islands and other non-U.S. countries that impose either no tax or tax at rates substantially less than the United States.

As previously disclosed and widely reported in the media, during the 107th Congress several bills had been introduced in the U.S. House of Representatives and the U.S. Senate which dealt with various aspects of corporate "inversions". Although previously proposed legislation, if enacted in its form as originally filed, would have substantially reduced or eliminated the benefits of the restructuring to Noble, other proposed legislation would have allowed Noble to maintain the benefits of the restructuring. Proposed legislation was also directed towards leveling the playing field with respect to provisions in the U.S. Internal Revenue Code that put U.S. companies competing in a global marketplace at a competitive disadvantage.

Legislation similar to bills proposed in 2002 has been, or likely will be, introduced in the 108th Congress. Our consolidated financial statements for the year ended December 31, 2002 include a reduction in the income tax provision of \$9,000,000 for tax benefits attributable to this restructuring.

NOTE 3 – ACQUISITIONS

In December 2002, we purchased two jackup drilling rigs, the *Dhabi II* and *Trident III*, from a subsidiary of Schlumberger Limited for an aggregate purchase price of \$95,000,000 in an all cash transaction. These units are operating in the United Arab Emirates under contracts that expire in 2004. In addition, we entered into option agreements with this subsidiary of Schlumberger that give us the right to purchase two additional premium jackup rigs, the *Trident XVIII* and *Trident XIX*. These units are currently operating in Iran and our right to exercise these options will commence following the completion of their existing contracts and their mobilization to the United Arab Emirates, which is expected to be May 2003 and July 2003 for the *Trident XVIII* and *Trident XIX*, respectively. We paid \$24,900,000 for these options and would pay an additional exercise price of \$58,100,000 to purchase both units.

On May 3, 2002, as part of our strategy to expand our technology initiative, we made several acquisitions. We acquired all of the shares of WELLDONE Engineering GmbH ("WELLDONE") for \$5,750,000 in cash. We agreed to pay up to an additional \$3,500,000 provided WELLDONE's tools achieve certain operational and financial milestones during the period through May 3, 2004. WELLDONE's primary asset is its ownership in the "Well Director[®]", an automatic rotary steerable drilling system, which was designed by and is manufactured and marketed through DMT WELLDONE Drilling Services GmbH ("DMT WELLDONE"). As a result of our acquisition of

WELLDONE, we acquired WELLDONE's 50 percent joint venture interest in DMT WELLDONE, which is further described below. We paid \$2,650,000 to Deutsche Montan Technologie GmbH ("DMT"), the other joint venturer in DMT WELLDONE, for the remaining 50 percent interest in the joint venture.

In connection with the above described transaction, we also acquired 24 Well Director® drilling tools and related assets owned by Phoenix Technology Services, Ltd. ("Phoenix") for \$6,000,000 in cash. We agreed to pay up to an additional \$3,000,000 provided certain operating performance milestones are achieved during the period through May 3, 2005. In the transaction we also acquired from Phoenix its worldwide marketing rights to the Well Director® drilling tools. The aggregate purchase price of \$14,400,000 for these related acquisitions was allocated to goodwill and property and equipment of \$7,863,000 and \$6,537,000, respectively.

Pursuant to a related agreement, we and DMT each committed to fund 2,100,000 Euros to a new joint venture in which each party has a 50 percent interest. The joint venture will in turn use such funds to retain DMT to conduct research and development. This joint venture will own the intellectual property rights of all new technology developed.

On March 27, 2002, we purchased two semisubmersible baredecks, Bingo 9000 Rig 3 and Bingo 9000 Rig 4, from subsidiaries of Ocean Rig ASA ("Ocean Rig") for an aggregate purchase price of \$45,000,000 in an all cash transaction. In the transaction, Ocean Rig retained an option to repurchase the two baredecks on or before March 27, 2003 for a purchase price of \$56,000,000. In September 2002, we paid Ocean Rig \$100,000 for the cancellation of this option to repurchase.

On March 26, 2002, we purchased two semisubmersible drilling rigs, the *Noble Lorris Bouzigard* (ex Transocean 96) and *Noble Therald Martin* (ex Transocean 97), from subsidiaries of Transocean Inc. for an aggregate purchase price of \$51,000,000 in an all cash transaction. Each unit is a pentagon designed semisubmersible currently capable of operating in water depths up to 2,350 feet and was upgraded in 1997. We recently completed an upgrade to the living quarters and drilling equipment on the *Noble Lorris Bouzigard* and the unit is currently operating under contract in the Gulf of Mexico. We are currently upgrading the living quarters and drilling equipment on the *Noble Therald Martin*. This unit's upgrade will be completed in the second quarter of 2003 and the unit will be equipped with Noble's proprietary aluminum alloy riser, which will allow it to drill in up to 4,000 feet of water. We also plan to deploy aluminum alloy riser on the *Noble Lorris Bouzigard* during the third quarter of 2003, which will enable it also to drill in up to 4,000 feet of water.

In January 2000, we and our joint venture partners formed Noble Rochford Drilling Ltd. ("Noble Rochford") which purchased the *Noble Julie Robertson* (formerly *Ocean Scotian*), a Baker Marine Europe Class design jackup. We acquired a 50 percent equity interest in Noble Rochford for an initial equity investment in the joint venture of \$10,000,000. In addition, we loaned Noble Rochford \$24,000,000 to fund the acquisition and upgrade of the *Noble Julie Robertson*. On August 24, 2001, we acquired the remaining 50 percent equity interest in Noble Rochford from our joint venture partner for \$20,000,000 in cash. As a result of the acquisition, the results of operations of the *Noble Julie Robertson* are included in our Consolidated Statements of Income from August 24, 2001, and at that date, the respective assets and liabilities acquired were recorded at their estimated fair values. Prior to August 24, 2001, the investment was accounted for under the equity method.

On February 20, 2001, we acquired the assets of Maurer Engineering Incorporated ("Maurer"), a privately held engineering firm that designs drilling products and drilling related software programs, for \$6,560,000 in cash, common stock and the assumption of certain liabilities. Maurer is being integrated with our drilling technology subsidiary, Noble Engineering & Development Limited ("NED"), which focuses on developing drilling products and solutions to enhance drilling efficiency.

On November 14, 2000, we acquired the remaining equity interest in Ilion, LLC from our joint venture partner for \$13,000,000 in cash. Ilion, LLC owned the *Noble Clyde Boudreaux*, a Friede & Goldman 9500 Enhanced Pacesetter design semisubmersible. As a result of this acquisition, the results of operations of the *Noble Clyde Boudreaux* are included in our Consolidated Statements of Income from November 14, 2000, and at that date, the respective assets and liabilities acquired were recorded at their estimated fair values. Prior to November 14, 2000, the investment was accounted for under the equity method.

NOTE 4 – MARKETABLE SECURITIES

As of December 31, 2002 and 2001, we owned marketable equity securities with a fair market value of \$7,003,000 and \$7,483,000, respectively, of which \$6,827,000 and \$6,281,000 of the December 31, 2002 and 2001 balance, respectively, was included in a Rabbi Trust for the Noble Drilling Corporation 401(k) Savings Restoration Plan. The marketable securities included in the Rabbi Trust are classified as trading securities and are included in “Investment in marketable securities” in the Consolidated Balance Sheet at December 31, 2002 at their fair market value. We recognized a net unrealized holding loss of \$1,140,000 and a net realized loss of \$213,000 related to these assets in 2002. The remaining investments in marketable equity securities, with a fair market value of \$176,000 at December 31, 2002, are classified as available for sale and are included in “Other assets” in the Consolidated Balance Sheets at their fair market value. On March 31, 2002, we recognized a realized loss of \$9,758,000 on this investment resulting from a decline in value considered by management to be permanent. We recognized an unrealized holding loss of \$1,027,000 on this investment during 2002. Gross unrealized holding losses on these investments at December 31, 2002 and 2001 were \$1,033,000 and \$9,764,000, respectively, and are included in “Accumulated other comprehensive loss” in the Consolidated Balance Sheets.

As of December 31, 2002 and 2001, we also owned marketable debt securities with a fair market value of \$66,130,000 and \$35,316,000, respectively. These investments are classified as available for sale and are included in “Investment in marketable securities” in the Consolidated Balance Sheets at their fair market value. Our balance of marketable debt securities at December 31, 2002 included \$49,377,000 that mature within one year and \$16,753,000 that mature between one and five years. We recognized a net unrealized holding gain of \$320,000 and a net realized loss of \$168,000 related to these assets in 2002.

NOTE 5 – COMPREHENSIVE INCOME

We report and display 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 a 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.

The following table sets forth the components of accumulated other comprehensive loss:

| | Foreign Currency Items | Unrealized (Losses) Gains on Securities | Minimum Pension Liability | Accumulated Other Comprehensive Loss |
|------------------------------|------------------------------|---|---------------------------------|---|
| Balance at December 31, 2000 | \$ 532 | \$ (4,048) | \$ (607) | \$ (4,123) |
| 2001-period change | (507) | (5,729) | (1,378) | (7,614) |
| Balance at December 31, 2001 | 25 | (9,777) | (1,985) | (11,737) |
| 2002-period change | 1,225 | 9,051 | (4,829) | 5,445 |
| Balance at December 31, 2002 | \$ 1,248 | \$ (726) | \$ (6,814) | \$ (6,292) |

Included in the 2002-period change for unrealized (losses) gains on securities above was a reclassification of \$9,758,000 to a realized loss for the impairment of an investment resulting from a decline in value considered by management to be permanent.

NOTE 6 – INVESTMENTS IN AND ADVANCES TO JOINT VENTURES

On June 13, 2000, we formed Noble Crosco Drilling Ltd. (“Noble Crosco”) with our joint venture partner. We acquired a 50 percent equity interest in Noble Crosco by investing \$14,300,000 in cash. Our joint venture partner contributed the *Panon*, a Levingston 111-S independent leg designed jackup, for its 50 percent equity interest. We also agreed to lend Noble Crosco up to \$7,000,000 pursuant to a credit agreement (the “Noble Crosco Credit Agreement”) to finance part of the upgrade costs of the *Panon*. In 2001, we loaned Noble Crosco \$7,000,000 under the Noble Crosco Credit Agreement. Any funds required for the maintenance and operation of the *Panon* in excess of those funds generated from operations of the joint venture and available under the Noble Crosco Credit Agreement will be loaned by us to Noble Crosco. In 2001, we loaned Noble Crosco \$4,800,000 of such funds. At December 31, 2002, the balance due to us from Noble Crosco under the Noble Crosco Credit Agreement and the additional loan in excess of the Noble Crosco Credit Agreement was \$7,260,000 in the aggregate. We managed the upgrade of the *Panon* from a slot to a cantilever configuration, and we are managing the operation of the unit. We account for this investment using the equity method.

Balances related to joint ventures for 2002 and 2001 are reflected in the table below:

| | 2002 | 2001 |
|--|----------|------------|
| Equity in income (losses) of joint ventures ⁽¹⁾ | \$ 1,780 | \$ (1,153) |
| Investment in joint ventures ⁽²⁾ | 15,278 | 13,485 |
| Advances to joint ventures ⁽²⁾ | 7,260 | 11,433 |

(1) Balance included in “Other, net” in the Consolidated Statements of Income. Amounts exclude management fees and interest income related to joint ventures of \$2,199,000 and \$4,698,000 in 2002 and 2001, respectively. There was \$3,910,000 in equity losses in 2000, excluding management fees and interest income related to joint ventures of \$4,245,000.

(2) Balance included in “Investments in and advances to joint ventures” in the Consolidated Balance Sheets.

NOTE 7 – DEBT

In 2002, we borrowed \$125,000,000 from our \$200,000,000 bank credit facility that extends through May 30, 2006. The interest rate on this borrowing from our bank credit facility, which adjusts periodically with LIBOR, was 1.81 percent at December 31, 2002. (See Note 8 for additional information.)

On March 16, 1999, we issued \$150,000,000 principal amount of our 6.95% Senior Notes due 2009 and \$250,000,000 principal amount of our 7.50% Senior Notes due 2019 (together, the “Notes”). Interest on the Notes is payable on March 15 and September 15 of each year. The Notes are redeemable, as a whole or from time to time in part, at our option on any date prior to maturity at prices equal to 100 percent of the outstanding principal amount of the notes redeemed plus accrued interest to the redemption date plus a make-whole premium, if any is required to be paid. The Notes are senior unsecured obligations and the indenture governing the Notes contains covenants that, among other things, limit our ability to create certain liens, engage in certain sale and lease-back transactions and merge, consolidate and sell assets, except under certain conditions.

In 2002, we purchased and retired \$5,000,000 principal amount of our 7.50% Senior Notes due 2019 for \$5,350,000, which resulted in a loss of \$400,000. In 2001, we purchased and retired \$43,305,000 principal amount of our 7.50% Senior Notes for \$44,362,000, which resulted in a loss of \$1,520,000. These losses represent the difference between the acquisition price and the net carrying value of the notes purchased, including unamortized debt issuance costs.

In connection with the acquisition of a majority interest in Arktik Drilling Limited, Inc. (“Arktik”) in 1999, we recorded Arktik’s indebtedness to a minority equity owner in Arktik in the amount of \$7,900,000 (the “Minority Owner Debt”). Arktik’s principal asset is the *Noble Muravlenko* drillship. The Minority Owner Debt is non-recourse except to Arktik and is secured by a mortgage on the *Noble Muravlenko*. The Minority Owner Debt bears interest at 12.0 percent per annum. Interest is payable on a monthly basis. The principal balance of the debt is to be repaid over a three-year period, beginning in 2009.

In December 1998, Noble Drilling (Paul Romano) Inc., an indirect, wholly-owned subsidiary of Noble and owner of the *Noble Paul Romano*, issued \$112,250,000 principal amount of its fixed rate senior secured notes (the "Romano Notes") in two series (the "Series A Notes" and the "Series B Notes"). The Series A Notes bear interest at 6.33 percent per annum and the Series B Notes bear interest at 6.09 percent per annum. The Romano Notes are secured by a first naval mortgage on the *Noble Paul Romano* and are non-recourse except to the issuer thereof. The Romano Notes can be prepaid, in whole or in part, at a premium at any time. Pursuant to the trust indenture and security agreement under which the Romano Notes are issued, Noble Drilling (Paul Romano) Inc. is restricted from incurring any indebtedness other than the Romano Notes and the *Noble Paul Romano* may not be mortgaged to secure any debt other than the Romano Notes. Pursuant to the trust indenture, we were required to deposit an amount into two separate accounts, subject to control of a third-party trustee, to prepay the first month's principal and interest payment and provide an additional debt reserve balance equal to two months of debt service. Such amount totaled \$5,368,000 and \$6,066,000 at December 31, 2002 and 2001, respectively, and is included in "Restricted cash" in the Consolidated Balance Sheets.

In December 1998, Noble Drilling (Jim Thompson) Inc., an indirect, wholly-owned subsidiary of Noble and owner of the *Noble Jim Thompson*, issued \$115,000,000 principal amount of its fixed rate senior secured notes (the "Thompson Notes") in four series. The Thompson Notes bear interest at rates of 5.93 percent to 7.25 percent per annum. In July 1998, Noble Drilling (Paul Wolff) Ltd., an indirect, wholly-owned subsidiary of Noble and owner of the *Noble Paul Wolff*, issued \$145,000,000 principal amount of its fixed rate senior secured notes (the "Wolff Notes") in three series. The Wolff Notes bear interest at rates of 6.45 percent to 6.55 percent per annum. The Thompson Notes and the Wolff Notes are secured by a first naval mortgage on the *Noble Jim Thompson* and *Noble Paul Wolff*, respectively, are guaranteed by Noble, and can be prepaid, in whole or in part, at a premium at any time.

The following table summarizes our long-term debt:

| | December 31, | |
|---|-------------------|------------|
| | 2002 | 2001 |
| 6.95% Senior Notes due 2009, net of unamortized discount of \$66 in 2002 and \$77 in 2001 | \$ 149,934 | \$ 149,923 |
| 7.50% Senior Notes due 2019 | 201,695 | 206,695 |
| Bank Credit Facility | 125,000 | - |
| Project Financings: | | |
| Wolff Notes | 54,685 | 79,485 |
| Romano Notes | 38,401 | 58,647 |
| Thompson Notes | 92,524 | 102,911 |
| Minority Owner Debt | 7,900 | 7,900 |
| | 670,139 | 605,561 |
| Current Maturities | (80,577) | (55,430) |
| Long-term Debt | \$ 589,562 | \$ 550,131 |

The fair value of our total debt at December 31, 2002 was \$712,638,000, based on the quoted market prices for similar issues or on the current rates offered to us for debt of similar remaining maturities

Aggregate principal repayments of long-term debt for the next five years and thereafter are as follows:

| | 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter |
|--|------------------|------------------|-----------------|-------------------|-----------------|-------------------|
| 6.95% Senior Notes due 2009, net of unamortized discount of \$66 in 2002 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 149,934 |
| 7.50% Senior Notes due 2019 | - | - | - | - | - | 201,695 |
| Bank Credit Facility | - | - | - | 125,000 | - | - |
| Project Financings: | | | | | | |
| Wolff Notes | 26,457 | 28,228 | - | - | - | - |
| Romano Notes | 38,401 | - | - | - | - | - |
| Thompson Notes | 15,719 | 16,805 | 8,362 | 8,974 | 9,630 | 33,034 |
| Minority Owner Debt | - | - | - | - | - | 7,900 |
| Total | \$ 80,577 | \$ 45,033 | \$ 8,362 | \$ 133,974 | \$ 9,630 | \$ 392,563 |

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share amounts)

NOTE 8 – CREDIT FACILITIES

We have an unsecured revolving bank credit facility totaling \$200,000,000 (the “Credit Agreement”), including a letter of credit facility totaling \$50,000,000, through May 30, 2006. In connection with our restructuring, Noble and one of its wholly-owned subsidiaries, Noble Holding (U.S.) Corporation (“Noble Holding”), have unconditionally guaranteed the performance of Noble Drilling under the Credit Agreement. We are required to maintain various affirmative and negative covenants, including two financial covenants relating to interest coverage and debt to capital ratios. The Credit Agreement contains restrictive covenants, including restrictions on incurring additional indebtedness, and restrictions on permitting additional liens, payment of dividends, transactions with affiliates, and mergers or consolidations. As of December 31, 2002, we had outstanding borrowings and outstanding letters of credit of \$125,000,000 and \$26,946,000, respectively, under the Credit Agreement, with \$48,054,000 remaining available thereunder. Additionally, as of December 31, 2002, we had letters of credit and third-party corporate guarantees totaling \$15,700,000, of which \$3,300,000 is supported by a restricted cash deposit, and \$28,383,000 of performance and customs bonds had been supported by surety bonds.

NOTE 9 – INTERESTS IN DEEPWATER EXPLORATION PROPERTIES

In 2000, we received interests in several deepwater exploration properties from Mariner Energy Inc. and Samedan Oil Corporation pursuant to the settlements of a lawsuit with Mariner Energy and Samedan over employment of the *Noble Homer Ferrington* semisubmersible and upon entering into a long-term contract with each of these companies for use of the unit in the U.S. Gulf of Mexico. Certain of these properties are currently in production. In 2002, we reported income before income taxes from such properties of \$2,638,000.

On March 28, 2002, we sold our five percent working interest in Mariner Energy’s Falcon property to Pioneer Natural Resources USA, Inc. for \$6,200,000 in cash and the assumption of liabilities related to our share of drilling and development costs subsequent to June 30, 2001. We realized a gain of \$5,908,000 upon the sale of our interest in this property.

NOTE 10 – SHAREHOLDERS’ EQUITY

In June 1995, we adopted a stockholder rights plan designed to assure that our stockholders receive fair and equal treatment in the event of any proposed takeover of Noble Drilling and to guard against partial tender offers and other abusive takeover tactics to gain control of Noble Drilling without paying all stockholders a fair price. The rights plan was not adopted in response to any specific takeover proposal. Prior to our corporate restructuring, we amended our rights plan to provide for the earlier expiration of the rights in the event that Noble Drilling merges with a subsidiary company in connection with changing the parent corporation of the Noble corporate group to a non-U.S. company. Immediately prior to such a merger as part of our corporate restructuring, the Noble Drilling stockholder rights plan expired. Upon such merger, a new shareholder rights plan became effective for the new parent company, Noble Corporation, that is substantially similar to the previous Noble Drilling stockholders rights plan. Under the rights plan, one right (“Right”) is attached to each of our ordinary shares. Each Right will entitle the holder to purchase one one-hundredth of a share of new Series A Junior Participating Preferred Shares, par value \$1.00 per share, at an exercise price of \$120.00. The Rights are not currently exercisable and will become exercisable only in the event a person or group acquires beneficial ownership of 25 percent or more of our ordinary shares. The Rights expire on July 10, 2005.

Upon our corporate restructuring, each treasury share of Noble Drilling was automatically cancelled and retired pursuant to Cayman Islands law. Ordinary shares subsequently repurchased were automatically retired upon repurchase.

NOTE 11 – INCOME TAXES

Noble is a Cayman Islands company. The Cayman Islands does not impose corporate income taxes. Consequently, income taxes have been provided based on the laws and rates in effect in the countries in which operations are conducted, or in which Noble and/or its subsidiaries are resident for income tax purposes. Our U.S. subsidiaries are subject to a U.S. corporate tax rate of 35 percent.

In certain circumstances, management expects that, due to changing demands of the offshore drilling markets and the ability to redeploy our offshore drilling units, certain of such units will not reside in a location long enough to give rise to future tax consequences. As a result, no deferred tax liability has been recognized in these circumstances. Should management's expectations change regarding the length of time an offshore drilling unit will be used in a given location, we will adjust deferred taxes accordingly.

The components of and changes in the net deferred taxes were as follows:

| | December 31, 2002 | December 31, 2001 |
|---|----------------------|----------------------|
| Deferred tax assets: | | |
| United States: | | |
| Tax credit carryforwards | \$ 18,438 | \$ 20,477 |
| International: | | |
| Net operating loss carryforwards | 21,802 | 27,864 |
| Deferred tax assets | <u>\$ 40,240</u> | <u>\$ 48,341</u> |
| Deferred tax liabilities: | | |
| United States: | | |
| Excess of net book basis over remaining tax basis | \$ (206,936) | \$ (207,944) |
| International: | | |
| Excess of net book basis over remaining tax basis | (39,655) | (43,043) |
| Deferred tax liabilities | <u>\$ (246,591)</u> | <u>\$ (250,987)</u> |

Income before income taxes consisted of the following:

| | Year Ended December 31, | | |
|---------------|-------------------------|-------------------|-------------------|
| | 2002 | 2001 | 2000 |
| United States | \$ 34,966 | \$ 196,558 | \$ 168,268 |
| International | 208,359 | 151,914 | 58,039 |
| Total | <u>\$ 243,325</u> | <u>\$ 348,472</u> | <u>\$ 226,307</u> |

The income tax provision consisted of the following:

| | Year Ended December 31, | | |
|--------------------------|-------------------------|------------------|------------------|
| | 2002 | 2001 | 2000 |
| Current – United States | \$ 160 | \$ 15,312 | \$ (37,531) |
| Current – International | 16,792 | 14,176 | 4,391 |
| Deferred – United States | 13,020 | 53,617 | 93,893 |
| Deferred – International | 3,850 | 2,445 | – |
| Total | <u>\$ 33,822</u> | <u>\$ 85,550</u> | <u>\$ 60,753</u> |

A reconciliation of statutory and effective income tax rates is shown below:

| | Year Ended December 31, | | |
|--|-------------------------|-------|-------|
| | 2002 | 2001 | 2000 |
| Statutory rate (Cayman Islands – 2002, U.S. – 2001 and 2000) | 0.0% | 35.0% | 35.0% |
| Effect of: | | | |
| U.S. tax rate which is different than the Cayman Islands rate | 4.5 | - | - |
| International tax rates which are different than the Cayman Islands rate | 8.3 | - | - |
| International tax rates which are different than the U.S. rate | - | (9.8) | (7.0) |
| Other | 1.1 | (0.6) | (1.2) |
| Total | 13.9% | 24.6% | 26.8% |

During 2000, we generated net operating losses (“NOL’s”) of \$83,800,000 and \$36,014,000 for U.S. Regular and Alternative Minimum Tax (“AMT”) purposes, respectively, which were fully utilized during 2001. At December 31, 2002, we had NOL’s of \$61,215,000 in Mexico, which expire in 2006 through 2010, and \$1,078,000 in Qatar, which expire in 2003. Based on current market conditions in Mexico and Qatar, we believe that it is more likely than not that the deferred tax assets attributable to the NOL’s will be realized. Therefore, there is no valuation allowance offsetting these assets.

During 1999, we generated NOL’s of \$156,600,000 and \$93,000,000 for U.S. Regular and AMT purposes, respectively. In 2000, we elected to carry the 1999 NOL back to 1997 and 1998. As a result, we received cash refunds totaling \$37,500,000. In addition, the carryback of the 1999 NOL resulted in AMT credit carryforwards of \$15,500,000.

We utilized AMT credits of \$3,143,000 during 2002 and had \$18,438,000 available at December 31, 2002. We expect to fully utilize these credits. Therefore, there is no valuation allowance offsetting this asset.

Applicable U.S. and foreign income and withholding taxes have not been provided on undistributed earnings of \$650,000,000 of Noble’s subsidiaries. Management does not intend to repatriate such undistributed earnings for the foreseeable future except for distributions upon which incremental income and withholding taxes would not be material. It is not practicable to estimate the amount of deferred income taxes associated with these unremitted earnings.

NOTE 12 – EMPLOYEE BENEFIT PLANS

We have a noncontributory defined benefit plan which covers substantially all salaried employees and a non-contributory defined benefit pension plan which covers certain field hourly employees. The benefits from these plans are based primarily on years of service and, for the salaried plan, employees’ compensation near retirement. Our funding policy is consistent with funding requirements of applicable laws and regulations. The assets of these plans consist of corporate equity securities, municipal and government bonds, and cash equivalents. We make cash contributions to the domestic plans when required. As of December 31, 2002, the domestic plan assets included \$1,933,000 of our ordinary shares valued at fair value at that date, which represents five percent of total plan assets.

Each of Noble Drilling (U.K.) Limited, Noble Enterprises Limited and Noble Drilling (Nederland) B.V., all indirect, wholly-owned subsidiaries of Noble, maintains pension plans which cover all of their salaried, nonunion employees. Benefits are based on credited service and the average of the highest three years of qualified salary within the past 10 years of participation.

Pension cost includes the following components:

| | Year Ended December 31, | | | | | |
|---------------------------------------|-------------------------|----------|---------------|----------|---------------|----------|
| | 2002 | | 2001 | | 2000 | |
| | International | Domestic | International | Domestic | International | Domestic |
| Service cost | \$ 2,424 | \$ 3,392 | \$ 2,759 | \$ 2,839 | \$ 2,789 | \$ 2,350 |
| Interest cost | 1,970 | 3,552 | 1,813 | 3,085 | 1,602 | 2,719 |
| Return on plan assets | (2,025) | (3,532) | (1,862) | (3,496) | (1,714) | (3,486) |
| Amortization of prior service cost | 52 | 189 | 47 | 162 | 54 | 162 |
| Amortization of transition obligation | 93 | - | 105 | - | 105 | - |
| Recognized net actuarial (gain) loss | (19) | 391 | (16) | 109 | (20) | (64) |
| Net pension expense | \$ 2,495 | \$ 3,992 | \$ 2,846 | \$ 2,699 | \$ 2,816 | \$ 1,681 |

The funded status of the plans is as follows:

| | As of December 31, | | | |
|------------------------------------|--------------------|-------------|---------------|-------------|
| | 2002 | | 2001 | |
| | International | Domestic | International | Domestic |
| Funded status | \$ (9,836) | \$ (16,976) | \$ (5,786) | \$ (11,663) |
| Unrecognized net loss | 5,346 | 13,473 | 1,436 | 7,951 |
| Unrecognized prior service cost | - | 1,805 | - | 1,257 |
| Unrecognized transition obligation | 1,259 | - | 1,595 | - |
| Net amount recognized | \$ (3,231) | \$ (1,698) | \$ (2,755) | \$ (2,455) |

Amounts recognized in the Consolidated Balance Sheets consist of:

| | As of December 31, | | | |
|--------------------------------------|--------------------|------------|---------------|------------|
| | 2002 | | 2001 | |
| | International | Domestic | International | Domestic |
| Accrued benefit liability | \$ (9,160) | \$ (7,504) | \$ (4,106) | \$ (5,366) |
| Intangible asset | 21 | 1,231 | 30 | 1,178 |
| Accumulated other comprehensive loss | 5,908 | 4,575 | 1,321 | 1,733 |
| Net amount recognized | \$ (3,231) | \$ (1,698) | \$ (2,755) | \$ (2,455) |

A reconciliation of the changes in projected benefit obligations is as follows:

| | As of December 31, | | | |
|---|--------------------|-----------|---------------|-----------|
| | 2002 | | 2001 | |
| | International | Domestic | International | Domestic |
| Benefit obligation at beginning of year | \$ 34,134 | \$ 49,425 | \$ 31,599 | \$ 41,548 |
| Service cost | 2,424 | 3,392 | 2,759 | 2,839 |
| Interest cost | 1,970 | 3,552 | 1,813 | 3,085 |
| Actuarial (gains) losses | (1,666) | (507) | (1,448) | 3,668 |
| Benefits paid | (526) | (2,007) | (774) | (1,715) |
| Plan participants' contribution | 180 | - | 185 | - |
| Other | 84 | 372 | - | - |
| Benefit obligation at end of year | \$ 36,600 | \$ 54,227 | \$ 34,134 | \$ 49,425 |

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share amounts)

A reconciliation of the changes in fair value of plan assets is as follows:

| | As of December 31, | | | |
|--|--------------------|------------------|------------------|------------------|
| | 2002 | | 2001 | |
| | International | Domestic | International | Domestic |
| Fair value of plan assets at beginning of year | 28,348 | 37,762 | \$ 28,373 | \$ 39,408 |
| Actual return on plan assets | (1,800) | (3,253) | (2,161) | (918) |
| Employer contribution | 578 | 4,749 | 2,841 | 987 |
| Plan participants' contribution | 180 | - | 185 | - |
| Benefits and expenses paid | (542) | (2,007) | (890) | (1,715) |
| Fair value of plan assets at end of year | \$ 26,764 | \$ 37,251 | \$ 28,348 | \$ 37,762 |

The projected benefit obligations for the international and domestic plans were determined using an assumed discount rate of 5.5 percent and 7.0 percent, respectively, in 2002, 6.0 percent and 7.0 percent, respectively, in 2001 and 6.0 percent and 7.25 percent, respectively, in 2000. The assumed long-term rate of return on international plan assets was 5.85 percent for 2002 and 6.25 percent for 2001 and 2000. The assumed long-term rate of return on domestic plan assets was 9.0 percent in each of the years presented. The projected benefit obligations assume a compensation increase for the international plan of 3.5 percent for 2002, 3.25 percent for 2001 and 3.75 percent for 2000, and a 5.0 percent compensation increase for the domestic plan for 2002 and 2001 and 6.0 percent for 2000.

We presently sponsor a 401(k) savings plan, medical and other plans for the benefit of our employees. The cost of maintaining these plans aggregated \$18,167,000, \$14,745,000 and \$14,288,000 in 2002, 2001 and 2000, respectively.

We do not provide post-retirement benefits (other than pensions) or any post-employment benefits to our employees.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

We are a defendant in certain claims and litigation arising out of operations in the normal course of business. In the opinion of management, uninsured losses, if any, will not be material to our financial position, results of operations or cash flows.

In connection with several projects, we have entered into agreements with various vendors to purchase or construct property and equipment that generally have long lead times for delivery in connection with several projects. If we do not proceed with any particular project, we may either seek to cancel outstanding purchase commitments related to that project or complete the purchase of the property and equipment. Any equipment purchased for a project on which we do not proceed would be used, where applicable, as capital spares for other units in our fleet. If we cancel any of the purchase commitments, the amounts ultimately paid by us, if any, would be subject to negotiation. As of December 31, 2002, we had approximately \$95,000,000 of outstanding purchase commitments related to these projects.

At December 31, 2002, we had certain noncancelable, long-term operating leases, principally for office space and facilities, with various expiration dates. Future minimum rentals under these leases aggregate \$2,080,000 for 2003, \$1,787,000 for 2004, \$1,663,000 for 2005, \$1,579,000 for 2006, \$1,562,000 for 2007 and \$7,814,000 thereafter. Rental expense for all operating leases was \$3,688,000, \$3,807,000 and \$2,343,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

We have entered into employment agreements with each of our executive officers, as well as certain other employees. These agreements become effective upon a change of control of Noble (within the meaning set forth in the agreements) or a termination of employment in connection with or in anticipation of a change of con-

trol, and remain effective for three years thereafter. These agreements provide for compensation and certain other benefits under such circumstances.

NOTE 14 – UNAUDITED INTERIM FINANCIAL DATA

Unaudited interim financial information for the years ended December 31, 2002 and 2001 is as follows:

| | Quarter Ended | | | |
|-----------------------------------|---------------|------------|------------|------------|
| | March 31 | June 30 | Sept. 30 | Dec. 31 |
| 2002 | | | | |
| Operating revenues ⁽¹⁾ | \$ 241,734 | \$ 253,645 | \$ 239,870 | \$ 251,107 |
| Operating income | 70,605 | 78,274 | 62,928 | 63,194 |
| Net income | 51,430 | 57,438 | 49,153 | 51,482 |
| Net income per share: | | | | |
| Basic | \$ 0.39 | \$ 0.43 | \$ 0.37 | \$ 0.39 |
| Diluted | 0.39 | 0.43 | 0.37 | 0.39 |
| | | | | |
| 2001 | | | | |
| Operating revenues ⁽¹⁾ | \$ 229,510 | \$ 255,448 | \$ 280,277 | \$ 264,525 |
| Operating income | 82,810 | 97,598 | 111,297 | 92,782 |
| Net income | 54,465 | 68,003 | 76,970 | 63,486 |
| Net income per share: | | | | |
| Basic | \$ 0.41 | \$ 0.51 | \$ 0.58 | \$ 0.48 |
| Diluted | 0.40 | 0.50 | 0.58 | 0.48 |

(1) Revenues for all periods of 2002 and 2001 include reclassifications pursuant to EITF 01-14.

NOTE 15 – PARENT GUARANTEE OF REGISTERED SECURITIES ISSUED BY SUBSIDIARY

Upon completion of our corporate restructuring, Noble and Noble Holding became guarantors for certain debt securities issued by Noble Drilling. These debt securities include Noble Drilling's 6.95% Senior Notes due 2009 and its 7.50% Senior Notes due 2019. The outstanding principal balance of the 6.95% Senior Notes and the 7.50% Senior Notes at December 31, 2002 was \$149,954,000 and \$201,695,000, respectively. Noble Drilling is an indirect, wholly-owned subsidiary of Noble and a direct, wholly-owned subsidiary of Noble Holding. Noble's and Noble Holding's guarantee of these securities is full and unconditional.

The following consolidating financial statements of Noble, Noble Holding, Noble Drilling and all other subsidiaries are included so that separate financial statements of Noble Drilling are not required to be filed with the Securities and Exchange Commission.

CONSOLIDATING BALANCE SHEET

December 31, 2002

| | Noble | Noble Holding | Noble Drilling | Other Subsidiaries | Consolidating Adjustments | Total |
|--|---------------------|---------------------|---------------------|---------------------|---------------------------|---------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | \$ 9,317 | \$ - | \$ - | \$ 183,192 | \$ - | \$ 192,509 |
| Restricted cash | - | - | - | 8,668 | - | 8,668 |
| Investment in marketable securities | 6,827 | - | - | 66,130 | - | 72,957 |
| Accounts receivable | - | - | 1,373 | 163,240 | - | 164,613 |
| Inventories | - | - | - | 3,628 | - | 3,628 |
| Prepaid expenses | - | - | 259 | 6,336 | - | 6,595 |
| Accounts receivable from affiliates | - | - | 644,412 | - | (644,412) | - |
| Other current assets | 16,417 | - | - | 16,645 | (16,389) | 16,673 |
| Total current assets | 32,561 | - | 646,044 | 447,839 | (660,801) | 465,643 |
| PROPERTY AND EQUIPMENT | | | | | | |
| Drilling equipment and facilities | - | - | 118,684 | 3,034,825 | - | 3,153,509 |
| Other | - | - | - | 63,296 | - | 63,296 |
| | - | - | 118,684 | 3,098,121 | - | 3,216,805 |
| Accumulated depreciation | - | - | (61,028) | (684,734) | - | (745,762) |
| | - | - | 57,656 | 2,413,387 | - | 2,471,043 |
| NOTES RECEIVABLE FROM AFFILIATES | 529,772 | - | 44,159 | - | (573,931) | - |
| INVESTMENTS IN AFFILIATES | 1,443,054 | 1,700,021 | 1,462,263 | - | (4,605,318) | - |
| INVESTMENT IN AND ADVANCES TO JOINT VENTURES | - | - | - | 22,538 | - | 22,538 |
| OTHER ASSETS | - | - | 5,312 | 101,178 | - | 106,490 |
| | <u>\$ 2,005,367</u> | <u>\$ 1,700,021</u> | <u>\$ 2,215,434</u> | <u>\$ 2,984,942</u> | <u>\$(5,840,050)</u> | <u>\$ 3,065,714</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Current maturities of long-term debt | \$ - | \$ 16,389 | \$ - | \$ 80,577 | \$ (16,389) | \$ 80,577 |
| Accounts payable | - | - | 1,019 | 63,764 | - | 64,783 |
| Accrued payroll and related costs | - | - | 8,475 | 42,650 | - | 51,125 |
| Taxes payable | 48 | - | - | 41,949 | - | 41,997 |
| Interest payable | - | - | 7,708 | 2,381 | - | 10,089 |
| Accounts payable to affiliates | 16,109 | 24,713 | - | 603,590 | (644,412) | - |
| Other current liabilities | - | - | 18 | 32,071 | - | 32,089 |
| Total current liabilities | 16,157 | 41,102 | 17,220 | 866,982 | (660,801) | 280,660 |
| LONG-TERM DEBT | - | - | 476,629 | 112,933 | - | 589,562 |
| NOTES PAYABLE TO AFFILIATES | - | 529,772 | - | 44,159 | (573,931) | - |
| DEFERRED INCOME TAXES | - | - | 16,070 | 190,281 | - | 206,351 |
| OTHER LIABILITIES | - | - | 5,494 | 141 | - | 5,635 |
| COMMITMENTS AND CONTINGENCIES | - | - | - | - | - | - |
| MINORITY INTEREST | - | - | - | (5,704) | - | (5,704) |
| | 16,157 | 570,874 | 515,413 | 1,208,792 | (1,234,732) | 1,076,504 |
| SHAREHOLDERS' EQUITY | | | | | | |
| Ordinary Shares—par value \$0.10 per share | 13,353 | - | - | - | - | 13,353 |
| Capital in excess of par value | 905,865 | 870,744 | 870,744 | 693,687 | (2,435,175) | 905,865 |
| Retained earnings | 1,140,472 | 258,403 | 829,277 | 1,088,755 | (2,176,435) | 1,140,472 |
| Treasury stock, at cost | (51,317) | - | - | - | - | (51,317) |
| Restricted stock (unearned compensation) | (12,871) | - | - | - | - | (12,871) |
| Accumulated other comprehensive loss | (6,292) | - | - | (6,292) | 6,292 | (6,292) |
| | <u>1,989,210</u> | <u>1,129,147</u> | <u>1,700,021</u> | <u>1,776,150</u> | <u>(4,605,318)</u> | <u>1,989,210</u> |
| | <u>\$ 2,005,367</u> | <u>\$ 1,700,021</u> | <u>\$ 2,215,434</u> | <u>\$ 2,984,942</u> | <u>\$(5,840,050)</u> | <u>\$ 3,065,714</u> |

CONSOLIDATING BALANCE SHEET

December 31, 2001

| | Noble | Noble Holding | Noble Drilling | Other Subsidiaries | Consolidating Adjustments | Total |
|--|-------|---------------|----------------|--------------------|---------------------------|--------------|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ 236,709 | \$ - | \$ 236,709 |
| Restricted cash | - | - | - | 9,366 | - | 9,366 |
| Investment in marketable securities | - | - | 6,281 | 35,316 | - | 41,597 |
| Accounts receivable | - | - | 1,933 | 167,075 | - | 169,008 |
| Inventories | - | - | - | 3,626 | - | 3,626 |
| Prepaid expenses | - | - | 296 | 5,018 | - | 5,314 |
| Accounts receivable from affiliates | - | - | 813,002 | - | (813,002) | - |
| Other current assets | - | - | 955 | 27,474 | - | 28,429 |
| Total current assets | - | - | 822,467 | 484,584 | (813,002) | 494,049 |
| PROPERTY AND EQUIPMENT | | | | | | |
| Drilling equipment and facilities | - | - | 118,746 | 2,620,828 | - | 2,739,574 |
| Other | - | - | - | 30,964 | - | 30,964 |
| | - | - | 118,746 | 2,651,792 | - | 2,770,538 |
| Accumulated depreciation | - | - | (55,474) | (565,847) | - | (621,321) |
| | - | - | 63,272 | 2,085,945 | - | 2,149,217 |
| NOTES RECEIVABLE FROM AFFILIATES | - | - | 57,384 | - | (57,384) | - |
| INVESTMENTS IN AFFILIATES | - | - | 1,222,812 | - | (1,222,812) | - |
| INVESTMENT IN AND ADVANCES TO JOINT VENTURES | - | - | - | 24,918 | - | 24,918 |
| OTHER ASSETS | - | - | 6,290 | 76,266 | - | 82,556 |
| | \$ - | \$ - | \$ 2,172,225 | \$ 2,671,715 | \$ (2,093,198) | \$ 2,750,740 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Current maturities of long-term debt | \$ - | \$ - | \$ - | \$ 55,430 | \$ - | \$ 55,430 |
| Accounts payable | - | - | 623 | 46,373 | - | 46,996 |
| Accrued payroll and related costs | - | - | 7,281 | 32,494 | - | 39,775 |
| Taxes payable | - | - | - | 35,136 | - | 35,136 |
| Interest payable | - | - | 7,699 | 2,745 | - | 10,444 |
| Accounts payable to affiliates | - | - | - | 813,002 | (813,002) | - |
| Other current liabilities | - | - | 49 | 19,719 | - | 19,768 |
| Total current liabilities | - | - | 15,652 | 1,004,899 | (813,002) | 207,549 |
| LONG-TERM DEBT | - | - | 356,618 | 193,513 | - | 550,131 |
| NOTES PAYABLE TO AFFILIATES | - | - | - | 57,384 | (57,384) | - |
| DEFERRED INCOME TAXES | - | - | 15,494 | 187,152 | - | 202,646 |
| OTHER LIABILITIES | - | - | 6,142 | 10,887 | - | 17,029 |
| COMMITMENTS AND CONTINGENCIES | - | - | - | - | - | - |
| MINORITY INTEREST | - | - | - | (4,934) | - | (4,934) |
| | - | - | 393,906 | 1,448,901 | (870,386) | 972,421 |
| SHAREHOLDERS' EQUITY | | | | | | |
| Common Stock—par value \$0.10 per share | - | - | 13,818 | - | - | 13,818 |
| Capital in excess of par value | - | - | 1,041,017 | 377,770 | (377,770) | 1,041,017 |
| Retained earnings | - | - | 930,969 | 856,779 | (856,779) | 930,969 |
| Treasury stock, at cost | - | - | (177,408) | - | - | (177,408) |
| Restricted stock (unearned compensation) | - | - | (18,340) | - | - | (18,340) |
| Accumulated other comprehensive loss | - | - | (11,737) | (11,737) | 11,737 | (11,737) |
| | - | - | 1,778,319 | 1,222,812 | (1,222,812) | 1,778,319 |
| | \$ - | \$ - | \$ 2,172,225 | \$ 2,671,715 | \$ (2,093,198) | \$ 2,750,740 |

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share amounts)

CONSOLIDATING STATEMENT OF INCOME

Twelve Months ended December 31, 2002

| | Noble | Noble Holding | Noble Drilling | Other Subsidiaries | Consolidating Adjustments | Total |
|--|------------|---------------|----------------|--------------------|---------------------------|------------|
| OPERATING REVENUES | | | | | | |
| Contract drilling services | \$ - | \$ - | \$ 11,536 | \$ 899,083 | \$ - | \$ 910,419 |
| Reimbursables | - | - | - | 26,183 | - | 26,183 |
| Labor contract drilling services | - | - | - | 26,416 | - | 26,416 |
| Engineering, consulting and other | - | - | 276 | 23,338 | (276) | 23,338 |
| | - | - | 11,612 | 975,020 | (276) | 986,356 |
| OPERATING COSTS AND EXPENSES | | | | | | |
| Contract drilling services | 217 | - | 9,923 | 478,765 | (276) | 488,629 |
| Reimbursables | - | - | - | 23,058 | - | 23,058 |
| Labor contract drilling services | - | - | - | 20,951 | - | 20,951 |
| Engineering, consulting and other | - | - | - | 26,624 | - | 26,624 |
| Depreciation and amortization | - | - | 5,718 | 119,436 | - | 125,154 |
| Selling, general and administrative | 3,087 | - | (4,012) | 27,864 | - | 26,939 |
| | 3,304 | - | 11,629 | 696,698 | (276) | 711,355 |
| OPERATING (LOSS) INCOME | (3,304) | - | (17) | 278,322 | - | 275,001 |
| OTHER INCOME (EXPENSE) | | | | | | |
| Equity earnings in affiliates (net of tax) | 193,105 | 214,624 | 227,714 | - | (635,443) | - |
| Interest expense | - | (20,952) | (25,988) | (16,634) | 20,952 | (42,622) |
| Other, net | 20,959 | - | 5,867 | 5,072 | (20,952) | 10,946 |
| INCOME BEFORE INCOME TAXES | 210,760 | 193,672 | 207,576 | 266,760 | (635,443) | 243,325 |
| INCOME TAX BENEFIT (PROVISION) | (1,257) | - | 7,048 | (39,615) | - | (33,822) |
| NET INCOME | \$ 209,503 | \$ 193,672 | \$ 214,624 | \$ 227,147 | \$ (635,443) | \$ 209,503 |

Twelve Months ended December 31, 2001

| | Noble | Noble Holding | Noble Drilling | Other Subsidiaries | Consolidating Adjustments | Total |
|--|-------|---------------|----------------|--------------------|---------------------------|------------|
| OPERATING REVENUES | | | | | | |
| Contract drilling services | \$ - | \$ - | \$ 12,137 | \$ 933,812 | \$ - | \$ 945,949 |
| Reimbursables | - | - | - | 29,122 | - | 29,122 |
| Labor contract drilling services | - | - | - | 31,292 | - | 31,292 |
| Engineering, consulting and other | - | - | 15,500 | 23,397 | (15,500) | 23,397 |
| | - | - | 27,637 | 1,017,625 | (15,500) | 1,029,760 |
| OPERATING COSTS AND EXPENSES | | | | | | |
| Contract drilling services | - | - | 8,069 | 439,195 | (15,500) | 431,764 |
| Reimbursables | - | - | - | 27,431 | - | 27,431 |
| Labor contract drilling services | - | - | - | 25,745 | - | 25,745 |
| Engineering, consulting and other | - | - | - | 17,661 | - | 17,661 |
| Depreciation and amortization | - | - | 6,231 | 112,344 | - | 118,575 |
| Selling, general and administrative | - | - | 555 | 23,742 | - | 24,297 |
| | - | - | 14,855 | 646,118 | (15,500) | 645,473 |
| OPERATING INCOME | - | - | 12,782 | 371,505 | - | 384,287 |
| OTHER INCOME (EXPENSE) | | | | | | |
| Equity earnings in affiliates (net of tax) | - | - | 271,611 | - | (271,611) | - |
| Interest expense | - | - | (27,703) | (20,049) | - | (47,752) |
| Other, net | - | - | 1,553 | 10,384 | - | 11,937 |
| INCOME BEFORE INCOME TAXES | - | - | 258,243 | 361,840 | (271,611) | 348,472 |
| INCOME TAX BENEFIT (PROVISION) | - | - | 4,679 | (90,229) | - | (85,550) |
| NET INCOME | \$ - | \$ - | \$ 262,922 | \$ 271,611 | \$ (271,611) | \$ 262,922 |

CONSOLIDATING STATEMENT OF INCOME

Twelve Months ended December 31, 2000

| | Noble | Noble Holding | Noble Drilling | Other Subsidiaries | Consolidating Adjustments | Total |
|--|-------|------------------|-------------------|-----------------------|------------------------------|------------|
| OPERATING REVENUES | | | | | | |
| Contract drilling services | \$ - | \$ - | \$ 11,182 | \$ 744,204 | \$ - | \$ 755,386 |
| Reimbursables | - | - | - | 16,783 | - | 16,783 |
| Labor contract drilling services | - | - | - | 29,480 | - | 29,480 |
| Turnkey drilling services | - | - | - | 82,047 | - | 82,047 |
| Engineering, consulting and other | - | - | 8,607 | 14,528 | (8,607) | 14,528 |
| | - | - | 19,789 | 887,042 | (8,607) | 898,224 |
| OPERATING COSTS AND EXPENSES | | | | | | |
| Contract drilling services | - | - | 9,019 | 366,185 | (8,607) | 366,595 |
| Reimbursables | - | - | - | 15,624 | - | 15,624 |
| Labor contract drilling services | - | - | - | 23,385 | - | 23,385 |
| Turnkey drilling services | - | - | - | 79,552 | - | 79,552 |
| Engineering, consulting and other | - | - | - | 9,874 | - | 9,874 |
| Depreciation and amortization | - | - | 6,671 | 104,116 | - | 110,787 |
| Selling, general and administrative | - | - | 1,266 | 22,517 | - | 23,783 |
| | - | - | 16,956 | 621,251 | (8,607) | 629,600 |
| OPERATING INCOME | - | - | 2,833 | 265,791 | - | 268,624 |
| OTHER INCOME (EXPENSE) | | | | | | |
| Equity earnings in affiliates (net of tax) | - | - | 178,845 | - | (178,845) | - |
| Interest expense | - | - | (27,903) | (26,675) | - | (54,578) |
| Other, net | - | - | 4,623 | 7,638 | - | 12,261 |
| INCOME BEFORE INCOME TAXES | - | - | 158,398 | 246,754 | (178,845) | 226,307 |
| INCOME TAX BENEFIT (PROVISION) | - | - | 7,156 | (67,909) | - | (60,753) |
| NET INCOME | \$ - | \$ - | \$ 165,554 | \$ 178,845 | \$ (178,845) | \$ 165,554 |

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share amounts)

CONSOLIDATING STATEMENT OF CASH FLOWS

Twelve Months Ended December 31, 2002

| | Noble | Noble Holding | Noble Drilling | Other Subsidiaries | Consolidating Adjustments | Total |
|---|------------|---------------|----------------|--------------------|---------------------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Net income | \$ 209,503 | \$ 193,672 | \$ 214,624 | \$ 227,147 | \$ (635,443) | \$ 209,503 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | - | - | 5,718 | 119,436 | - | 125,154 |
| Deferred income tax provision | - | - | (576) | 17,446 | - | 16,870 |
| Deferred repair and maintenance amortization | - | - | 731 | 28,584 | - | 29,315 |
| Realized loss on impairment of investment | - | - | - | 9,758 | - | 9,758 |
| Gain on sale of interest in deepwater exploration property | - | - | - | (5,908) | - | (5,908) |
| Gain on sale of property and equipment | - | - | - | (1,155) | - | (1,155) |
| Loss on sales of marketable securities | - | - | - | 168 | - | 168 |
| Loss on debt repurchases | - | - | 400 | - | - | 400 |
| Equity in income of joint ventures | - | - | - | (1,780) | - | (1,780) |
| Compensation expense from stock-based plans | 3,208 | - | 1,670 | - | - | 4,878 |
| Equity earnings in affiliates | (193,105) | (214,624) | (227,714) | - | 635,443 | - |
| Other | - | - | 6,471 | (1,793) | - | 4,678 |
| Changes in current assets and liabilities, net of acquired working capital: | | | | | | |
| Accounts receivable | - | - | (560) | 4,955 | - | 4,395 |
| Accounts receivable from affiliates | 14,812 | - | (85,777) | - | 70,965 | - |
| Other current assets | (29) | - | 992 | 3,979 | - | 4,942 |
| Accounts payable | - | - | 396 | 14,113 | - | 14,509 |
| Accounts payable to affiliates | - | 20,952 | - | 50,013 | (70,965) | - |
| Other current liabilities | - | - | 1,172 | 28,465 | - | 29,637 |
| Net cash provided by (used for) operating activities | 34,389 | - | (82,453) | 493,428 | - | 445,364 |
| CASH FLOWS USED FOR INVESTING ACTIVITIES | | | | | | |
| Capital expenditures | - | - | (1,423) | (266,631) | - | (268,054) |
| Acquisitions | - | - | (45,000) | (140,400) | - | (185,400) |
| Purchase of options to purchase rigs | - | - | - | (24,900) | - | (24,900) |
| Proceeds from sales of property and equipment | - | - | - | 1,879 | - | 1,879 |
| Proceeds from sale of interest in deepwater exploration property | - | - | - | 6,200 | - | 6,200 |
| Investment in and advances to joint ventures, net | - | - | - | 4,160 | - | 4,160 |
| Deferred repair and maintenance expenditures | - | - | (905) | (41,866) | - | (42,771) |
| Investment in marketable securities | - | - | - | (69,082) | - | (69,082) |
| Proceeds from sales of marketable securities | - | - | - | 38,419 | - | 38,419 |
| Net cash used for investing activities | - | - | (47,328) | (492,221) | - | (539,549) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Proceeds from borrowing on credit facility | - | - | 125,000 | - | - | 125,000 |
| Payment of long-term debt | - | - | (5,350) | (55,422) | - | (60,772) |
| Proceeds from issuance of ordinary shares, net | 6,275 | - | 9,092 | - | - | 15,367 |
| Proceeds from sales of put options on ordinary shares | 2,619 | - | 1,039 | - | - | 3,658 |
| Repurchase of ordinary shares | (33,966) | - | - | - | - | (33,966) |
| Decrease in restricted cash | - | - | - | 698 | - | 698 |
| Net cash (used for) provided by financing activities | (25,072) | - | 129,781 | (54,724) | - | 49,985 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | | | |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | - | - | - | 236,709 | - | 236,709 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 9,317 | \$ - | \$ - | \$ 183,192 | \$ - | \$ 192,509 |

CONSOLIDATING STATEMENT OF CASH FLOWS

Twelve Months Ended December 31, 2001

| | Noble | Noble Holding | Noble Drilling | Other Subsidiaries | Consolidating Adjustments | Total |
|---|-------|------------------|-------------------|-----------------------|------------------------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Net income | \$ | \$ | \$ 262,922 | \$ 271,611 | \$ (271,611) | \$ 262,922 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | - | - | 6,231 | 112,344 | - | 118,575 |
| Deferred income tax provision | - | - | 6,629 | 49,433 | - | 56,062 |
| Deferred repair and maintenance amortization | - | - | 910 | 22,017 | - | 22,927 |
| Gain on sale of property and equipment | - | - | - | (806) | - | (806) |
| Gain on sales of marketable securities | - | - | - | (8) | - | (8) |
| Loss on debt repurchases | - | - | 1,520 | - | - | 1,520 |
| Equity in loss of joint ventures | - | - | - | 1,153 | - | 1,153 |
| Compensation expense from stock-based plans | - | - | 4,110 | - | - | 4,110 |
| Equity earnings in affiliates | - | - | (271,611) | - | 271,611 | - |
| Other | - | - | 2,661 | (420) | - | 2,241 |
| Changes in current assets and liabilities, net of acquired working capital: | | | | | | |
| Accounts receivable | - | - | 840 | 6,941 | - | 7,781 |
| Accounts receivable from affiliates | - | - | 103,692 | - | (103,692) | - |
| Other current assets | - | - | (1,060) | (11,142) | - | (12,202) |
| Accounts payable | - | - | (412) | (21,783) | - | (22,195) |
| Accounts payable to affiliates | - | - | - | (103,692) | 103,692 | - |
| Other current liabilities | - | - | 6,375 | 2,591 | - | 8,966 |
| Net cash provided by operating activities | - | - | 122,807 | 328,239 | - | 451,046 |
| CASH FLOWS USED FOR INVESTING ACTIVITIES | | | | | | |
| Capital expenditures | - | - | (17,171) | (116,605) | - | (133,776) |
| Acquisitions | - | - | - | (6,090) | - | (6,090) |
| Proceeds from sales of property and equipment | - | - | - | 887 | - | 887 |
| Investment in and advances to joint ventures, net | - | - | - | (17,896) | - | (17,896) |
| Deferred repair and maintenance expenditures | - | - | (19) | (33,488) | - | (33,507) |
| Investment in marketable securities | - | - | - | (43,068) | - | (43,068) |
| Proceeds from sales of marketable securities | - | - | - | 7,747 | - | 7,747 |
| Net cash used for investing activities | - | - | (17,190) | (208,513) | - | (225,703) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Payment of long-term debt | - | - | (44,362) | (50,775) | - | (95,137) |
| Proceeds from issuance of ordinary shares, net | - | - | 13,374 | - | - | 13,374 |
| Proceeds from sales of put options on ordinary shares | - | - | 1,568 | - | - | 1,568 |
| Repurchase of ordinary shares | - | - | (76,197) | - | - | (76,197) |
| Increase in restricted cash | - | - | - | (5,477) | - | (5,477) |
| Net cash used for financing activities | - | - | (105,617) | (56,252) | - | (161,869) |
| INCREASE IN CASH AND CASH EQUIVALENTS | - | - | - | 63,474 | - | 63,474 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | - | - | - | 173,235 | - | 173,235 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ | \$ | \$ | \$ 236,709 | \$ | \$ 236,709 |

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share amounts)

CONSOLIDATING STATEMENT OF CASH FLOWS

Twelve Months Ended December 31, 2000

| | Noble | Noble Holding | Noble Drilling | Other Subsidiaries | Consolidating Adjustments | Total |
|---|-------|---------------|----------------|--------------------|---------------------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Net income | \$ - | \$ - | \$ 165,554 | \$ 178,845 | \$ (178,845) | \$ 165,554 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | - | - | 6,671 | 104,116 | - | 110,787 |
| Deferred income tax provision | - | - | 4,586 | 89,307 | - | 93,893 |
| Deferred repair and maintenance amortization | - | - | 1,311 | 17,698 | - | 19,009 |
| Gain on sale of property and equipment | - | - | - | (1,513) | - | (1,513) |
| Gain on sales of marketable securities | - | - | - | (423) | - | (423) |
| Equity in loss of joint ventures | - | - | - | 3,910 | - | 3,910 |
| Compensation expense from stock-based plans | - | - | 2,139 | - | - | 2,139 |
| Equity earnings in affiliates | - | - | (178,845) | - | 178,845 | - |
| Other | - | - | (1,531) | 3,796 | - | 2,265 |
| Changes in current assets and liabilities, net of acquired working capital: | | | | | | |
| Accounts receivable | - | - | 354 | (58,475) | - | (58,121) |
| Accounts receivable from affiliates | - | - | (10,268) | - | 10,268 | - |
| Other current assets | - | - | 2,584 | 2,780 | - | 5,364 |
| Accounts payable | - | - | (144) | (4,057) | - | (4,201) |
| Accounts payable to affiliates | - | - | - | 10,268 | (10,268) | - |
| Other current liabilities | - | - | 1,145 | (9,072) | - | (7,927) |
| Net cash provided by operating activities | - | - | (6,444) | 337,180 | - | 330,736 |
| CASH FLOWS USED FOR INVESTING ACTIVITIES | | | | | | |
| Capital expenditures | - | - | (6,058) | (119,141) | - | (125,199) |
| Proceeds from sales of property and equipment | - | - | - | 2,142 | - | 2,142 |
| Investment in and advances to joint ventures, net | - | - | - | (48,118) | - | (48,118) |
| Deferred repair and maintenance expenditures | - | - | (136) | (20,303) | - | (20,439) |
| Investment in marketable securities | - | - | - | (18,860) | - | (18,860) |
| Proceeds from sales of marketable securities | - | - | - | 19,283 | - | 19,283 |
| Net cash used for investing activities | - | - | (6,194) | (184,997) | - | (191,191) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Payment of long-term debt | - | - | - | (91,272) | - | (91,272) |
| Proceeds from issuance of ordinary shares, net | - | - | 42,604 | - | - | 42,604 |
| Repurchase of ordinary shares | - | - | (50,590) | - | - | (50,590) |
| Decrease (increase) in restricted cash | - | - | - | 121 | - | 121 |
| Net cash provided by (used for) financing activities | - | - | (7,986) | (91,151) | - | (99,137) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | | | |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | - | - | (20,624) | 61,032 | - | 40,408 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ - | \$ - | \$ - | \$ 173,235 | \$ - | \$ 173,235 |

NOTE 16 – SEGMENT AND RELATED INFORMATION

We provide diversified services for the oil and gas industry. Our reportable segments consist of the primary services we provide, which include offshore contract drilling and engineering and consulting services. Although both of these segments are generally influenced by the same economic factors, each represents a distinct service to the oil and gas

industry. Offshore contract drilling services is then separated into international and domestic contract drilling segments since there are certain economic and political risks associated with each of these geographic markets and our management makes decisions based on these markets accordingly.

Our international contract drilling segment conducts contract drilling services in the North Sea, Brazil, West Africa, the Middle East, Mexico and India. For the year ended December 31, 2000, we also operated in Venezuela. Our domestic contract drilling is conducted in the U.S. Gulf of Mexico. Our engineering and consulting segment consists of the design and development of drilling products and drilling related software programs by NED and Maurer, in addition to well site management, project management and technical services performed by Triton and the operations of WELLDONE'S downhole technology tools, primarily its automatic rotary steerable drilling system. During the fourth quarter of 2000, we announced that Triton had revised its business model to focus on well site management, project management and technical services. Turnkey drilling, Triton's major revenue source prior to revising its business model, involved Triton's coordination of all equipment, materials, services and management to drill a well to a specified depth, for a fixed price. Because of Triton's revised business model, the engineering and consulting services segment's 2000 results may not be indicative of future results.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (see Note 1). All intersegment sales pricing is based on current market conditions. We evaluate the performance of our operating segments based on operating revenues and earnings. Summarized financial information of our reportable segments for the years ended December 31, 2002, 2001 and 2000 is shown in the following table (in thousands). The "Other" column includes results of labor contract drilling services, other insignificant operations and corporate related items. Our engineering and consulting segment included turnkey drilling operations for the year ended December 31, 2000.

| | International Contract Drilling Services | Domestic Contract Drilling Services | Engineering & Consulting Services | Other | Total |
|--|---|--|---|-----------|--------------|
| 2002 | | | | | |
| Revenues from external customers | \$ 636,869 | \$ 300,950 | \$ 16,791 | \$ 31,746 | \$ 986,356 |
| Intersegment revenues | - | - | - | - | - |
| Depreciation and amortization | 70,803 | 50,774 | 380 | 3,197 | 125,154 |
| Interest expense | 18,676 | 23,405 | 361 | 180 | 42,622 |
| Equity in income of unconsolidated subsidiaries | 3,979 | - | - | - | 3,979 |
| Segment profit (loss) | 179,601 | 45,654 | (4,483) | (11,269) | 209,503 |
| Total assets | 1,467,018 | 1,377,386 | 12,185 | 209,125 | 3,065,714 |
| Capital expenditures | 85,027 | 97,232 | 1,355 | 84,440 | 268,054 |
| 2001 | | | | | |
| Revenues from external customers | \$ 515,438 | \$ 462,421 | \$ 12,184 | \$ 39,717 | \$ 1,029,760 |
| Intersegment revenues | - | - | 114 | - | 114 |
| Depreciation and amortization | 63,352 | 51,727 | 385 | 3,111 | 118,575 |
| Interest expense | 19,668 | 27,993 | - | 91 | 47,752 |
| Equity in loss of unconsolidated subsidiaries | (1,153) | - | - | - | (1,153) |
| Segment profit (loss) | 125,360 | 142,646 | 533 | (4,609) | 263,930 |
| Total assets | 1,225,171 | 1,418,019 | 8,774 | 98,776 | 2,750,740 |
| Capital expenditures | 71,247 | 57,795 | 1,390 | 3,344 | 133,776 |
| 2000 | | | | | |
| Revenues from external customers | \$ 384,324 | \$ 390,517 | \$ 90,746 | \$ 32,637 | \$ 898,224 |
| Intersegment revenues | - | 2,065 | 34 | 672 | 2,771 |
| Depreciation and amortization | 58,938 | 48,660 | 20 | 3,169 | 110,787 |
| Interest expense | 24,881 | 28,715 | - | 982 | 54,578 |
| Equity in loss of unconsolidated subsidiaries | (3,127) | (783) | - | - | (3,910) |
| Segment profit | 52,200 | 108,928 | 1,151 | 3,275 | 165,554 |
| Total assets | 1,119,245 | 1,396,746 | 1,631 | 77,909 | 2,595,531 |
| Capital expenditures | 40,033 | 80,799 | - | 4,367 | 125,199 |

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share amounts)

The following table is a reconciliation of reportable segment profit or loss to consolidated totals:

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--------------------------------------|-------------------|-------------|-------------|
| PROFIT OR LOSS | | | |
| Total profit for reportable segments | \$ 220,772 | \$ 268,539 | \$ 162,279 |
| Elimination of intersegment profits | - | (20) | - |
| Other (losses) profits | (11,269) | (5,597) | 3,275 |
| Total consolidated net income | \$ 209,503 | \$ 262,922 | \$ 165,554 |

The following tables present revenues and identifiable assets by country based on the location of the service provided:

| | Revenues | | | Identifiable Assets | | |
|----------------------|-------------------------|--------------|-------------|---------------------|--------------|--------------|
| | Year Ended December 31, | | | December 31, | | |
| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| United States | \$ 313,167 | \$ 474,214 | \$ 480,591 | \$ 1,807,381 | \$ 1,508,851 | \$ 1,583,808 |
| Angola | - | - | 7,800 | - | - | 16,198 |
| Bahrain | 7,180 | - | - | 29,821 | - | - |
| Brazil | 123,157 | 121,658 | 111,966 | 151,061 | 427,420 | 423,382 |
| Canada | 19,445 | 21,418 | 16,947 | 16,674 | 8,090 | 9,377 |
| China | - | - | - | 78,632 | 32,344 | 30,827 |
| Denmark | 32,307 | 50,765 | 29,977 | 44,909 | 53,664 | 54,729 |
| Germany | 771 | - | - | 17,025 | - | - |
| India | 11,380 | 15,384 | 21,294 | 28,267 | 24,719 | 97,867 |
| Ireland | - | 4,869 | - | - | - | - |
| Mexico | 34,818 | 16,261 | 20,730 | 111,742 | 26,253 | 48,637 |
| Mozambique | - | - | 4,623 | - | - | - |
| Nigeria | 132,378 | 119,394 | 51,913 | 145,126 | 130,301 | 128,835 |
| Qatar | 62,272 | 37,624 | 34,610 | 114,621 | 114,701 | 72,103 |
| The Netherlands | 141,571 | 101,241 | 81,134 | 149,002 | 180,938 | 229,888 |
| United Arab Emirates | 40,946 | 24,051 | - | 192,160 | 93,559 | 13,783 |
| United Kingdom | 66,174 | 42,881 | 25,986 | 164,312 | 135,790 | 60,421 |
| Venezuela | 250 | - | 10,653 | - | - | 17,640 |
| Other | 540 | - | - | 14,981 | 14,110 | 8,036 |
| Total International | 673,189 | 555,546 | 417,633 | 1,258,333 | 1,241,889 | 1,211,723 |
| Total | \$ 986,356 | \$ 1,029,760 | \$ 898,224 | \$ 3,065,714 | \$ 2,750,740 | \$ 2,595,531 |

BOARD OF DIRECTORS



(standing, left to right) **Marc E. Leland**, Marc E. Leland & Associates, **Lawrence J. Chazen**, Lawrence J. Chazen, Inc., **William A. Sears**, retired, **James C. Day**, Chairman and Chief Executive Officer, **Robert D. Campbell**, President, **John F. Snodgrass**, Snodgrass Interests, **Luke R. Corbett**, Chairman and Chief Executive Officer, Kerr-McGee Corporation, (seated, left to right) **Tommy C. Craighead**, T. C. Craighead & Co., **Michael A. Cawley**, President and Chief Executive Officer, The Samuel Roberts Noble Foundation, Inc., **Jack E. Little**, JEL Interests.

CORPORATE OFFICERS

JAMES C. DAY

Chairman and Chief
Executive Officer

ROBERT D. CAMPBELL

President

DANNY W. ADKINS

Senior Vice President
– Operations

MARK A. JACKSON

Senior Vice President
and Chief Financial
Officer

JULIE J. ROBERTSON

Senior Vice President
– Administration and
Corporate Secretary

CORPORATE INFORMATION

TRANSFER AGENT AND REGISTRAR

UMB Bank, N.A.
Kansas City, Missouri

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Houston, Texas

SHARES LISTED ON NEW YORK STOCK EXCHANGE

Trading Symbol "NE"

CREDIT RATING

Standard & Poor's – A-
Moody's Investor Service – Baa1

ANNUAL MEETING

The Annual Meeting of Members of Noble Corporation will be held on April 24, 2003 at 10:00 a.m. at The St. Regis Hotel, 1919 Briar Oaks Lane, Houston, Texas. All members are cordially invited to attend.

FORM 10-K

A copy of the company's 2002 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any member upon written request to:

Julie Robertson, Senior Vice President
Noble Corporation
13135 South Dairy Ashford, Suite 800
Sugar Land, Texas 77478

KEY INVESTOR INFORMATION

You can learn more about our operations and our company by visiting our website at www.noblecorp.com. Among other information we have provided there, will you find:

- our business conduct/business ethics policies
- our articles and memorandum of association
- information concerning our business and recent press releases
- information concerning our Board of Directors and member (shareholder) relations

If you would like to contact a member of our Board of Directors, please send an e-mail to nobleboard@noblecorp.com.

For additional information about Noble Corporation, please refer to our proxy statement which is being mailed with this Annual Report.



Noble Corporation
13135 South Dairy Ashford, Suite 800
Sugar Land, Texas 77478
281-276-6100