

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. **0000950129-99-001157**

([HTML Version](#) on secdatabase.com)

FILER

CLIFFS DRILLING CO

CIK: **831964** | IRS No.: **760248934** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-16703** | Film No.: **99574578**
SIC: **1381** Drilling oil & gas wells

Mailing Address
300 CITICORP CENTER
1200 SMITH STREET
HOUSTON TX 77002

Business Address
300 CITICORP CENTER
1200 SMITH ST
HOUSTON TX 77002
7136519426

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 COMMISSION FILE NUMBER 001-12797

CLIFFS DRILLING COMPANY
(Exact Name of Registrant as Specified in its Charter)

<TABLE>	
<S>	<C>
DELAWARE	76-0248934
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1200 SMITH STREET, SUITE 300	77002
HOUSTON, TEXAS	(Zip Code)
(Address of principal executive offices)	
</TABLE>	

Registrant's telephone number, including area code: (713) 651-9426

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

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

The registrant meets the conditions set forth in General Instructions (I) (1) (a) and (b) of Form 10-K and is therefore filing this Form 10-K with a reduced disclosure format.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [].

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

(Exhibit Index Located on Pages 51 to 55)

TABLE OF CONTENTS TO FORM 10-K

<TABLE>		
<CAPTION>		
<S>	<C>	PAGE

<C>		
PART I		
1. and 2.	Business and Properties.....	2
	General.....	2
	Industry Conditions and Company Strategy.....	2
	Contract Drilling and MOPU Operations.....	3
	Oil and Gas Operations.....	8
	Environmental Controls.....	8
	Government Regulation.....	8
	Risks and Insurance.....	9
	Risks Inherent in Foreign Operations.....	10
	Employees.....	10
	Other Properties.....	10
3.	Legal Proceedings.....	10
4.	Submission of Matters to a Vote of Security-Holders.....	11

PART II		
5.	Market For Registrant's Common Equity and Related Stockholder Matters.....	11
6.	Selected Financial Data.....	12
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
7A.	Quantitative and Qualitative Disclosures About Market Risk.....	22
8.	Financial Statements and Supplementary Data.....	23
9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	23
PART III		
10.	Directors and Executive Officers of the Registrant.....	23
11.	Executive Compensation.....	23
12.	Security Ownership of Certain Beneficial Owners and Management.....	23
13.	Certain Relationships and Related Transactions.....	23
PART IV		
14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	23
SIGNATURES.....		26

</TABLE>

PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

GENERAL

Cliffs Drilling Company, a Delaware corporation (the "Company"), is an international contract drilling and engineering company. Effective December 1, 1998, a change in control of the Company occurred as a result of the merger of RBF Cliffs Acquisition Corp. ("Merger Sub"), a wholly-owned subsidiary of R&B Falcon Corporation ("R&B Falcon"), with and into the Company (the "Merger"). The Merger was effected pursuant to an Agreement and Plan of Merger dated August 21, 1998 (the "Merger Agreement") among R&B Falcon, Merger Sub and the Company, which was approved by the stockholders of the Company at a special meeting held November 20, 1998. As a result of the Merger, each outstanding share of common stock, \$0.01 par value ("Common Stock") of the Company was converted into 1.7 shares of R&B Falcon common stock and cash in lieu of fractional shares, as provided for in the Merger Agreement. The Company is now a wholly-owned subsidiary of R&B Falcon.

The Company is primarily engaged in daywork drilling, engineering services, and to a lesser extent, the development and operation of mobile offshore production units ("MOPUs"). The Company has historically deployed its assets in areas where it can achieve long-term growth and generate stable cash flows and net income. This strategy has led to seven consecutive years of positive net income. The Company's domestic operations are concentrated in the Texas/Louisiana Gulf Coast region and its foreign operations are concentrated in Venezuela, Trinidad and the Middle East. The Company currently owns 16 jack-up drilling rigs, 11 land rigs, 3 platform rigs and 4 MOPUs.

The Company and its predecessors have been in the contract drilling business since 1978. The Company entered the turnkey drilling business in 1982 in an effort to more fully utilize its existing fleet of rigs and complement its daywork drilling operations. In response to the economic conditions which adversely affected the domestic contract drilling business during the 1980s, the Company undertook a strategic plan in 1989 to further diversify its scope of operations and geographic concentration beyond the traditional domestic daywork drilling market. The Company's management implemented a proactive approach to identify, develop and exploit several market segments which provided higher margins and more reliable operating income and cash flow. To achieve its strategic objectives, the Company continued to emphasize its turnkey drilling operations, expanded its well engineering and management services, became a leader in the development and operation of MOPUs and deployed its drilling rigs into selected international markets. With the implementation of this strategy, the Company has positioned itself to benefit from increases in drilling and production activities in several markets worldwide.

This Form 10-K 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 Form 10-K regarding the Company's financial position, business strategy, budgets and plans and

objectives of management for future operations are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are within "ITEMS 1. and 2. Business and Properties," "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-K.

INDUSTRY CONDITIONS AND COMPANY STRATEGY

Activity in the contract drilling industry and related oil service businesses improved through 1997 and early 1998 due to increased worldwide demand for drilling rigs and related services. The supply of offshore drilling rigs declined while the demand for such rigs increased, resulting in increases in worldwide utilization rates during this period. In addition, oil and gas companies experienced decreases in exploration and production costs from technological advances such as increased use of 3-D seismic surveys, advances in drill bits and completion technologies and use of new production techniques such as MOPUs and subsea completions. More recently, however, there has been a significant decline in both dayrates and utilization of most classes of drilling rigs due to a substantial decline in crude oil prices. The financial condition and results of operations of the Company and other drilling contractors are dependent upon the price of oil and

2

4

natural gas, as demand for their services is primarily dependent upon the level of spending by oil and gas companies for exploration, development and production activities. Crude oil and natural gas prices have continued to fluctuate over the last several years. If crude oil prices decline further or the current weakness in crude oil prices continues for an extended period, there could be a further deterioration in both rig utilization and dayrates.

As part of its business strategy, the Company has sought to identify business opportunities that would expand its asset base, increase profitability and enhance shareholder value. The Company's acquisition criteria include, among others, transactions designed to increase operating leverage and diversify geographically.

Acquisitions and Dispositions of Assets

Effective December 1, 1998, the Company became a wholly-owned subsidiary of R&B Falcon. As a result of the Merger, each outstanding share of Common Stock was converted into 1.7 shares of R&B Falcon common stock and cash in lieu of fractional shares, as provided for in the Merger Agreement.

On December 29, 1997, the Company completed the acquisition of 2 offshore platform drilling rigs, one self-propelled jack-up drilling/workover rig and substantially all of the assets used in the offshore contract drilling business in Trinidad previously operated by Well Services (Marine) Ltd. ("Well Services"). The purchase price totaled \$44.0 million, consisting of cash of \$23.5 million and the issuance by the Company of 437,939 shares of Common Stock.

Effective October 1, 1997, the Company exercised an option to purchase a platform drilling rig which is currently operating in Brazil. The cash purchase price was \$4.3 million.

On August 1, 1997, the Company acquired an additional 49% interest in the West Indies Drilling Joint Venture (the "WINDJV") from Well Services. The purchase price was \$8.4 million consisting of \$6.0 million of cash and \$2.4 million of debt assumed, net of various working capital amounts acquired. On December 29, 1997, the Company acquired the remaining 1% interest in the WINDJV from Well Services.

On January 24, 1997, the Company completed the acquisition of the stock of a subsidiary of Andrade Gutierrez Perfuracao Ltda., which owned the jack-up drilling rig ATENA, four 1500 HP land drilling rigs, miscellaneous drilling equipment and a contract to operate a platform rig in Brazil. The purchase price was \$28.5 million in cash.

On September 30, 1996, the Company acquired a land rig from Quarles Drilling Corp. for \$2.9 million.

On June 19, 1996, Cliffs Drilling No. 11 completed its two-year bareboat charter as a workover rig in the U.S. Gulf of Mexico, and the charterer exercised its option to purchase the unit for \$5.4 million, resulting in a gain of \$2.7 million.

On May 23, 1996, the Company completed the acquisition of 9 jack-up drilling rigs and a 50% interest in the WINDJV, which owned an additional

jack-up drilling rig, and their related assets (collectively referred to as the "Southwestern Rigs") operated by Southwestern Offshore Corporation ("Southwestern"). The purchase price of the Southwestern Rigs was (a) \$103.8 million in cash (after reductions of \$6.2 million for required refurbishments of certain Southwestern Rigs not made prior to closing) plus (b) issuance of 1.2 million shares (pre-split basis) of the Company's Common Stock and (c) assumption of certain contractual liabilities, including the Company's guarantee of \$4.25 million in indebtedness of the WINDJV to Citibank N.A. related to the refurbishment of the jack-up drilling rig owned by it (together with accrued but unpaid interest thereon and costs of collection). The 50% interest in the WINDJV acquired by the Company was actually the interest held by Cliffs Drilling Trinidad Limited, which the Company acquired on the same day.

On May 10, 1996, the Company acquired the jack-up drilling rig OCEAN MAGALLANES from Diamond Offshore Southern Company for \$4.5 million. The Company renamed this unit Cliffs Drilling 155.

CONTRACT DRILLING AND MOPU OPERATIONS

Management has adopted a proactive approach to identify, develop and exploit 3 market segments which the Company believes provide higher margins and reliable operating income and cash flow. The

3

5

Company's major business segments are daywork drilling, engineering services and MOPU operations. See Note 13 of Notes to Consolidated Financial Statements.

Daywork Drilling

The Company began operations as a daywork contract driller in the Gulf of Mexico and the Texas/ Louisiana Gulf Coast region. Because of depressed conditions in the domestic oil and gas industry during the 1980s and early 1990s, the Company sold certain drilling rigs and deployed its remaining rigs into selected international markets. These strategic decisions were made to enable the Company to stabilize cash flows during an extended market downturn. The Company currently has an established base of term contracts in both drilling and production operations.

Under daywork drilling contracts, the Company provides a drilling rig with required personnel to the operator, who supervises the drilling of the contracted well. Compensation to the Company is based on a negotiated rate per day that the rig is utilized. Daywork drilling contracts generally specify the type of equipment to be used, the size of the hole and the depth of the proposed well. Under a daywork drilling contract, the Company generally bears no part of the costs due to downhole losses (such as time delays for various reasons, including stuck drill stem and blowout).

Most of the Company's drilling contracts are obtained through competitive bids. Generally, domestic drilling contracts are for a single well or multiple wells, while foreign drilling contracts are generally for a period of one to three years, with the terms and rates varying depending upon the nature and duration of the work, the equipment and services supplied and other matters. The contracts typically obligate the Company to pay certain operating expenses, including wages of drilling personnel, maintenance expenses, incidental rig supplies, equipment and local office facilities. Domestic drilling contracts are typically subject to termination by the customer on short notice. Foreign drilling contracts generally require longer notice periods for termination and also may require that the customer pay mobilization and demobilization expenses.

As of March 26, 1999, the Company owned and operated 30 drilling rigs, including 16 jack-up drilling rigs, 11 land drilling rigs and 3 platform drilling rigs. Of the 16 jack-up drilling rigs owned by the Company, 15 are cantilevered, 7 have top drives and substantially all have been refurbished in the last five years. The Company operates 10 jack-up rigs in the Gulf of Mexico, 2 jack-up rigs in each of Qatar and Trinidad, and one jack-up rig in each of Venezuela and Mexico. The Company also operates 11 land rigs in Venezuela, 2 platform rigs in Trinidad and one platform rig in Brazil. Of the 30 drilling rigs owned and operated by the Company, 8 jack-up rigs, one land rig and one platform rig are stacked without contracts.

Engineering Services

The Company has been active in drilling wells on a turnkey basis since 1982. The Company believes that its downhole engineering expertise, extensive operating experience, veteran personnel and risk management capabilities have allowed the Company to reduce the risks inherent in turnkey drilling operations.

Under a turnkey drilling contract, the Company contracts to drill a well to a contract depth under specified conditions for a fixed price. In addition, the Company provides technical expertise and engineering services, as well as most

of the equipment required for the well, and is compensated when the contract terms have been satisfied. On a turnkey well, the Company from time to time operates rigs subcontracted from other drilling contractors on a dayrate basis. The Company also subcontracts substantially all of the related services and manages the drilling process. The risks to the Company on a turnkey drilling contract are substantially greater than on a well drilled on a daywork basis because the Company assumes most of the risks associated with drilling operations generally assumed by the operator in a daywork contract, including risk of blowout, loss of hole, stuck drill stem, machinery breakdowns, abnormal drilling conditions and risks associated with subcontractors' services, supplies and personnel. The Company employs a technically proficient and experienced engineering staff that examines the available seismic, geologic and drilling data to identify and minimize many of the drilling risks assumed by the Company. The Company believes that the application of this expertise allows it to evaluate the risks of a proposed contract and bid accordingly. When possible, the Company seeks fixed price contracts from its subcontractors to minimize or eliminate cost fluctuations. The Company also maintains insurance coverage against certain drilling hazards. See "Business and Properties -- Risks and Insurance."

4

6

In recent years, the domestic turnkey drilling market has become more competitive as more companies entered the market. Domestic turnkey operators have been very aggressive in pricing Gulf of Mexico turnkeys, and margins have been reduced. The Company has shifted its emphasis toward drilling more international turnkeys, principally in Venezuela, where margins have been greater. International turnkeys have achieved greater acceptance, and the Company believes that expansion opportunities exist in this market. The Company believes its expertise has enabled it to be more selective in its turnkey drilling operations and to achieve profitable turnkey drilling operating results.

From 1982 through December 31, 1998, the Company completed 301 turnkeys with aggregate revenues of \$914.7 million, direct income before depreciation and allocated overhead of \$147.3 million and operating income of \$117.4 million. The Company completed 17 turnkey drilling contracts during 1998 and 14 turnkey drilling contracts during 1997, with revenues of \$133.4 million and \$91.2 million, respectively. The increase in revenues was primarily attributable to the mix of turnkey wells drilled during 1998 and 1997, respectively, with more international turnkeys drilled during 1998. Four turnkey drilling contracts were completed from January 1, 1999 to February 28, 1999 with contract revenues of \$30.4 million. As of February 28, 1999, the Company had one domestic and 7 Venezuelan turnkey drilling contracts in progress with aggregate expected contract revenues of approximately \$54.2 million.

In April, 1998, the Company was awarded a contract from PDVSA Exploration and Production, the Venezuelan government-owned oil company ("PDVSA"), to drill 60 turnkey wells in Venezuela. Aggregate revenues for the 60 wells are expected to range from approximately \$450 million to \$500 million depending upon, among other things, various options to be elected by PDVSA. The Company commenced drilling under the program in March, 1998. The program is expected to extend over approximately three and one-half years and is expected to utilize 7 of the Company's land drilling rigs in Venezuela. During 1998, the Company completed 9 of the 60 wells, with revenues realized in the amount of \$74.6 million. No assurance can be given that the remaining wells will ultimately be drilled, or that the program can be completed within the intended time frame.

MOPU Operations

Since 1989, the Company has pioneered the development and operation of MOPUs, which allow the Company to participate in the more stable oil and gas production market. MOPUs are offshore production systems, usually converted jack-up rigs, from which the drilling equipment is removed and production equipment is installed. MOPUs are generally contracted on a dayrate basis for a period of years or a period of time sufficient to obtain the economic production from an offshore oil and gas field or wells within such field. These contracts are characterized by relatively high operating margins, with most of the operating costs assumed by the customer. Under such contracts, the Company is generally responsible for maintenance, operation and repair of the MOPU hull structure. The Company is generally not responsible for risk of pollution or for damage to or replacement of the customer's production equipment, although the Company generally is responsible for damage to its own production equipment. The Company maintains insurance coverage against risk of damage to or loss of the MOPUs and related equipment as is customary in the industry. See "Business and Properties -- Risks and Insurance." Such contracts sometimes contain renewal provisions at the option of the customer.

The Company owns 4 MOPUs capable of operating in both domestic and foreign waters. Two MOPUs are currently operating in the Gulf of Mexico. Two MOPUs are in international locations, with one of the units currently stacked without a contract. The contract on the international MOPU, which is currently operating,

Drilling Rigs and MOPUs

The following table provides the status of and information about the drilling rigs and MOPUs owned and operated by the Company as of March 26, 1999. Most of these assets are pledged to secure the Company's revolving credit facility (the "Revolving Credit Facility") with ING (U.S.) Capital Corporation ("ING"), formerly International Nederlanden (U.S.) Capital Corporation.

<TABLE>
<CAPTION>

EQUIPMENT -----	TYPE (A) -----	YEAR DELIVERED/ REFURBISHED -----	RATED DEPTH -----		LOCATION -----	TYPE OF CONTRACT -----	EXPIRATION DATE -----
			WATER	DRILLING			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
JACK-UP DRILLING RIGS							
Domestic(10)							
Cliffs Drilling 100.....	MC	1982 / 1993	100'	25,000'	Gulf of Mexico	N/A	Stacked
Cliffs Drilling 150.....	IC	1979 / 1998	150'	20,000'	Gulf of Mexico	Multiple Wells	March, 1999
Cliffs Drilling 151.....	IC	1981 / 1993	150'	25,000'	Gulf of Mexico	N/A	Stacked
Cliffs Drilling 152.....	MC	1980 / 1993	150'	25,000'	Gulf of Mexico	N/A	Stacked
Cliffs Drilling 153.....	MC	1980 / 1994	150'	25,000'	Gulf of Mexico	Multiple Wells	March, 1999
Cliffs Drilling 154.....	IC	1979 / 1996	150'	20,000'	Gulf of Mexico	N/A	Stacked
Cliffs Drilling 155.....	IC	1980 / 1998	150'	22,000'	Gulf of Mexico	N/A	Stacked
Cliffs Drilling 156.....	IC	1983 / 1998	150'	25,000'	Gulf of Mexico	N/A	Stacked
Cliffs Drilling 180.....	MS	1978 / 1997	184'	25,000'	Gulf of Mexico	N/A	Stacked
Cliffs Drilling 200.....	MC	1979 / 1998	200'	25,000'	Gulf of Mexico	Multiple Wells	March, 1999
International(6)							
LASALLE.....	IC	1982 / 1997	190'	25,000'	Qatar	Term Daywork	March, 1999
Cliffs Drilling 101.....	MC	1973 / 1991	100'	N/A	Trinidad	Term Daywork	March, 1999
Cliffs Drilling 110.....	MC	1982 / 1996	110'	25,000'	Trinidad	Term Daywork	July, 1999
Cliffs Drilling 160.....	IC	1980 / 1998	160'	20,000'	Qatar	Multiple Wells	April, 1998
Cliffs Drilling 201.....	MC	1980 / 1996	200'	20,000'	Mexico	N/A	Stacked
Cliffs Drilling 202.....	MC	1980 / 1998	200'	25,000'	Venezuela	Term Daywork	July, 1999
PLATFORM DRILLING RIGS							
International(3)							
Cliffs Drilling 1.....	--	1988 / 1998	--	18,000'	Trinidad	N/A	Stacked
Cliffs Drilling 3.....	--	1993 / 1998	--	25,000'	Trinidad	Term Daywork	March, 1999
Cliffs Drilling 17.....	--	1996	--	12,000'	Brazil	Term Daywork	November, 2000
LAND DRILLING RIGS							
International(11)							
Cliffs Drilling 28(b).....	--	1977 / 1994	--	25,000'	Venezuela	Term Daywork	June, 2001
Cliffs Drilling 34.....	--	1980 / 1998	--	18,000'	Venezuela	Term Daywork	November, 2000
Cliffs Drilling 35.....	--	1980 / 1997	--	18,000'	Venezuela	Term Daywork	June, 1999
Cliffs Drilling 36(b).....	--	1982 / 1998	--	18,000'	Venezuela	Term Daywork	June, 2001
Cliffs Drilling 37(b).....	--	1982 / 1998	--	18,000'	Venezuela	Term Daywork	June, 2001
Cliffs Drilling 40(b).....	--	1980 / 1998	--	25,000'	Venezuela	Term Daywork	June, 2001
Cliffs Drilling 41(b).....	--	1981 / 1994	--	25,000'	Venezuela	Term Daywork	June, 2001
Cliffs Drilling 42(b).....	--	1981 / 1994	--	25,000'	Venezuela	Term Daywork	June, 2001
Cliffs Drilling 43(b).....	--	1981 / 1991	--	25,000'	Venezuela	Term Daywork	June, 2001
Cliffs Drilling 54.....	--	1981 / 1995	--	30,000'	Venezuela	Term Daywork	December, 1999
Cliffs Drilling 55.....	--	1983 / 1997	--	35,000'	Venezuela	N/A	Stacked
MOBILE OFFSHORE PRODUCTION UNITS							
Domestic(2)							
Cliffs Drilling 4.....	--	1967 / 1995	150'	--	Gulf of Mexico	Month-to-Month	N/A
Cliffs Drilling 8.....	--	1977 / 1993	250'	--	Gulf of Mexico	Term Daywork	April, 1999
International(2)							
Cliffs Drilling 10.....	--	1979 / 1993	250'	--	Qatar	N/A	Stacked
LANGLEY.....	--	1965 / 1996	150'	--	Nigeria	Term Daywork	December, 2001

</TABLE>

(a) Abbreviations:

- MC = mat supported cantilever jack-up mobile offshore drilling unit
 IC = independent leg cantilever jack-up mobile offshore drilling unit
 MS = mat supported slot jack-up mobile offshore drilling unit

(b) Committed to the Company's Engineering Services business segment for turnkey drilling activities.

Utilization

The Company's rigs are inactive from time to time. The Company believes

that its stacking procedures minimize stacking and maintenance costs, and that the stacked rigs could be placed in service with minimal cost and delay should it become economically attractive to do so. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

6

8

Foreign Operations

For the fiscal years ended December 31, 1998, 1997 and 1996, 67%, 63% and 55%, respectively, of the Company's consolidated revenues were derived from foreign operations, principally in Venezuela, Trinidad and the Middle East. See Note 14 of Notes to Consolidated Financial Statements.

As of March 26, 1999, the Company operated 6 jack-up drilling rigs in international locations, including 2 jack-up rigs in each of Qatar and Trinidad, and one jack-up rig in each of Venezuela and Mexico. The Company operated 11 land drilling rigs in Venezuela, 2 platform rigs in Trinidad and one platform rig in Brazil. In addition, the Company had one MOPU in each of Qatar and Nigeria. Of the drilling rigs and MOPUs operating in foreign locations, 3 rigs and one MOPU were stacked without a contract.

On May 23, 1996, the Company acquired the stock of Viking Trinidad Limited (renamed Cliffs Drilling Trinidad Limited), which owned a 50% interest in the WINDJV. The WINDJV was a joint venture between Cliffs Drilling Trinidad Limited and Well Services, which owned a jack-up drilling rig. On August 1, 1997, Cliffs Drilling Trinidad Limited acquired an additional 49% interest in the WINDJV from Well Services. On December 29, 1997, the Company acquired the remaining 1% interest in the WINDJV from Well Services.

In 1996, the Company became a 50% joint venture partner with Perforadora Central, S.A. de C.V. by forming Cliffs Central Drilling International ("CCDI") for the marketing of drilling services in Mexico.

In 1996, the Company became a 1/3 (33 1/3%) owner of Servicios Integrados Petroleros C.C.I., S.A. ("CCI"). CCI is a joint venture company among the Company, Inelectra S.A. and Cementaciones Petroleras Venezolanas C.A. which markets drilling services in Venezuela.

Operations of the Company which are conducted in foreign countries are subject to certain political, economic and other uncertainties. See "Business and Properties -- Risks Inherent in Foreign Operations."

Customers

The Company's largest customer for the years ended December 31, 1998, 1997 and 1996 was PDVSA (and its predecessors). Revenues from PDVSA and its predecessors accounted for approximately 33%, 31% and 31%, respectively, of the Company's consolidated revenues during each year. The loss of any significant customer could, at least on a short-term basis, have a material adverse impact on the Company's results of operations. See Note 13 of Notes to Consolidated Financial Statements.

Equipment and Supplies

The Company obtains required supplies, services and equipment from a variety of sources. The Company has not in the past experienced significant shortages of such materials necessary to conduct the Company's business. However, equipment availability has been reduced and shortages could occur in the future which could have a material adverse effect on the Company's operations. There may be additional delays or shortages associated with obtaining supplies, services and equipment, particularly with respect to the Company's foreign operations.

Competition

Demand for offshore drilling rigs and utilization have deteriorated significantly in recent months. The drilling industry remains highly competitive, and no one or few drilling contractors is dominant. The Company competes with numerous other drilling contractors, some of which are substantially larger than the Company and possess appreciably greater financial and other resources. During the last several years, there have been several business consolidations which have reduced the fragmented nature of the drilling industry. Although this has decreased the total number of competitors, the Company believes that competition for drilling contracts will continue to be intense in the foreseeable future.

Price competition is generally the major competitive factor in the energy service industry, but the technical capability of specialized drilling equipment and personnel at the time and place required by customers is also important. Other competitive factors include technical and engineering expertise, work

force experience, rig suitability, safety record, efficiency, condition of equipment, reputation and customer relations. The Company believes that it competes favorably with respect to all of these factors. If demand for drilling rigs increases in the future, rig availability may also become a competitive factor. Competition is usually regional. However, drilling rigs are mobile and can be moved from one region to another in

7

9

response to increased demand, and an oversupply of rigs in any region may result. The Company's domestic drilling operations are concentrated in the Texas/Louisiana Gulf Coast area, and its foreign drilling operations are primarily in Venezuela, Trinidad and the Middle East. In foreign markets, the Company competes with many of the same competitors under the same factors as in the domestic markets. Demand for onshore and offshore drilling and production equipment is also dependent on the exploration and development programs of oil and gas companies, which are in turn influenced by the financial condition of such companies, general economic conditions, prices of oil and gas and political considerations and policies. Improved technologies such as 3-D seismic, subsea completions, floating production systems and directional drilling have reduced the number of wells necessary to maintain or even increase supplies of oil and gas, and have therefore improved overall industry fundamentals.

Historically, there have been few drilling contractors specializing in turnkey drilling contracts because of the extent of engineering and technical expertise required to manage the risks inherent in turnkey drilling operations, the magnitude of management commitment and the financial resources required. In recent years, the turnkey drilling market has become more competitive as more companies entered the market and margins were reduced. Domestic turnkey contractors have been very aggressive in pricing Gulf of Mexico turnkey contracts, and margins have been reduced.

In order to remain competitive in the current environment, the Company has enhanced its geographical diversification, participated in turnkey drilling contracts, developed and marketed well engineering and management services and become active in the development and operation of MOPUs. The Company believes that MOPUs offer several economic advantages to oil and gas operators, namely, optimizing the use of exploration budgets by avoiding the high capital costs of production platforms, providing more flexibility than conventional fixed platforms in producing oil and gas and allowing for the economic development of smaller reserves. Although the Company believes there is a market for additional MOPUs, the Company can give no assurance that there will be sufficient demand for MOPUs at rates which are profitable, particularly given the increased capital costs of rigs which are suitable for conversion. Moreover, MOPUs are not widely utilized, and most companies that do utilize MOPUs own and operate their own units. The Company believes that its experience in MOPU operations enables it to compete favorably in the MOPU market.

OIL AND GAS OPERATIONS

Since 1987, the Company has engaged in oil and gas exploration and production activities in conjunction with marketing the Company's contract drilling services, primarily turnkey, under the Company's contract drilling support ("CDS") program. Under this program, the Company has taken working interests in oil and gas properties in connection with the award to the Company of a drilling contract. The Company's policy has been that its working interest in such CDS wells would generally not exceed 25%. In 1993, the Company began to de-emphasize its CDS program due to marginal financial performance of the segment. The Company's oil and gas operations are not significant; therefore, applicable disclosures are not required at December 31, 1998 and 1997 or for each of the three years in the period ended December 31, 1998.

ENVIRONMENTAL CONTROLS

The Company believes it is in substantial compliance with applicable federal, state, local and foreign laws and regulations relating to environmental controls. Also, the existence of such laws and regulations has not had, nor at this time is expected to have, any materially restrictive effect on the Company. To date, the Company has not accounted for costs or capital expenditures incurred for environmental control facilities separately from other costs incurred in the operation of its businesses. The Company does not believe, however, that any such costs or expenditures have been material, and the Company does not expect that under present conditions such costs or expenditures will become material in the foreseeable future.

GOVERNMENT REGULATION

The drilling of oil and gas wells is subject to various federal, state, local and foreign laws, rules and regulations. The Company, as an owner or operator of domestic offshore facilities, may be liable for the costs of removal and damages arising out of a pollution incident to the extent set forth in the Federal Water

Pollution Control Act, as amended by the Oil Pollution Act of 1990 and the Outer Continental Shelf Lands Act. In addition, the Company may also be subject to other civil claims arising out of any such incident. Certain of the Company's facilities are also subject to regulations of the Environmental Protection Agency ("EPA") that require the preparation and implementation of spill prevention control and countermeasure plans relating to possible discharge of oil into navigable waters. The Company supplements its activities in this regard by membership in the Clean Gulf Association, which provides pollution control facilities to its members. Other regulations of the EPA may require the Company to take certain precautions in storing, handling and transporting certain hazardous wastes. State statutory provisions relating to oil and natural gas generally include requirements as to well spacing, waste prevention, production limitations, pollution prevention and clean-up, obtaining drilling permits and similar matters. The Company believes that it is in compliance in all material respects with such laws, rules and regulations and that such compliance has not had any material adverse effect on its operations or financial condition.

The drilling industry is dependent on the demand for services from the oil and gas exploration industry and, accordingly, is affected by changing tax laws, price controls and other laws relating to the energy business. The Company's business is affected generally by political developments and by federal, state, local and foreign laws, rules and regulations which may relate directly to the oil and gas industry. The adoption of laws, rules and regulations, both domestic and foreign, which curtail exploration and development drilling for oil and gas for economic, environmental and other policy reasons may adversely affect the Company's operations by limiting available drilling and production opportunities. The Company's foreign operations are subject to political, economic and other uncertainties associated with foreign operations generally, as well as the additional risks of fluctuating currency values and exchange controls. Governments may from time to time suspend or curtail drilling operations or leasing activities when such operations are considered to be detrimental to the environment or to jeopardize public safety.

MOPUs and MOPU operations are subject to certain federal, state, local and foreign laws, rules and regulations relating to engineering, design, structural, safety, operational and inspection standards or requirements, and changes in such standards or requirements could adversely affect the Company's MOPU operations.

RISKS AND INSURANCE

The Company's operations are subject to the many hazards inherent in the drilling business, including, for example, blowouts, cratering, fires, explosions and adverse weather and seas. These hazards could cause personal injury, suspend drilling operations or seriously damage or destroy the equipment involved and could cause substantial damage to producing formations and surrounding areas. Damage to the environment could also result from the Company's operations, particularly through oil spillage and extensive, uncontrolled fires. As a protection against operating hazards, the Company maintains broad insurance coverage, including all risks physical damage, employer's liability, comprehensive general liability or commercial contract indemnity and workers' compensation insurance. The Company's third party liability insurance coverage is approximately \$400 million per occurrence. The Company believes that it is adequately insured for public liability and property damage to others with respect to its operations. However, such insurance may not be sufficient to protect the Company against liability for all consequences of well disasters, extensive fire damage or damage to the environment. The Company also carries insurance to cover physical damage to or loss of its drilling rigs and MOPUs and loss of hire insurance coverage. In view of difficulties that may be encountered in renewing such insurance at reasonable rates, no assurance can be given that the Company will be able to maintain the type and amount of coverage that it considers adequate. The occurrence of a significant event for which the Company is not fully insured could have a material adverse effect on the Company's financial position and results of operations.

The Company also maintains insurance coverage to protect against certain hazards inherent in its turnkey contract drilling and oil and gas operations. This insurance was most recently renewed on October 1, 1997, and is scheduled for renewal on October 1, 1999. This insurance, which is principally through Underwriters at Lloyd's and Institute of London Underwriters Companies, covers "control of well" (including blowouts above and below the surface); cratering; seepage and pollution; and care, custody and control. The Company believes that it maintains insurance in accordance with industry standards. The Company's current insurance program provides \$500,000 coverage per occurrence for care, custody and control, and \$75 million or \$25 million, depending on the well project, coverage per occurrence for control of well, cratering and seepage and pollution associated with foreign operations. The amount of coverage per

occurrence provided by the Company's current insurance program for domestic land, coastal and inland water, and offshore operations is \$10 million, \$20 million and \$30 million, respectively, for control of well, cratering and seepage and pollution. Each form of coverage provides for a retention amount for the account of the Company, as well as a maximum limit of liability. Each casualty is an occurrence, and there may be more than one such occurrence on a well, each of which would be subject to a separate retention amount. No assurance can be given that the Company will be able to maintain the types and amounts of coverage that it considers adequate with respect to its turnkey drilling and oil and gas operations. If the Company were unable to insure against certain of these risks, either because such insurance was no longer available or because the premium costs became too great in relation to the coverage afforded, the Company's insurance might not be adequate to protect the Company against liability from all consequences of well disasters, downhole problems, extensive fire damage or damage to the environment. The occurrence of a casualty or loss against which the Company is not fully insured could have a material adverse effect on the Company's financial position.

RISKS INHERENT IN FOREIGN OPERATIONS

For the fiscal year ended December 31, 1998, 67% of the Company's consolidated revenues was derived from foreign sources or from services performed abroad, principally in Venezuela, Trinidad and the Middle East. Foreign operations and export sales are subject in varying degrees to risks inherent in doing business abroad. Such risks include the possibility of unfavorable changes in tax or other laws; partial or total expropriation; currency exchange rate fluctuations and restrictions on currency repatriation; the disruption of operations from labor and political disturbances, insurrection or war; and the requirements of partial local ownership of operations in certain countries. Foreign governments may from time to time suspend or curtail drilling operations or leasing activities when such operations are considered to be detrimental to the environment or to jeopardize public safety. Generally, the Company purchases insurance to protect against some or all losses due to events of political risks, such as nationalization, expropriation, war, confiscation and deprivation. Occasionally, customers will indemnify the Company against such losses. See "Business and Properties -- Government Regulation."

EMPLOYEES

The Company employs both domestic and foreign personnel. The Company has not in the past experienced significant shortages of qualified labor necessary to conduct the Company's business. However, labor shortages could occur in the future which could have a material adverse effect on the Company's operations.

At December 31, 1998, the Company employed 1,572 persons as follows:

<TABLE>

<CAPTION>

	SALARIED EMPLOYEES	HOURLY EMPLOYEES
	-----	-----
<S>	<C>	<C>
Domestic.....	166	554
Venezuela.....	224	311
Trinidad.....	77	172
Other.....	48	20

</TABLE>

There were no collective bargaining contracts covering the Company's domestic employees or employees in foreign locations in effect as of December 31, 1998, except for employees in Venezuela who are covered by the Collective Labor Contract of the Venezuelan Petroleum Industry.

OTHER PROPERTIES

The Company owns an office building and warehouse on a 2.5 acre tract of land in Lafayette Parish, Louisiana. The Company leases additional properties, including its executive offices in Houston, Texas, a yard in Lafayette, Louisiana, and several field offices in international locations.

ITEM 3. LEGAL PROCEEDINGS

On August 26, 1998, the Company received notice that a class action complaint against the Company and each member of the Board of Directors was filed by a stockholder, on behalf of all of the stockholders of the Company, on August 12, 1998 in the Court of Chancery of the State of Delaware. The complaint alleges

that the directors of the Company did not act in accordance with their fiduciary duties to protect the interests of the stockholders in connection with the Merger. The plaintiff seeks damages as well as injunctive relief. The Company believes the allegations in the complaint are wholly without merit and intends to vigorously defend the lawsuit.

The Company is party to a number of other lawsuits which are ordinary, routine litigation incidental to the Company's business, the outcome of which, individually, or in the aggregate, is not expected to have a material adverse effect on the Company's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

Under the reduced disclosure format permitted by General Instruction I(2)(c) of Form 10-K, the information otherwise required by this item may be omitted.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company was traded on the New York Stock Exchange under the symbol "CDG" from April 3, 1997 through November 30, 1998. Prior to April 3, 1997, the Common Stock of the Company was traded on the NASDAQ stock market under the symbol "CLDR." The following table sets forth the range of high and low sales prices per share of Common Stock for each calendar quarter, as reported by the NASDAQ stock market for the periods through April 2, 1997, and as reported by the New York Stock Exchange for periods from April 3, 1997 through November 30, 1998, the last trading date for the Common Stock. As a result of the Merger, R&B Falcon owns all of the outstanding Common Stock of the Company, and the Company's Common Stock is no longer publicly traded.

<TABLE>

<CAPTION>

	SALES PRICE	
	HIGH	LOW
<S>	<C>	<C>
1998		
1st Quarter.....	\$51.81	\$32.38
2nd Quarter.....	57.31	31.75
3rd Quarter.....	33.38	13.25
4th Quarter(a).....	27.94	13.75
1997		
1st Quarter(b).....	\$39.75	\$20.63
2nd Quarter(b).....	37.13	26.94
3rd Quarter.....	70.50	36.38
4th Quarter.....	82.00	42.00

</TABLE>

(a) For the period through November 30, 1998, the last trading date for the Common Stock.

(b) Retroactively adjusted to reflect a two-for-one stock split effected in the form of a 100% stock dividend effective May 22, 1997.

The Company never paid cash dividends on its Common Stock. Under the Company's 10.25% Senior Notes due 2003 (the "Senior Notes") and Revolving Credit Facility with ING, the Company is restricted from declaring, making or paying cash dividends on the Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 9 of Notes to Consolidated Financial Statements.

During 1998, 39,437 shares of the Company's Common Stock held by the Company as treasury shares were contributed to the Cliffs Drilling Company Savings Plan in satisfaction of the Company's matching obligations under the Savings Plan. The shares had an aggregate value of \$1,089,000 based on market prices on the various dates of transfer ranging from \$17.75 to \$55.75 per share. These transactions either (i) do not constitute "sales" and therefore are not subject to the registration requirements of the Securities Act of 1933, as amended, or (ii) were made in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, as transactions by the issuer not involving a public offering.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected consolidated financial information of the Company. The amounts as of and for each of the five years in the period ended December 31, 1998 have been derived from audited consolidated financial statements of the Company. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto included elsewhere herein. The selected consolidated financial data provided below are not necessarily indicative of the future results of operations or financial performance of the Company.

The Merger was effective on December 1, 1998 and was accounted for using the purchase method of accounting. The purchase price was "pushed down" and recorded in the consolidated financial statements, which affects the comparability of the post-acquisition and pre-acquisition financial position. See Note 2 of Notes to Consolidated Financial Statements.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
<S>	<C>	<C>	<C>	<C>	<C>
SUMMARY OF OPERATIONS:					
Revenues.....	\$335,824	\$263,632	\$133,109	\$ 83,289	\$ 83,693
Costs and Expenses:					
Operating Expenses.....	196,918	148,158	91,984	67,713	50,907
Depreciation, Depletion and Amortization....	28,701	20,443	10,388	7,271	14,008
Contract Termination Provision.....	--	--	--	--	5,193
General and Administrative Expense(1).....	12,455	8,731	6,300	5,289	5,114
Operating Income.....	97,750	86,300	24,437	3,016	8,471
Interest Expense(2).....	(20,443)	(17,838)	(9,265)	(199)	(826)
Income Tax Expense.....	(26,545)	(25,124)	(6,996)	(2,406)	(790)
Other Income (Expense) (3).....	327	3,321	6,246	5,035	(799)
Net Income.....	51,089	46,659	14,422	5,446	6,056
Dividends Applicable to Preferred Stock(4).....	--	--	(31)	(2,659)	(2,659)
Net Income Applicable to Common and Common Equivalent Shares.....	\$ 51,089	\$ 46,659	\$ 14,391	\$ 2,787	\$ 3,397
Net Income Per Common Share(5):					
Basic.....	N/A	\$ 3.06	\$ 1.05	\$ 0.34	\$ 0.40
Diluted.....	N/A	\$ 3.01	\$ 1.02	\$ 0.34	\$ 0.40
Weighted Average Number of Common and Common Equivalent Shares Outstanding(4) (5) (6) (7):					
Basic.....	N/A	15,237	13,736	8,192	8,428
Diluted.....	N/A	15,493	14,083	8,213	8,447
SUMMARY BALANCE SHEET DATA:					
Working Capital.....	\$ 70,668	\$ 57,816	\$ 68,221	\$ 33,859	\$ 19,331
Property and Equipment, Net.....	505,841	369,227	216,474	65,950	71,248
Total Assets.....	717,256	500,151	339,546	128,962	120,167
10.25% Senior Notes(2).....	202,935	203,606	150,000	--	--
Redeemable Preferred Stock(4).....	--	--	--	28,750	28,750
Total Shareholders' Equity(4) (6) (7) (8).....	\$404,489	\$215,929	\$142,168	\$ 74,015	\$ 70,881

</TABLE>

(1) Included in 1998 General and Administrative Expense are merger costs of \$1.5 million and incremental restricted stock amortization of \$1.8 million related to the accelerated vesting of restricted stock due to the execution of the Merger Agreement with R&B Falcon.

(2) In part to finance the acquisition of the Southwestern Rigs, the Company sold \$150 million of Senior Notes on May 23, 1996. On August 7, 1997, the Company sold an additional \$50 million of Senior Notes at a premium for various rig acquisitions and upgrades.

(3) The following summarizes items of "Other Income (Expense)":

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Gain on Disposition of Assets.....	\$ 257	\$ 3,150	\$3,694	\$ 2,666	\$ 665
Interest Income.....	2,080	1,941	2,725	1,065	815
Exchange Rate Gain (Loss).....	(1,426)	(174)	--	2,554	(1,168)
Other, net.....	(584)	(1,596)	(173)	(1,250)	(1,111)
Other Income (Expense).....	\$ 327	\$ 3,321	\$6,246	\$ 5,035	\$ (799)

</TABLE>

- (4) On January 17, 1996, the Company issued 2,113,557 shares (pre-split basis) of Common Stock upon conversion of 1,115,988 shares of its 1,150,000 issued and outstanding shares of Preferred Stock. The remaining 34,012 shares of Preferred Stock were redeemed for cash in the amount of \$25.69 per share plus \$0.22 per share in accrued dividends thereon at a cost to the Company of approximately \$.9 million.
- (5) The net income per common share amounts and weighted average number of common and common equivalent shares outstanding prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"). For further discussion of earnings per share and the impact of SFAS No. 128, see Note 1 of Notes to Consolidated Financial Statements. In addition, net income per common share and weighted average number of common and common equivalent shares outstanding have been retroactively adjusted to reflect a two-for-one stock split effected in the form of a 100% stock dividend effective May 22, 1997.
- (6) The Company issued 1,200,000 shares (pre-split basis) of Common Stock on May 23, 1996 in connection with the acquisition of the Southwestern Rigs and 437,939 shares of Common Stock on December 29, 1997 in connection with the Well Services Acquisition.
- (7) As a result of the Merger, each outstanding share of Common Stock of the Company was converted into 1.7 shares of R&B Falcon common stock and cash in lieu of fractional shares, as provided for in the Merger Agreement. The Company is now a wholly-owned subsidiary of R&B Falcon.
- (8) The Company has not paid any cash dividends on its Common Stock.

13

15

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

GENERAL

Effective December 1, 1998, a change in control of the Company occurred as a result of the Merger. The Company is now a wholly-owned subsidiary of R&B Falcon.

Activity in the contract drilling industry and related oil service businesses has deteriorated significantly in recent months due to decreased worldwide demand for drilling rigs and related services resulting from a substantial decline in crude oil prices. The financial condition and results of operations of the Company and other drilling contractors are dependent upon the price of oil and natural gas, as demand for their services is primarily dependent upon the level of spending by oil and gas companies for exploration, development and production activities. Crude oil and natural gas prices have continued to fluctuate over the last several years. If crude oil prices decline further or the current weakness in crude oil prices continues for an extended period, there could be a further deterioration in both rig utilization and dayrates.

The Company's daywork drilling operations benefited during 1997 and early 1998 from the tight supply of jack-up drilling rigs both in the U.S. Gulf of Mexico and internationally. Increased exploration activity coupled with a reduction in rig availability resulted in increased dayrates and utilization of the Company's drilling rigs. The same factors both positively and negatively affected the Company's engineering services business segment during 1997 and early 1998, in that increased exploration activity caused an increase in demand for the Company's engineering services; however, reduced rig availability made

it more difficult for the Company to contract drilling rigs required for performance of turnkey drilling operations. Currently, lower crude oil prices are affecting exploration and production spending, which is creating significantly lower dayrates and utilization for offshore drilling companies, particularly in the U.S. Gulf of Mexico.

The oil and gas industry has experienced extreme market cycles over the past decade. The Company has endeavored to mitigate the effect of this volatility by diversifying its scope of operations. To achieve its strategic objective, the Company established separate but related lines of business in daywork drilling, engineering services and mobile offshore production unit operations. The Company also has pursued foreign drilling and production opportunities in order to expand geographically. Each of the Company's business segments will continue to be affected, however, by the unsettled energy markets, which are influenced by a variety of factors, including general economic conditions, the extent of worldwide oil and gas production and demand therefor, government regulations and environmental concerns.

RESULTS OF OPERATIONS

Year 1998 Versus 1997

The Company recognized net income of \$51.1 million in 1998 compared to net income of \$46.7 million in 1997. Revenues increased \$72.2 million and operating income increased \$11.5 million from 1997 to 1998. These increases were partially offset by \$2.9 million of decreased gains on disposition of assets and \$2.6 million of increased interest expense associated with the Senior Notes. Improved operating results from the engineering services business segment contributed to the increase in operating income.

<TABLE>
<CAPTION>

	1998	1997	INCREASE (DECREASE)
	-----	-----	-----
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Revenues:			
Daywork Drilling.....	\$222,055	\$173,602	\$ 48,453
Engineering Services.....	133,366	91,723	41,643
MOPU Operations.....	8,676	8,663	13
Oil and Gas.....	272	410	(138)
Eliminations.....	(28,545)	(10,766)	(17,779)
	-----	-----	-----
Consolidated.....	\$335,824	\$263,632	\$ 72,192
	=====	=====	=====

</TABLE>

14

16

<TABLE>
<CAPTION>

	1998	1997	INCREASE (DECREASE)
	-----	-----	-----
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Operating Income (Loss):			
Daywork Drilling.....	\$ 71,823	\$ 71,623	\$ 200
Engineering Services.....	35,919	20,446	15,473
MOPU Operations.....	3,331	3,582	(251)
Oil and Gas.....	(215)	(330)	115
Corporate Office.....	(13,108)	(9,021)	(4,087)
	-----	-----	-----
Consolidated.....	\$ 97,750	\$ 86,300	\$ 11,450
	=====	=====	=====

</TABLE>

Daywork Drilling

Daywork drilling revenues increased \$48.5 million and operating income increased \$.2 million in 1998 compared to 1997. The increase in revenues was primarily due to an expansion of the Company's operating rig fleet, in addition to improved dayrates on several rigs. The decrease in operating margins was primarily due to reduced dayrates and utilization experienced during the second half of 1998, in addition to costs associated with stacking certain rigs.

The Company completed the conversion of one of the Company's MOPUs into a drilling rig and mobilized the rig to offshore Venezuela. The rig commenced operations under a one-year drilling contract during the third quarter of 1998.

The Company operates its drilling rigs on both a term and a spot (well-to-well) basis. Drilling rigs contracted on a term basis generally work in various international locations, while drilling rigs contracted on a spot basis generally work in the U.S. Gulf of Mexico. The following table summarizes revenues, utilization and average dayrates for significant classes of the Company's drilling rigs:

<TABLE>
<CAPTION>

	1998	1997	INCREASE (DECREASE)
	-----	-----	-----
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Daywork Drilling Revenues(1):			
Jack-up Rigs:			
International.....	\$ 55,368	\$ 49,866	\$ 5,502
Domestic.....	93,023	77,849	15,174
Land Rigs.....	48,619	32,812	15,807
Platform/Workover Rigs.....	24,040	5,604	18,436
Other(2).....	1,005	7,471	(6,466)
	-----	-----	-----
Total.....	\$222,055	\$173,602	\$ 48,453
	=====	=====	=====
Average Rig Utilization(3):			
Jack-up Rigs:			
International.....	94%	100%	
Domestic.....	90%	98%	
Land Rigs.....	93%	95%	
Platform/Workover Rigs.....	96%	98%	
Average Dayrates(4):			
Jack-up Rigs:			
International.....	\$ 33,342	\$ 29,609	
Domestic.....	33,074	29,793	
Land Rigs.....	16,449	12,750	
Platform/Workover Rigs.....	13,739	12,304	

</TABLE>

(1) Includes revenues earned from affiliates.

(2) Includes WINDJV operations in Trinidad prior to August 1, 1997, Brazilian operations prior to October 1, 1997, CCDI joint venture operations in Mexico, CCI joint venture operations in Venezuela and labor maintenance contracts in Venezuela and Trinidad.

(3) Utilization rates are based upon the number of actively marketed rigs in the fleet and exclude rigs which are unavailable for operations during periods of refurbishment and upgrade.

(4) Daywork drilling revenues, less non-recurring revenues, divided by aggregate contract days, adjusted to exclude days under contract at zero dayrate.

15

17

Engineering Services

Engineering services revenues increased \$41.6 million and operating income increased \$15.5 million in 1998 compared to 1997. The Company completed 17 turnkey contracts in 1998 compared to 14 turnkey contracts in 1997. Thirteen of the 17 contracts completed during 1998 were international contracts in Venezuela, while 10 international contracts in Venezuela were completed during 1997. International operating margins are currently stronger than domestic margins due to improved drilling efficiencies and a reduction in lost time well activities. Domestic turnkey contractors continue to bid wells very aggressively, resulting in intense competition which has adversely affected the Company's domestic turnkey margins.

The Company had 8 turnkey wells in progress at December 31, 1998, 4 of which were completed by February 28, 1999.

In April, 1998, the Company was awarded a contract from PDVSA to drill 60 turnkey wells in Venezuela. Aggregate revenues for the 60 wells are expected to range from approximately \$450 million to \$500 million depending upon, among other things, various options to be elected by PDVSA. The Company commenced drilling under the program in March, 1998. The program is expected to extend over approximately three and one-half years and is expected to utilize 7 of the Company's land drilling rigs in Venezuela. During 1998, the Company completed 9

of the 60 wells, with revenues realized in the amount of \$74.6 million. No assurance can be given that the remaining wells will ultimately be drilled, or that the program can be completed within the intended time frame.

MOPU Operations

MOPU revenues increased slightly and operating income decreased \$.3 million in 1998 compared to 1997. The decrease in operating income was primarily due to the loss of earnings from a MOPU which was converted to a jack-up drilling rig during 1998.

The Company currently owns 4 MOPUs. Three of the MOPUs are under contract and currently operating, and one MOPU is stacked.

Oil and Gas

Oil and gas revenues decreased \$.1 million and operating losses decreased \$.1 million in 1998 compared to 1997. The Company does not expect any significant activity related to oil and gas exploration and production activities during 1999.

Corporate Overhead

Corporate overhead increased \$4.1 million in 1998 compared to 1997. The increase was primarily related to costs associated with the Merger.

Other Income (Expense) and Income Taxes

The Company recognized \$46.7 million of other expense in 1998 compared to \$39.6 million of other expense in 1997. The net increase in other expense resulted primarily from a \$2.9 million decrease in gains on disposition of assets, a \$2.6 million increase in interest expense associated with the Senior Notes, a \$1.3 million increase in exchange rate losses and an increase in income taxes of \$1.4 million. See "Liquidity and Capital Resources."

The increase in income taxes relates primarily to the overall increase in income from 1997 to 1998. The effective tax rates were 34% and 35% in 1998 and 1997, respectively, with 75% and 63%, respectively, of the recorded expense constituting current taxes. See Note 6 of Notes to Consolidated Financial Statements.

16

18

Year 1997 Versus 1996

The Company recognized net income of \$46.7 million in 1997 compared to net income of \$14.4 million in 1996. Revenues increased \$130.5 million and operating income increased \$61.9 million from 1996 to 1997. These increases were partially offset by \$8.6 million of increased interest expense associated with the Senior Notes and \$18.1 million of increased income taxes. Improved operating results from the Company's daywork drilling and engineering services business segments contributed to the increases in revenues and operating income.

<TABLE>
<CAPTION>

	1997 -----	1996 -----	INCREASE (DECREASE) -----
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Revenues:			
Daywork Drilling.....	\$173,602	\$ 77,882	\$ 95,720
Engineering Services.....	91,723	60,517	31,206
MOPU Operations.....	8,663	4,329	4,334
Oil and Gas.....	410	1,156	(746)
Eliminations.....	(10,766)	(10,775)	9
	-----	-----	-----
Consolidated.....	\$263,632	\$133,109	\$130,523
	=====	=====	=====
Operating Income (Loss):			
Daywork Drilling.....	\$ 71,623	\$ 23,048	\$ 48,575
Engineering Services.....	20,446	8,036	12,410
MOPU Operations.....	3,582	2,872	710
Oil and Gas.....	(330)	(3,108)	2,778
Corporate Office.....	(9,021)	(6,411)	(2,610)
	-----	-----	-----
Consolidated.....	\$ 86,300	\$ 24,437	\$ 61,863
	=====	=====	=====

</TABLE>

Daywork Drilling

Daywork drilling revenues increased \$95.7 million and operating income increased \$48.6 million in 1997 compared to 1996. From May, 1996 through December, 1997, the Company acquired 12 jack-up drilling rigs, 5 land rigs, 3 platform rigs and a 100% interest in the WINDJV, which owns an additional jack-up drilling rig. Of the \$48.6 million increase in operating income, \$38.9 million was generated from these rig acquisitions. See "Business and Properties -- Industry Conditions and Company Strategy," "Business and Properties -- Contract Drilling and MOPU Operations" and "Liquidity and Capital Resources." Operating income also increased due to improved dayrates for the Company's drilling rigs.

The Company operates its drilling rigs on both a term and a spot (well-to-well) basis. Drilling rigs contracted on a term basis generally work in various international locations, while drilling rigs contracted on a spot basis generally work in the U.S. Gulf of Mexico. The following table summarizes revenues, utilization and average dayrates for significant classes of the Company's drilling rigs:

<TABLE>
<CAPTION>

	1997	1996	INCREASE (DECREASE)
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Daywork Drilling Revenues(1):			
Jack-up Rigs:			
International.....	\$ 49,866	\$17,989	\$31,877
Domestic.....	77,849	33,984	43,865
Land Rigs.....	32,812	20,403	12,409
Platform/Workover Rigs.....	5,604	1,251	4,353
Other(2).....	7,471	4,255	3,216
	-----	-----	-----
Total.....	\$173,602	\$77,882	\$95,720
	=====	=====	=====
Average Rig Utilization(3):			
Jack-up Rigs:			
International.....	100%	100%	
Domestic.....	98%	96%	
Land Rigs.....	95%	100%	
Platform/Workover Rigs.....	98%	87%	
Average Dayrates(4):			
Jack-up Rigs:			
International.....	\$ 29,609	\$25,724	
Domestic.....	29,793	22,667	
Land Rigs.....	12,750	9,085	
Platform/Workover Rigs.....	12,304	5,259	

</TABLE>

-
- (1) Includes revenues earned from affiliates.
 - (2) Includes WINDJV operations in Trinidad prior to August 1, 1997, Brazilian operations prior to October 1, 1997, CCDI joint venture operations in Mexico, CCI joint venture operations in Venezuela during 1997 and 2 labor maintenance contracts in Venezuela.
 - (3) Utilization rates are based upon the number of actively marketed rigs in the fleet and exclude rigs which are unavailable for operations during periods of refurbishment and upgrade.
 - (4) Daywork drilling revenues, less non-recurring revenues, divided by aggregate contract days, adjusted to exclude days under contract at zero dayrate.

Engineering Services

Engineering services revenues increased \$31.2 million and operating income increased \$12.4 million in 1997 compared to 1996. The Company completed 14 turnkey contracts in 1997 compared to 13 turnkey contracts in 1996. Ten of the 14 contracts completed during 1997 were international contracts in Venezuela, while only 5 international contracts were completed during 1996. International operating margins are stronger than domestic margins and increased during 1997 due to improved drilling efficiencies and a reduction in lost time well activities. Domestic turnkey contractors continue to bid wells very aggressively, resulting in intense competition which has adversely affected the Company's domestic turnkey margins.

The Company had 5 turnkey wells in progress at December 31, 1997.

MOPU Operations

MOPU revenues increased \$4.3 million and operating income increased \$.7 million in 1997 compared to 1996. The increases in revenues and operating income were primarily due to operations associated with 2 MOPUs, neither of which operated during 1996.

18

20

Oil and Gas

Oil and gas revenues decreased \$.7 million and operating losses decreased \$2.8 million in 1997 compared to 1996. Revenues decreased primarily due to declines in production of both oil and gas. Operating losses in 1996 were primarily due to approximately \$2.9 million in costs associated with an unsuccessful well drilled during the fourth quarter of 1996.

Corporate Overhead

Corporate overhead increased \$2.6 million in 1997 compared to 1996. The increase was primarily due to increased costs associated with the Southwestern operations and other employment-related costs.

Other Income (Expense) and Income Taxes

The Company recognized \$39.6 million of other expense in 1997 compared to \$10.0 million of other expense in 1996. The net increase resulted primarily from an \$8.6 million increase in interest expense associated with the Senior Notes and an increase in income taxes of \$18.1 million. See "Liquidity and Capital Resources."

The increase in income taxes relates primarily to the overall increase in income from 1996 to 1997. The effective tax rates were 35% and 33% in 1997 and 1996, respectively, with 63% and 26%, respectively, of the recorded expense constituting current taxes. The Company has utilized all foreign tax credit carryforwards and current year foreign tax credits as a reduction of 1997 domestic income taxes and accordingly, has eliminated the related valuation allowance of \$1.6 million provided in prior years. See Note 6 of Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased \$8.2 million from \$28.1 million at December 31, 1997 to \$36.3 million at December 31, 1998. The increase resulted from \$76.0 million provided by operating activities and \$.2 million provided by financing activities, offset in part by \$68.0 million used in investing activities.

Operating Activities

Net cash of \$76.0 million provided by operating activities included \$14.6 million used in working capital and other activities. "Accounts Receivable" decreased from December 31, 1997 to December 31, 1998 due primarily to the timing of turnkey completions and the timing of cash receipts related to domestic and international daywork drilling and engineering services operations. "Drilling Contracts in Progress" increased due to additional turnkey wells in progress at December 31, 1998 and timing of turnkey completions. "Accounts Payable and Other Accrued Expenses" decreased primarily due to fewer rig refurbishment projects in process at December 31, 1998 compared to December 31, 1997.

Investing Activities

Net cash of \$68.0 million used in investing activities included capital expenditures totaling \$69.9 million. Of that total, \$9.3 million was used to fund the reactivation of 2 land drilling rigs acquired in January, 1997 for operations on Venezuelan turnkeys, and \$12.3 million was used for the conversion of a MOPU to a drilling rig. The remaining \$48.3 million was spent primarily on upgrade and renovation activities on other drilling rigs and MOPUs.

On December 29, 1997, the Company completed the acquisition of 2 offshore platform drilling rigs, one self-propelled jack-up drilling/workover rig and substantially all of the assets used in the offshore contract drilling business in Trinidad previously operated by Well Services. The purchase price totaled \$44.0 million, consisting of cash of \$23.5 million and the issuance by the Company of 437,939 shares of Common Stock, \$0.01 par value per share. One platform rig and the jack-up drilling/workover rig are currently operating under contracts in Trinidad. The contract on the other platform rig was recently

terminated by the operator.

The Company's capital expenditures in 1999 are expected to total approximately \$7.0 million, related primarily to rig upgrades and drill pipe purchases. The Company intends to fund these capital expenditures with available cash and internally generated cash flow. The Company's projection of 1999 capital

19

21

expenditures is based upon a continuation of the Company's program to upgrade rigs and related equipment. The actual level of capital expenditures may be higher due to contract requirements or in the event of unforeseen breakdown of equipment that was not scheduled for replacement, or lower in the event of inadequate cash flow from operations.

Financing Activities

Long-term debt at December 31, 1998 consists solely of Senior Notes in the aggregate principal amount of \$200.0 million and debt premium, net of amortization, of \$2.9 million. In addition to the \$150.0 million of Senior Notes sold during 1996, the Company sold \$50.0 million of Senior Notes on August 7, 1997 at a premium of \$3.9 million. Considering the premium, the effective interest rate on the \$50.0 million Senior Notes is 9.5%. Interest on the Senior Notes is payable semi-annually during each May and November. The Senior Notes do not require any payments of principal prior to their stated maturity on May 15, 2003, but the Company is required to make offers to purchase Senior Notes upon the occurrence of certain events as defined in the indenture, such as asset sales or a change of control of the Company. See Note 5 of Notes to Consolidated Financial Statements.

Upon consummation of the Merger, the Company was required to offer to purchase for cash all of the outstanding Senior Notes at a purchase price equal to 101% of the principal amount of each Senior Note, plus accrued and unpaid interest to the change of control payment date within 60 days following the Merger (the "Change of Control Offer"). The Change of Control Offer expired on January 21, 1999. A total of \$.3 million principal amount of Senior Notes were tendered.

On or after May 15, 2000, the Senior Notes are redeemable at the option of the Company, in whole or in part, at a price of 105% of principal if redeemed during the twelve months beginning May 15, 2000, at a price of 102.5% of principal if redeemed during the twelve months beginning May 15, 2001, or at a price of 100% of principal if redeemed after May 15, 2002, in each case together with interest accrued to the redemption date. Notwithstanding the foregoing, the Company may at its option use all or a portion of the proceeds from a public equity offering consummated on or prior to May 15, 1999, to redeem up to \$50.0 million principal amount of the Senior Notes at a redemption price equal to 110% of the principal amount, provided that at least \$150.0 million in aggregate principal amount of the Senior Notes remain outstanding immediately after such redemption.

The Senior Notes are senior unsecured obligations of the Company, ranking pari passu in right of payment with all senior indebtedness and senior to all subordinated indebtedness. The Senior Notes are unconditionally guaranteed on a senior unsecured basis by the Subsidiary Guarantors, and the Subsidiary Guarantees rank pari passu in right of payment with all senior indebtedness of the Subsidiary Guarantors and senior to all subordinated indebtedness of the Subsidiary Guarantors. The Subsidiary Guarantees may be released under certain circumstances. The Senior Notes and the Subsidiary Guarantees are effectively subordinated to all secured indebtedness, including amounts outstanding under the Revolving Credit Facility. The Subsidiary Guarantees provide that each Subsidiary Guarantor will unconditionally guarantee, jointly and severally, the full and prompt performance of the Company's obligations under the indenture and the Senior Notes. Each Subsidiary Guarantor is 100% owned by the Company. R&B Falcon is not a guarantor of the Senior Notes.

The indenture under which the Senior Notes are issued imposes significant operating and financial restrictions on the Company. Such restrictions affect, and in many respects limit or prohibit, among other things, the ability of the Company to incur additional indebtedness, make capital expenditures, create liens, sell assets and make dividends or other payments. These restrictions could limit the Company's ability to integrate its operations with its parent, R&B Falcon.

The Company currently maintains a \$35.0 million Revolving Credit Facility with ING which matures May 31, 2000. At December 31, 1998, the Company had no indebtedness outstanding under the Revolving Credit Facility, but had \$.4 million in letters of credit outstanding, thereby leaving \$34.6 million available under the credit facility.

Approximately 67% of the Company's revenues and a substantial portion of its operating income were sourced from its foreign operations during 1998. These operations are subject to customary political and

foreign currency risks in addition to operational risks. The Company has attempted to reduce these risks through insurance and the structure of its contracts. The Company may be exposed to the risk of foreign currency losses in connection with its foreign operations. Such losses are the result of holding net monetary assets (cash and receivables in excess of payables) denominated in foreign currencies during periods of a strengthening U.S. dollar. The Company's foreign exchange gains and losses are primarily attributable to the Venezuelan Bolivar. The effects of these transactions are reported as "Exchange Rate Loss" in the Consolidated Statements of Operations. The Company does not speculate in foreign currencies or maintain significant foreign currency cash balances. The Company will continue to be exposed to future foreign currency gains and losses if the currency continues to be volatile. Despite the political and economic risks in Venezuela, the Company believes that the country continues to be a favorable market for its services.

Cautionary Statements

The Company's operations are materially dependent upon the level of activity in offshore oil and gas exploration and production. The level of such activity is affected by both short-term and long-term trends in oil and gas prices. Oil and gas prices and, therefore, the level of drilling, exploration and production activity, can be volatile. Any prolonged reduction in oil and gas prices will depress the level of exploration and production activity and result in a corresponding decline in the demand for the Company's services and, therefore, may have a material adverse effect on the Company's revenues, cash flows and profitability.

The ability of the Company to fund working capital, capital expenditures and debt service in excess of cash on hand will depend upon the success of the Company's domestic and foreign operations. To the extent that internal sources are insufficient to meet those cash requirements, the Company can draw on its available credit facility or seek other debt or equity financing; however, the Company can give no assurance that such other debt or equity financing would be available on terms acceptable to the Company.

In any case, the satisfaction of long-term capital requirements will depend upon successful implementation by the Company of its business strategy and future results of operations. Management believes it has successfully implemented the strategy to achieve results of operations commensurate with its immediate and near-term liquidity requirements.

IMPACT OF YEAR 2000

General Description of the Year 2000 Issue

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. As a result, many computer programs recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions or engage in similar normal business activities.

Year 2000 Issue Evaluations and Assessments

Based upon preliminary equipment analyses and evaluations, the Company does not believe that operational equipment programming modifications are necessary. The Company is currently communicating with vendors, suppliers and shippers (collectively referred to as "third party vendors") regarding Year 2000 compliance and will work with them to minimize disruption in the Company's operations as a result of their Year 2000 problems. To date, the Company is not aware of any third party vendors with a Year 2000 issue that would materially impact the Company's results of operations, liquidity or capital resources. Based upon internal assessments, the Company determined that it was necessary to modify or replace portions of its accounting software so that its computer systems would function properly with respect to dates in the year 2000 and thereafter. The Company elected to replace certain accounting software rather than invest in modifications of existing programs. The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 Issue will not pose significant operational problems for its computer systems.

Costs

The replacement software and related installation costs were approximately \$2.0 million, the majority of which was capitalized as of December 31, 1998. The software conversions were substantially completed as of December 31, 1998. The Company expects to incur approximately \$.5 million during 1999 for other modifications and conversions.

Risks

Management of the Company believes it has an effective program in place to resolve the Year 2000 Issue in a timely manner. The Company has not yet completed all necessary phases of the Year 2000 program. In the event that the Company does not complete any additional phases, modifications or conversions, disruptions generally resulting from Year 2000 issues could materially adversely affect the Company. The amount of potential liability and lost revenue cannot be reasonably estimated at this time.

The Company has no means of ensuring that third party vendors will be Year 2000 ready. The inability of third party vendors to complete their Year 2000 resolution process in a timely fashion could materially impact the Company. The effect of non-compliance by third party vendors is not determinable.

The costs of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there is no guarantee that these estimates will be achieved, and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, the cost and extent of training associated with needed conversions and similar uncertainties.

Contingency Plans

The Company has contingency plans for certain critical applications and is evaluating such plans for others. These contingency plans involve manual workarounds and replacement equipment.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

The Company's earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates. The Company has attempted to reduce these risks through insurance and the structure of its contracts. The Company does not speculate in foreign currencies or maintain significant foreign currency cash balances.

Interest Rate Risk

The Company is exposed to changes in interest rates. Changes in U.S. interest rates affect the interest earned on the Company's cash and cash equivalents and the interest rate paid on any Revolving Credit Facility borrowings. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes. The Company has long-term debt at a fixed rate of 10.25% with a carrying value of \$202.9 million which approximates fair market value. See "Liquidity and Capital Resources."

Commodity Price Risk

The financial condition and results of operations of the Company are dependent upon the price of oil and natural gas, as demand for its services is primarily dependent upon the level of spending by oil and gas companies for exploration, development and production activities. Crude oil and natural gas prices have continued to fluctuate over the last several years. If crude oil prices decline further or the current weakness in crude oil prices continues for an extended period, there could be a further deterioration in both rig utilization and dayrates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and supplementary data of the Company appear on pages 27 through 50 hereof and are incorporated by reference into this Item 8. Selected quarterly financial data is set forth in Note 15 of Notes to

Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with the Company's accountants regarding accounting principles or practices for financial statement disclosures.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Under the reduced disclosure format permitted by General Instruction I(2)(c) of Form 10-K, the information otherwise required by this item may be omitted.

ITEM 11. EXECUTIVE COMPENSATION

Under the reduced disclosure format permitted by General Instruction I(2)(c) of Form 10-K, the information otherwise required by this item may be omitted.

ITEM 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Under the reduced disclosure format permitted by General Instruction I(2)(c) of Form 10-K, the information otherwise required by this item may be omitted.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Under the reduced disclosure format permitted by General Instruction I(2)(c) of Form 10-K, the information otherwise required by this item may be omitted.

PART IV

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

(a) Financial Statements

(1) and (2) Financial Statements and Schedules

See "Index to Consolidated Financial Statements and Schedules" on page 27.

(3) Exhibits

See "Exhibit Index" on pages 51 to 55.

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

EXHIBIT NUMBER	DESCRIPTION
10.1	Cliffs Drilling Company 1988 Incentive Equity Plan (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.1.1	Amendment No. 1 dated May 17, 1990 to the Cliffs Drilling Company 1988 Incentive Equity Plan (incorporated by reference to Exhibit 10.7.1 to the Company's Form 10-K for the year ended December 31, 1993).
10.1.2	Amendment No. 2 dated May 20, 1993 to the Cliffs Drilling Company 1988 Incentive Equity Plan (incorporated by reference to Exhibit 10.7.2 to the Company's Form 10-K for the year ended December 31, 1993).
10.1.3	Amendment No. 3 dated May 22, 1996 to the Cliffs Drilling Company 1988 Incentive Equity Plan (incorporated by reference to Exhibit 10.7.3 to the Company's Form 10-K for the year ended December 31, 1996).

<TABLE>
<CAPTION>
EXHIBIT

NUMBER -----	DESCRIPTION -----
<C>	<S>
10.2	-- Cliffs Drilling Company Incentive Bonus Plan (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.3	-- Cliffs Drilling Company Retention Plan for Salaried Employees (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.3.1	-- Amendment No. 1 dated May 17, 1990 to the Cliffs Drilling Company Retention Plan for Salaried Employees (incorporated by reference to Exhibit 10.9.1 to the Company's Form 10-K for the year ended December 31, 1993).
10.3.2	-- Amendment No. 2 dated May 21, 1992 to the Cliffs Drilling Company Retention Plan for Salaried Employees (incorporated by reference to Exhibit 10.9.2 to the Company's Form 10-K for the year ended December 31, 1993).
10.4	-- Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.5	-- Form of Restricted Stock Award Agreement entered into between the Company and certain key executive officers (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.8	-- Form of Executive Agreement dated as of July 20, 1994 (incorporated by reference to Exhibit 10.20 to the Company's Form 10-Q for the quarter ended June 30, 1994).
10.14	-- Cliffs Drilling Company Compensation Deferral Plan (incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 1997).
10.14.1	-- Amendment No. 1 to Cliffs Drilling Company Compensation Deferral Plan dated as of August 20, 1998 (incorporated by reference from Exhibit 10.23.1 to the Company's Form 8-K dated August 20, 1998).
10.14.2	-- Amendment No. 2 to Cliffs Drilling Company Compensation Deferral Plan dated as of November 20, 1998 (incorporated by reference from Exhibit 10.23.2 to the Company's Form 8-K dated December 1, 1998).
10.14.3	-- Amendment No. 3 to Cliffs Drilling Company Compensation Deferral Plan dated as of February 22, 1999.
10.15	-- Cliffs Drilling Company 1998 Incentive Equity Plan (incorporated by reference to Exhibit 10.24 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.15.1	-- Amendment No. 1 dated May 13, 1998 to the Cliffs Drilling Company 1998 Incentive Equity Plan (incorporated by reference to Exhibit 10.24.1 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.16	-- Form of Non-Qualified Stock Option Agreement for non-employee members of the Board of Directors (incorporated by reference to Exhibit 10.25 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.17	-- Form of Non-Qualified Stock Option Agreement for key employees and officers (incorporated by reference to Exhibit 10.26 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.18	-- Cliffs Drilling Company Savings Plan (As Amended and Restated Effective June 21, 1988) (incorporated by reference to Exhibit 10.27 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.18.1	-- Amendment No. 1 to the Cliffs Drilling Company Savings Plan (As Amended and Restated Effective June 21, 1988) (incorporated by reference to Exhibit 10.27.1 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.19	-- Cliffs Drilling Company Savings Trust (As Amended and Restated Effective January 1, 1998) (incorporated by reference to Exhibit 10.28 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.21	-- Employment Agreement dated December 1, 1998 between the Company and Douglas E. Swanson.
10.22	-- Employment Agreement dated December 1, 1998 between the Company and Charles M. McCall.

</TABLE>

26

<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
10.23	-- Employment Agreement dated December 1, 1998 between the Company and Edward A. Guthrie.
10.24	-- Employment Agreement dated December 1, 1998 between the Company and James P. Mitchen.
10.25	-- Employment Agreement dated December 1, 1998 between the Company and Gary W. Owen.
10.26	-- Employment Agreement dated December 1, 1998 between the Company and Cindy B. Taylor.
10.27	-- Employment Agreement dated December 1, 1998 between the Company and Jim R. Wise.

</TABLE>

(b) Reports on Form 8-K

One report dated December 1, 1998 was filed by the Company on Form 8-K during the three months ended December 31, 1998. The following information was included in the report:

Effective December 1, 1998, a change in control of the Company occurred as a result of the Merger of Merger Sub, a wholly-owned subsidiary of R&B Falcon, with and into the Company. The Merger was effected pursuant to the Merger Agreement among R&B Falcon, Merger Sub and the Company, which was approved by the stockholders of the Company at a special meeting held November 20, 1998. As a result of the Merger, each outstanding share of Common Stock of the Company was converted into 1.7 shares of R&B Falcon common stock and cash in lieu of fractional shares, as provided for in the Merger Agreement, and the Company is now a wholly-owned subsidiary of R&B Falcon.

As required by the Merger Agreement, the Company executed Amendment No. 2 to the Cliffs Drilling Company Compensation Deferral Plan dated as of November 20, 1998.

25

27

SIGNATURES

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

<TABLE>

<S>

<C>

March 26, 1999

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Douglas E. Swanson
Chairman of the Board, President
and Chief Executive Officer

</TABLE>

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

<TABLE>

<CAPTION>

SIGNATURE	TITLE	DATE
/s/ DOUGLAS E. SWANSON ----- Douglas E. Swanson	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 26, 1999
/s/ PAUL B. LOYD, JR. ----- Paul B. Loyd, Jr.	Director	March 26, 1999

Steven A. Webster

/s/ EDWARD A. GUTHRIE

Vice President -- Finance and
Chief Financial Officer
(Principal Financial Officer)

March 26, 1999

Edward A. Guthrie

/s/ CINDY B. TAYLOR

Vice President -- Controller
and Secretary
(Principal Accounting Officer)

March 26, 1999

Cindy B. Taylor

</TABLE>

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

<TABLE>

<CAPTION>

	PAGES

<S>	<C>
Report of Independent Auditors.....	28
Consolidated Statements of Operations for Each of the Three Years in the Period Ended December 31, 1998.....	29
Consolidated Balance Sheets, December 31, 1998 and 1997....	30
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 1998.....	31
Consolidated Statements of Changes in Shareholders' Equity for Each of the Three Years in the Period Ended December 31, 1998.....	32
Notes to Consolidated Financial Statements.....	33

</TABLE>

All schedules for which provision is made in the applicable rules and regulations of the Securities and Exchange Commission have been omitted as the schedules are not required under the related instructions, are not applicable or the information required thereby is set forth in the Consolidated Financial Statements or the Notes thereto.

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
Cliffs Drilling Company

We have audited the accompanying consolidated balance sheets of Cliffs Drilling Company as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cliffs Drilling Company at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

CLIFFS DRILLING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
REVENUES:			
Revenues.....	\$335,239	\$261,887	\$132,341
Income from Equity Investments.....	585	1,745	768
	-----	-----	-----
	335,824	263,632	133,109
COSTS AND EXPENSES:			
Operating Expenses.....	196,918	148,158	91,984
Depreciation, Depletion and Amortization.....	28,701	20,443	10,388
General and Administrative Expense.....	12,455	8,731	6,300
	-----	-----	-----
	238,074	177,332	108,672
OPERATING INCOME.....	97,750	86,300	24,437
OTHER INCOME (EXPENSE):			
Gain on Disposition of Assets.....	257	3,150	3,694
Interest Income.....	2,080	1,941	2,725
Interest Expense.....	(20,443)	(17,838)	(9,265)
Exchange Rate Loss.....	(1,426)	(174)	--
Other, net.....	(584)	(1,596)	(173)
	-----	-----	-----
INCOME BEFORE INCOME TAXES.....	77,634	71,783	21,418
INCOME TAX EXPENSE.....	26,545	25,124	6,996
	-----	-----	-----
NET INCOME.....	51,089	46,659	14,422
DIVIDENDS APPLICABLE TO PREFERRED STOCK.....	--	--	(31)
	-----	-----	-----
NET INCOME APPLICABLE TO COMMON AND COMMON EQUIVALENT SHARES.....	\$ 51,089	\$ 46,659	\$ 14,391
	=====	=====	=====
NET INCOME PER COMMON SHARE:			
Basic.....	N/A	\$ 3.06	\$ 1.05
	=====	=====	=====
Diluted.....	N/A	\$ 3.01	\$ 1.02
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:			
Basic.....	N/A	15,237	13,736
	=====	=====	=====
Diluted.....	N/A	15,493	14,083
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

CLIFFS DRILLING COMPANY
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS, EXCEPT SHARE INFORMATION)	
<S>	POST- ACQUISITION	PRE- ACQUISITION
<C>	<C>	<C>
	-----	-----
	1998	1997
	-----	-----
	(IN THOUSANDS, EXCEPT SHARE INFORMATION)	
	POST- ACQUISITION	PRE- ACQUISITION
	-----	-----
	<C>	<C>

ASSETS

CURRENT ASSETS:		
Cash and Cash Equivalents.....	\$ 36,276	\$ 28,122
Accounts Receivable, net of allowance for doubtful accounts of \$472 and \$352 at December 31, 1998 and 1997, respectively.....	35,670	53,341
Notes and Other Receivables, Current.....	6,704	10,190
Inventories.....	10,335	7,551
Drilling Contracts in Progress.....	29,483	16,503
Prepaid Insurance.....	2,248	1,772
Other Prepaid Expenses.....	2,893	6,595
	-----	-----
Total Current Assets.....	123,609	124,074
PROPERTY AND EQUIPMENT, AT COST:		
Rigs and Related Equipment.....	504,189	453,915
Other.....	4,550	15,373
	-----	-----
	508,739	469,288
Less: Accumulated Depreciation, Depletion and Amortization.....	(2,898)	(100,061)
	-----	-----
Net Property and Equipment.....	505,841	369,227
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill, net of accumulated amortization of \$150 at December 31, 1998.....	70,579	--
Debt Issue Costs and Other.....	4,139	5,022
Investments in and Advances to Unconsolidated Affiliates.....	2,580	1,828
Due from Parent.....	10,508	--
	-----	-----
TOTAL ASSETS.....	\$717,256	\$ 500,151
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts Payable.....	\$ 28,843	\$ 33,171
Accrued Interest.....	2,672	2,673
Other Accrued Expenses.....	21,426	30,414
	-----	-----
Total Current Liabilities.....	52,941	66,258
10.25% SENIOR NOTES.....	202,935	203,606
DEFERRED INCOME TAXES.....	55,094	14,335
OTHER LIABILITIES.....	1,797	23
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common Stock, \$.01 par value, 30,000,000 shares authorized and 1,000 shares issued and outstanding at December 31, 1998 and 30,000,000 shares authorized, 16,321,932 shares issued and 15,906,880 shares outstanding at December 31, 1997.....	--	163
Paid-in Capital.....	405,069	182,420
Retained Earnings (Deficit).....	(580)	40,942
Less: Restricted Stock.....	--	(2,467)
Treasury Stock, at cost, 415,052 shares at December 31, 1997.....	--	(5,129)
	-----	-----
Total Shareholders' Equity.....	404,489	215,929
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$717,256	\$ 500,151
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

The merger of RBF Cliffs Acquisition Corp., a wholly-owned subsidiary of R&B Falcon Corporation, with and into Cliffs Drilling Company was effective on December 1, 1998 and was accounted for using the purchase method of accounting. The purchase price adjustments were "pushed down" and recorded in the consolidated financial statements of Cliffs Drilling Company, which affects the comparability of the post-acquisition and pre-acquisition financial position. See Note 2.

CLIFFS DRILLING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31,

	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net Income.....	\$ 51,089	\$ 46,659	\$ 14,422
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Depreciation, Depletion and Amortization.....	28,701	20,443	10,388
Deferred Income Tax Expense.....	6,621	9,307	5,184
Impairment of Oil and Gas Leasehold Cost.....	--	--	1,017
Mobilization Expense Amortization.....	770	447	314
Gain on Disposition of Assets.....	(257)	(3,150)	(3,694)
Amortization of Debt Issue Costs.....	927	822	462
Amortization of Restricted Stock.....	2,212	430	28
Amortization of Debt Premium.....	(671)	(269)	--
Tax Benefit Associated with Exercise of Stock Options.....	214	2,930	1,603
Other.....	1,055	1,465	(1,352)
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
Accounts Receivable.....	21,157	(29,743)	(19,907)
Inventories.....	(2,498)	(1,744)	(1,667)
Drilling Contracts in Progress.....	(12,960)	1,169	(6,324)
Prepaid Insurance and Other Prepaid Expenses.....	2,456	4,943	(10,688)
Investments in and Advances to Unconsolidated Affiliates.....	(752)	(1,392)	(928)
Due from Parent.....	(10,508)	--	--
Accounts Payable and Other Accrued Expenses.....	(11,535)	24,277	18,256
Net Cash Provided By Operating Activities.....	76,021	76,594	7,114
INVESTING ACTIVITIES:			
Capital Expenditures.....	(69,882)	(84,535)	(36,027)
Acquisition of Rigs and Related Equipment.....	--	(61,969)	(108,477)
Acquisition of Equity Interest in Rig and Related Equipment.....	--	--	(3,237)
Proceeds from Sale of Property and Equipment.....	1,836	5,627	6,856
Insurance Proceeds from Loss of Rig and Related Equipment.....	--	--	292
Collection of Notes Receivable.....	--	3,696	977
Net Cash Used In Investing Activities.....	(68,046)	(137,181)	(139,616)
FINANCING ACTIVITIES:			
Proceeds from Borrowings.....	--	60,375	150,000
Payments on Borrowings.....	--	(12,184)	--
Proceeds from Exercise of Stock Options.....	211	2,260	2,129
Debt Issue Costs.....	(32)	(923)	(5,309)
Acquisition of Treasury Stock.....	--	--	(661)
Payments for Redemption of Preferred Stock.....	--	--	(850)
Preferred Stock Dividends.....	--	--	(31)
Net Cash Provided By Financing Activities.....	179	49,528	145,278
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	8,154	(11,059)	12,776
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	28,122	39,181	26,405
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 36,276	\$ 28,122	\$ 39,181

</TABLE>

See accompanying notes to consolidated financial statements.

31

33

CLIFFS DRILLING COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<TABLE>

<CAPTION>

	COMMON STOCK				NOTES RECEIVABLE FROM		
	SHARES	PAR VALUE	PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	OFFICERS FOR RESTRICTED STOCK	RESTRICTED STOCK	TREASURY STOCK
	(IN THOUSANDS, EXCEPT SHARE AMOUNTS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1995 (PRE-ACQUISITION).....	8,226,134	\$ 45	\$ 99,186	\$ (20,108)	\$ (232)	\$ (32)	\$ (4,844)

Net Income.....	--	--	--	14,422	--	--	--
Preferred Stock Conversion.....	4,227,114	21	27,879	--	--	--	--
Preferred Stock Dividends Declared.....	--	--	--	(31)	--	--	--
Common Stock Issued in Connection with							
Offshore Rig Acquisition.....	2,400,000	12	22,203	--	--	--	--
Restricted Stock Issuances.....	13,500	--	220	--	--	(220)	--
Acquisition of Treasury Stock.....	(86,000)	--	--	--	--	--	(661)
Collection of Officers' Notes Receivable....	--	--	--	--	46	--	--
Amortization of Restricted Stock.....	--	--	--	--	--	29	--
Exercise of Stock Options.....	316,050	2	2,127	--	--	--	--
Tax Benefit Associated with Exercise of							
Stock Options.....	--	--	1,603	--	--	--	--
Employer Contributions to 401(k) Savings							
Plan.....	36,210	--	295	--	--	--	206
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1996							
(PRE-ACQUISITION).....	15,133,008	80	153,513	(5,717)	(186)	(223)	(5,299)
	=====	=====	=====	=====	=====	=====	=====
Net Income.....	--	--	--	46,659	--	--	--
Stock Split.....	--	76	(76)	--	--	--	--
Common Stock Issued in Connection with							
Offshore Rig Acquisition.....	437,939	4	20,496	--	--	--	--
Restricted Stock Issuances.....	90,600	1	3,165	--	--	(3,166)	--
Restricted Stock Cancellations.....	(17,800)	--	(492)	--	--	492	--
Collection of Officers' Notes Receivable....	--	--	--	--	186	--	--
Amortization of Restricted Stock.....	--	--	--	--	--	430	--
Exercise of Stock Options.....	243,900	2	2,258	--	--	--	--
Tax Benefit Associated with Exercise of							
Stock Options.....	--	--	2,930	--	--	--	--
Employer Contributions to 401(k) Savings							
Plan.....	19,233	--	626	--	--	--	170
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1997							
(PRE-ACQUISITION).....	15,906,880	163	182,420	40,942	--	(2,467)	(5,129)
	=====	=====	=====	=====	=====	=====	=====
Net Income.....	--	--	--	51,089	--	--	--
Deferred Stock Issuances.....	4,200	--	172	--	--	--	--
Restricted Stock Cancellations.....	(30,193)	--	(809)	--	--	255	--
Amortization of Restricted Stock.....	--	--	--	--	--	2,212	--
Exercise of Stock Options.....	26,550	--	210	--	--	--	--
Tax Benefit Associated with Exercise of							
Stock Options.....	--	--	214	--	--	--	--
Employer Contributions to 401(k) Savings							
Plan.....	39,437	--	611	--	--	--	478
Common Stock Issued in Connection with							
Merger.....	1,000	--	--	--	--	--	--
Merger Adjustments.....	(15,946,874)	(163)	222,251	(92,611)	--	--	4,651
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1998							
(POST-ACQUISITION).....	1,000	\$ --	\$405,069	\$ (580)	\$ --	\$ --	\$ --
	=====	=====	=====	=====	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

The merger of RBF Cliffs Acquisition Corp., a wholly-owned subsidiary of R&B Falcon Corporation, with and into Cliffs Drilling Company was effective on December 1, 1998 and was accounted for using the purchase method of accounting. The purchase price adjustments were "pushed down" and recorded in the consolidated financial statements of Cliffs Drilling Company, which affects the comparability of the post-acquisition and pre-acquisition financial position. See Note 2.

32

34

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Structure and Principles of Consolidation

Effective December 1, 1998, a change in control of the Company occurred. The Company is now a wholly-owned subsidiary of R&B Falcon Corporation ("R&B Falcon"). See Note 2.

The accompanying consolidated financial statements include the activities and accounts of Cliffs Drilling Company (the "Company"), all wholly-owned subsidiaries of the Company and the Company's international activities which are organized as foreign branches. All significant intercompany transactions and

balances are eliminated in consolidation.

The Company uses the equity method to account for affiliates in which it does not have control. On May 23, 1996, the Company acquired the stock of Viking Trinidad Limited (renamed Cliffs Drilling Trinidad Limited), which owned a 50% interest in the West Indies Drilling Joint Venture (the "WINDJV"). The WINDJV was a joint venture between Cliffs Drilling Trinidad Limited and Well Services (Marine) Limited ("Well Services"), which owned a jack-up drilling rig. On August 1, 1997, Cliffs Drilling Trinidad Limited acquired an additional 49% interest in the WINDJV from Well Services. On December 29, 1997, the Company acquired the remaining 1% interest in the WINDJV from Well Services. In 1996, the Company became a 50% joint venture partner with Perforadora Central, S.A. de C.V. by forming Cliffs Central Drilling International ("CCDI") for the marketing of drilling services in Mexico. In 1996, the Company became a 1/3 (33 1/3%) owner of Servicios Integrados Petroleros C.C.I., S.A. ("CCI"). CCI is a joint venture company among the Company, Inelectra S.A. and Cementaciones Petroleras Venezolanas C.A. which markets drilling services in Venezuela.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company's policy is to invest cash in short-term investments. Uninvested cash balances are kept at minimum levels. Investments are valued at cost, which approximates market. The Company considers all highly liquid cash investments with a maturity date of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk

The market for the Company's services is the oil and gas industry, and the Company's customers consist primarily of integrated and government-owned international oil companies and independent oil and gas producers. Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. The Company has in place insurance to cover certain exposure in its foreign operations and provides allowances for potential credit losses when necessary. Accordingly, management considers such credit risk to be limited.

Inventories

Inventories, consisting principally of tubular goods consumed in turnkey drilling operations and spare drilling parts, are carried at cost, specific identification method.

Drilling Contracts in Progress

The Company recognizes revenues and expenses related to its turnkey drilling contracts when all terms and conditions of the contract have been fulfilled. Consequently, the costs related to in-progress turnkey drilling contracts are deferred as drilling contracts in progress until the contract is completed and revenue is

33

35

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

realized. The amount of drilling contracts in progress is dependent on the volume of contracts, the duration of the contract at the end of the reporting period and the contract amount. Provision for losses on incomplete contracts is made when such losses are anticipated.

The Company's Daywork Drilling business segment frequently leases its jack-up and land drilling rigs to the Engineering Services business segment for turnkey drilling operations. Revenues, expenses and profits generated by the drilling rigs operating under turnkey contracts are deferred until the contract is completed. While the turnkey contract is in progress, the rig operating profit is offset against drilling contracts in progress. Rig operating losses are recognized when incurred and are not deferred.

Rig Mobilization and Demobilization Costs

The Company defers costs of moving a drilling unit or MOPU under contract to a new area of operation. The deferred mobilization costs are amortized on a

straight-line basis over the term of the applicable drilling contract. Unamortized mobilization costs were \$0 and \$2,770,000 at December 31, 1998 and 1997, respectively.

Demobilization charges, in general, are reimbursed by the customer based upon contract terms. In situations where demobilization charges are not reimbursed and are expected to be material, estimated demobilization costs are accrued over the term of the applicable contract. Unanticipated demobilization costs are expensed as incurred at the completion of the contract.

Property and Equipment

Property and equipment are carried at original cost or at adjusted net realizable value, as applicable. Major renewals and betterments are capitalized in the property accounts, while the cost of repairs and maintenance is charged to operating expenses in the period incurred.

Acquisitions of rigs and related equipment have been accounted for under the purchase method of accounting and therefore, the results of the acquired assets are combined with the Company's results only from the acquisition date forward.

Interest on funds borrowed for construction of qualifying assets is capitalized during the construction period. Amortization of capitalized interest is included in "Depreciation, Depletion and Amortization" in the Consolidated Statements of Operations.

Cost and accumulated depreciation, depletion and amortization are removed from the accounts when assets are sold or retired, and the resulting gains or losses are included in the Consolidated Statements of Operations.

Prior to November 30, 1998, depreciation of property and equipment was provided on the straight-line basis at rates based upon expected useful lives of the various classes of assets as follows:

<TABLE>
<S> <C>

Rigs and Related Equipment:	
Jack-Up Drilling Rigs.....	15 Years
Platform Drilling Rigs.....	15 Years
Land Drilling Rigs.....	16 Years
MOPUs.....	10 Years
Drill Pipe.....	5 Years
Other (excluding oil and gas properties).....	3 - 5 Years

</TABLE>

Prior to November 30, 1998, no depreciation expense was recorded during periods of construction or refurbishment. To provide for any deterioration that may occur while the rigs are not operating for an extended period of time, a minimum depreciation charge is provided at a reduced rate of 25% of the normal depreciation rate.

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Effective December 1, 1998, depreciation of property and equipment is provided on the straight-line basis at rates based upon expected useful lives of the various classes of assets as follows:

<TABLE>
<S> <C>

Rigs and Related Equipment:	
Jack-Up Drilling Rigs.....	17 Years
Platform Drilling Rigs.....	17 - 26 Years
Land Drilling Rigs.....	15 Years
MOPUs.....	8 - 17 Years
Drill Pipe.....	3 Years

</TABLE>

Effective December 1, 1998, depreciation expense is recorded during construction, refurbishment and stacked periods.

Costs related to the exploration and development of oil and gas properties are accounted for under the "Successful Efforts" method of accounting. Lease acquisition costs related to oil, gas and mineral properties are capitalized when incurred. The acquisition costs of unproved properties, which are individually significant, are assessed on a property-by-property basis, and a loss is recognized by provision of a valuation allowance when the assessment indicates an impairment in value. Exploration costs, excluding exploratory

wells, are charged to expense as incurred. Costs of drilling exploratory wells are capitalized pending determination as to whether the wells have proved reserves which justify commercial development. If commercial reserves are not found, the drilling costs are charged to dry hole expense. Tangible and intangible drilling costs applicable to productive exploratory wells and to the development of oil and gas reserves are capitalized.

The cost of productive leaseholds is amortized by field on the unit of production basis by applying the ratio of produced oil and gas to estimated proved reserves. Lease and well equipment and intangible drilling costs associated with productive wells are amortized based on proved developed reserves.

Goodwill

Goodwill was created in the Merger which was effective on December 1, 1998. The purchase price adjustments have been "pushed down" to the consolidated financial statements of the Company. The excess of the purchase price over the estimated fair value of net assets acquired is accounted for as goodwill and is amortized on a straight-line basis over 40 years (the period when benefits are expected to be derived). Accumulated amortization as of December 31, 1998 was \$150,000.

Impairment of Long-Lived Assets

The carrying value of long-lived assets, principally goodwill and property and equipment, is reviewed for potential impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The determination of recoverability is made based upon the estimated undiscounted future net cash flows of the related asset.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes." Deferred income taxes are provided on items recognized in different periods for financial and tax reporting purposes. Taxable income (loss) of the Company for taxable periods ended prior to December 1, 1998 will be included in the consolidated U.S. federal income tax return of the Company. Thereafter, the taxable income (loss) of the Company will be included in the consolidated U.S. federal income tax return of R&B Falcon. See Note 6 of Notes to Consolidated Financial Statements.

35

37

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Stock Options

The Company accounts for stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. Under APB 25, generally, no compensation expense is recognized for an employee stock option when the exercise price equals the market price of the underlying stock on the date of grant. Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). As provided in the statement, the Company elected to continue to measure compensation expense using the guidelines of APB 25 and to include disclosures of net income and earnings per share as if the fair value based method of accounting were utilized. See Note 9 of Notes to Consolidated Financial Statements.

Revenue Recognition

The Company recognizes revenues from its daywork drilling and MOPU operations as services are rendered, based upon the contracted daily rate multiplied by the number of operating days in the period. Turnkey drilling contract revenues are recognized when all terms and conditions of the contract have been fulfilled. The Company recognizes oil and gas revenues from its interests in producing wells based upon the sales method.

Foreign Currency Translation

The U.S. dollar is the functional currency for all of the Company's operations. Foreign currency gains and losses are included in the Consolidated Statements of Operations during the period incurred.

Earnings Per Share

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share," ("SFAS No. 128"). SFAS No. 128 replaced the calculation of

primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is similar to the previously reported fully diluted earnings per share. The earnings per share amounts and weighted average number of common and common equivalent shares outstanding prior to 1997 have been restated as required to comply with SFAS No. 128. See Note 11 of Notes to Consolidated Financial Statements.

Earnings per share and weighted average shares have been retroactively adjusted to reflect a two-for-one stock split effected in the form of a 100% stock dividend effective May 22, 1997 (the "Stock Split").

The Company issued 2,113,557 shares (pre-split basis) of Common Stock, \$.01 par value ("Common Stock") upon conversion of 1,115,988 shares of its 1,150,000 issued and outstanding shares of \$.23125 Convertible Exchangeable Preferred Stock ("Preferred Stock") on January 17, 1996. See Note 10 of Notes to Consolidated Financial Statements.

Comprehensive Income

During the first quarter of 1998, the Company adopted Financial Accounting Standards Board Statement No. 130, "Reporting Comprehensive Income," ("SFAS No. 130"). SFAS No. 130 establishes new rules for the reporting and disclosure of comprehensive income and its components in a full set of financial statements. To the extent the Company has comprehensive income, it would present these items in a statement of changes in shareholders' equity. However, the Company had no items of comprehensive income during the years ended December 31, 1998 and 1997 and therefore, comprehensive income is equal to net income for each period.

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Segment Reporting

Effective January 1, 1998, the Company adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," ("SFAS No. 131"). SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect the results of operations or financial position, but did affect the disclosure of segment information. See Notes 13 and 14.

Change in Presentation

Certain financial statement items have been reclassified in prior years to conform with the current year presentation.

2. BUSINESS COMBINATION

Effective December 1, 1998, a change in control of the Company occurred as a result of the merger of RBF Cliffs Acquisition Corp. ("Merger Sub"), a wholly-owned subsidiary of R&B Falcon, with and into the Company (the "Merger"). The Merger was effected pursuant to an Agreement and Plan of Merger dated August 21, 1998 (the "Merger Agreement") among R&B Falcon, Merger Sub and the Company, which was approved by the stockholders of the Company at a special meeting held November 20, 1998. The Company is now a wholly-owned subsidiary of R&B Falcon.

The purchase price consisted of the following:

<TABLE>	
<CAPTION>	
	(IN THOUSANDS)
	(UNAUDITED)
<S>	<C>
R&B Falcon common stock issued to Company shareholders.....	\$385,296
Value given to outstanding Company stock options.....	6,215
Direct transaction costs.....	13,558

Total Purchase Price.....	\$405,069
	=====
</TABLE>	

The value of the common stock issued to Company shareholders was calculated based on the average of the closing prices of R&B Falcon common stock from

August 4, 1998 through August 17, 1998. The combination was announced on August 10, 1998.

In connection with the Merger, the Company recorded merger costs of \$1,512,000 associated with waiver and release payments, in addition to incremental restricted stock amortization of \$1,806,000 related to the accelerated vesting of restricted stock. These costs are reported as "General and Administrative Expense" in the Company's Consolidated Statements of Operations during 1998.

The Merger was accounted for using the purchase method of accounting. Accordingly, an allocation of the purchase price was assigned to the assets and liabilities of the Company based on their estimated fair values. The purchase price adjustments were "pushed down" to the consolidated financial statements of the Company. The purchase price allocation to the Company consisted of an increase to property and equipment of \$97,537,000 and an increase in the deferred tax liability of \$34,138,000, which reflects the increase in the difference in the basis for tax and financial reporting purposes of property and equipment. The excess of the purchase price over the estimated fair value of net assets acquired was \$70,729,000 and has been accounted for as goodwill.

The accompanying Consolidated Statements of Operations include the effects of the Merger from December 1, 1998 to December 31, 1998. Unaudited pro forma consolidated operating results of the

37

39

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Company for the year ended December 31, 1998, assuming the Merger was effective as of January 1, 1998, are summarized as follows:

<TABLE>

<CAPTION>

	(IN THOUSANDS)
<S>	<C>
Revenues.....	\$335,824
Operating Income.....	90,979
Net Income.....	46,633

</TABLE>

The pro forma information for the year ended December 31, 1998 includes adjustments for additional depreciation of \$5,122,000 based on the fair market values of the drilling rigs and other property and equipment, goodwill amortization of \$1,649,000 and a reduction in income taxes of \$2,315,000. The pro forma information is not necessarily indicative of the results of operations had the Merger occurred on the assumed dates or the results of operations for any future period.

3. NOTES AND OTHER RECEIVABLES, LONG-TERM

Effective January 1, 1993, the Company sold its 4 inland posted barge drilling rigs and rights to certain oil and gas production payment proceeds generated from a proceeds-of-production drilling program for an aggregate sales price of \$13,500,000, consisting of \$5,000,000 in cash and \$8,500,000 in notes. The first note had a face amount of \$1,000,000 and was repaid in March, 1995. The second note had a face amount of \$7,500,000, with interest calculated at the base rate on corporate loans as quoted by the Wall Street Journal plus one and one-half percent (1 1/2%). Principal and interest on the \$7,500,000 note was payable on a monthly basis solely from the proceeds of the oil and gas production payment on which the note was based. The note was scheduled to mature on January 1, 1998; however, it was repaid in May, 1997 in connection with the Company's disposition of the various oil and gas related interests underlying the long-term note receivable. In 1997, the Company recorded a net gain of \$2,718,000 related to the disposition of the oil and gas related interests.

4. PROPERTY AND EQUIPMENT

On December 29, 1997, the Company completed the acquisition of 2 offshore platform drilling rigs, one self propelled jack-up drilling/workover rig and substantially all of the assets used in the offshore contract drilling business in Trinidad previously operated by Well Services. The purchase price totaled \$44,000,000, consisting of cash of \$23,500,000 and the issuance by the Company of 437,939 shares of Common Stock.

Effective October 1, 1997, the Company exercised an option to purchase a platform drilling rig for \$4,250,000.

On August 1, 1997, the Company acquired an additional 49% interest in the WINDJV. The purchase price was \$8,371,000 consisting of \$6,000,000 of cash and

\$2,371,000 of debt assumed, net of various working capital amounts acquired. On December 29, 1997, the Company acquired the remaining 1% interest in the WINDJV from Well Services.

On January 24, 1997, the Company completed the acquisition of the stock of a subsidiary of Andrade Gutierrez Perfuracao Ltda., which owned the jack-up drilling rig ATENA, four 1,500 HP land drilling rigs, miscellaneous drilling equipment and a contract to operate a platform rig in Brazil. The purchase price was \$28,500,000 in cash.

On September 30, 1996, the Company acquired a land rig from Quarles Drilling Corp. for \$2,850,000.

On June 19, 1996, Cliffs Drilling No. 11 completed its two-year bareboat charter as a workover rig in the U.S. Gulf of Mexico and the charterer exercised its option to purchase the unit for \$5,392,000, resulting in a gain of \$2,684,000.

On May 23, 1996, the Company completed the acquisition of 9 jack-up drilling rigs and a 50% interest in the WINDJV, which owned an additional jack-up drilling rig, and their related assets (collectively referred to as the "Southwestern Rigs") operated by Southwestern Offshore Corporation ("Southwestern"). The purchase price of the Southwestern Rigs was (a) \$103,800,000 in cash (after reductions of \$6,200,000 for

38

40

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

required refurbishments of certain Southwestern Rigs not made prior to closing) plus (b) issuance of 1,200,000 shares (pre-split basis) of the Company's Common Stock, and (c) assumption of certain contractual liabilities, including the Company's guarantee of \$4,250,000 in indebtedness of the WINDJV to Citibank N.A. related to the refurbishment of the jack-up drilling rig owned by it (together with accrued but unpaid interest thereon and costs of collection).

On May 10, 1996, the Company acquired the jack-up drilling rig OCEAN MAGALLANES from Diamond Offshore Southern Company for \$4,500,000. The Company renamed this unit Cliffs Drilling 155.

Interest capitalization associated with rig refurbishments during the years ended December 31, 1998, 1997 and 1996 was \$501,000, \$629,000 and \$730,000, respectively.

5. NOTES PAYABLE

Long-term debt at December 31, 1998 consists solely of 10.25% Senior Notes due 2003 (the "Senior Notes") in the aggregate principal amount of \$200,000,000 and debt premium, net of amortization, of \$2,935,000. In addition to the \$150,000,000 of Senior Notes sold during 1996, the Company sold \$50,000,000 of Senior Notes on August 7, 1997 at a premium of \$3,875,000. Considering the premium, the effective interest rate on the \$50,000,000 Senior Notes is 9.5%. Interest on the Senior Notes is payable semi-annually during each May and November. The Senior Notes do not require any payments of principal prior to their stated maturity on May 15, 2003, but the Company is required to make offers to purchase Senior Notes upon the occurrence of certain events as defined in the indenture, such as asset sales or a change of control of the Company.

Upon consummation of the Merger, the Company offered to purchase for cash all of the outstanding Senior Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the change of control payment date, as required by the indenture governing the Senior Notes (the "Change of Control Offer"). On January 28, 1999, the Company purchased all of the \$328,000 principal amount of Senior Notes tendered pursuant to the Change of Control Offer.

On or after May 15, 2000, the Senior Notes are redeemable at the option of the Company, in whole or in part, at a price of 105% of principal if redeemed during the twelve months beginning May 15, 2000, at a price of 102.5% of principal if redeemed during the twelve months beginning May 15, 2001, or at a price of 100% of principal if redeemed after May 15, 2002, in each case together with interest accrued to the redemption date. Notwithstanding the foregoing, the Company may at its option use all or a portion of the proceeds from a public equity offering consummated on or prior to May 15, 1999, to redeem up to \$50,000,000 principal amount of the Senior Notes at a redemption price equal to 110% of the principal amount, provided that at least \$150,000,000 in aggregate principal amount of the Senior Notes remain outstanding immediately after such redemption.

The Senior Notes are senior unsecured obligations of the Company, ranking

pari passu in right of payment with all senior indebtedness and senior to all subordinated indebtedness. The Senior Notes are unconditionally guaranteed (the "Subsidiary Guarantees") on a senior unsecured basis by the Company's principal subsidiaries (the "Subsidiary Guarantors"), and the Subsidiary Guarantees rank pari passu in right of payment with all senior indebtedness of the Subsidiary Guarantors and senior to all subordinated indebtedness of the Subsidiary Guarantors. The Subsidiary Guarantees may be released under certain circumstances. The Senior Notes and the Subsidiary Guarantees are effectively subordinated to all secured indebtedness, including amounts outstanding under the Revolving Credit Facility. The Subsidiary Guarantees provide that each Subsidiary Guarantor will unconditionally guarantee, jointly and severally, the full and prompt performance of the Company's obligations under the indenture and the Senior Notes. Each Subsidiary Guarantor is 100% owned by the Company. R&B Falcon is not a guarantor of the Senior Notes.

The indenture under which the Senior Notes are issued imposes significant operating and financial restrictions on the Company. Such restrictions affect, and in many respects limit or prohibit, among other things, the ability of the Company to incur additional indebtedness, make capital expenditures, create liens, sell assets and make dividends or other payments.

39

41

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Separate financial statements and other disclosures concerning the Subsidiary Guarantors are not presented because management has determined such financial statements and other disclosures are not material to investors. The assets, equity, income and cash flows of the non-guarantor subsidiaries on an individual and combined basis are less than 1% of the consolidated assets, equity, income and cash flows, respectively, of the Company and are inconsequential. The combined condensed financial information of the Company's Subsidiary Guarantors is as follows:

<TABLE>

<CAPTION>

	AT DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
<S>	<C>	<C>
Current Assets.....	\$ 7,133	\$ 31,872
Non-Current Assets.....	68,766	214,462
Total Assets.....	\$75,899	\$246,334
Current Liabilities.....	\$ 3,794	\$ 21,417
Non-Current Liabilities.....	63,089	189,004
Equity.....	9,016	35,913
Total Liabilities and Equity.....	\$75,899	\$246,334

</TABLE>

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Revenues.....	\$24,650	\$96,166	\$51,081
Operating Income.....	\$ 5,969	\$41,400	\$14,224
Net Income.....	\$ 3,593	\$19,650	\$ 5,264

</TABLE>

Effective May 31, 1998, three Subsidiary Guarantors were merged into the Company.

The Senior Notes had a fair value of approximately \$205,000,000 at December 31, 1998, or a 2 1/2% premium to carrying value, based upon the quoted market price of the debt.

The Company currently maintains a \$35,000,000 revolving line of credit ("Revolving Credit Facility") with ING (U.S.) Capital Corporation ("ING"). The Revolving Credit Facility is subject to certain borrowing base limitations. All advances to the Company from the Revolving Credit Facility bear interest at the greater of the prevailing Federal Funds Rate plus one-half percent (1/2%) or a

referenced average prime rate; or at the adjusted L1BOR rate plus a margin ranging from one percent (1%) to one and five-eighths percent (1 5/8%) per annum, based on certain financial ratios. The Company is also obligated to pay ING (i) a commitment fee ranging from three-eighths percent (3/8%) to one-half percent (1/2%) per annum, based on certain financial ratios, on the average daily unadvanced portion of the commitments and (ii) a letter of credit fee ranging from one percent (1%) to one and five-eighths percent (1 5/8%) per annum, based on certain financial ratios, on the average daily undrawn and unexpired amount of each letter of credit during the period that sum remains outstanding. The Revolving Credit Facility matures on May 31, 2000.

The Revolving Credit Facility is secured by accounts receivable, certain rig inventory and equipment, and the stock of certain subsidiaries of the Company. Under the Third Restated Credit Agreement with ING, the Company is required to comply with various covenants including, but not limited to, the maintenance of various financial ratios, and is restricted from declaring, making or paying any dividends on the Common Stock. Availability and borrowings under the Revolving Credit Facility are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
<S>	<C>	<C>
Line of credit available.....	\$34,583	\$32,583
Short-term borrowings outstanding.....	--	--
Letters of credit outstanding.....	417	2,417

</TABLE>

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Interest payments on all indebtedness amounted to \$20,689,000, \$17,035,000 and \$7,527,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

6. INCOME TAXES

The Company provided for \$26,545,000 and \$25,124,000 of income taxes for the years ended December 31, 1998 and 1997, respectively. This represents an effective tax rate of 34% and 35% for the years 1998 and 1997, respectively. Current taxes consist of Federal income taxes and taxes paid in foreign jurisdictions.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. The significant components of deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
<S>	<C>	<C>
Deferred tax liabilities:		
Tax over book depreciation.....	\$55,741	\$11,886
Certain prepaid expenses.....	787	620
Mobilization.....	--	970
Foreign income taxes.....	1,026	1,399
Total deferred tax liabilities.....	57,554	14,875
Deferred tax assets:		
Accounts receivable reserves.....	165	123
Deferred compensation.....	624	--
Foreign tax credits.....	643	--
Restricted stock.....	--	76
Other, net.....	1,028	341
Total deferred tax assets.....	2,460	540
Net deferred tax liabilities.....	\$55,094	\$14,335

</TABLE>

The Merger was accounted for using the purchase method of accounting. Accordingly, an allocation of the purchase price was assigned to the assets and liabilities of the Company based on their estimated fair values. The purchase price adjustments were "pushed down" to the consolidated financial statements of the Company. The purchase price allocation to the Company consisted of an increase to property and equipment of \$97,537,000 and a resulting increase in the deferred tax liability of \$34,138,000, which reflects the increase in the difference in the basis for tax and financial reporting purposes of property and equipment.

Tax benefits of \$214,000 and \$2,930,000 associated with the exercise of non-qualified stock options during the years ended December 31, 1998 and 1997, respectively, were reflected as a component of shareholders' equity prior to the Merger.

For financial reporting purposes, income before income taxes includes the following components:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Income before income taxes:			
United States.....	\$14,099	\$15,778	\$ 992
Foreign.....	63,535	56,005	20,426
	-----	-----	-----
Total.....	\$77,634	\$71,783	\$21,418
	=====	=====	=====

</TABLE>

41

43

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Significant components of the provision for income taxes attributable to continuing operations are as follows:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$12,109	\$10,907	\$ 144
Foreign.....	7,815	4,910	1,668
	-----	-----	-----
Total Current.....	19,924	15,817	1,812
Deferred:			
Federal.....	6,994	7,908	5,184
Foreign.....	(373)	1,399	--
	-----	-----	-----
Total Deferred.....	6,621	9,307	5,184
	-----	-----	-----
	\$26,545	\$25,124	\$6,996
	=====	=====	=====

</TABLE>

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense is:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Tax at U.S. statutory rates.....	\$27,172	\$25,124	\$ 7,496
Foreign tax provision.....	7,442	6,308	1,668
Foreign tax credits available.....	(7,442)	(4,909)	(1,361)
Merger costs deductible for tax purposes.....	(1,173)	--	--

Other non-deductible items.....	228	176	101
Alternative minimum tax provision.....	--	--	144
Alternative minimum credits available.....	--	--	(144)
Change in valuation allowance.....	--	(1,589)	(720)
Other, net.....	318	14	(188)
	-----	-----	-----
Income tax expense.....	\$26,545	\$25,124	\$ 6,996
	=====	=====	=====

</TABLE>

Income tax payments amounted to \$18,688,000, \$11,508,000 and \$1,854,000 for the years ended December 31, 1998, 1997 and 1996.

7. PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information gives effect to the acquisition of the Southwestern Rigs using the purchase method of accounting given the related assumptions and adjustments, the offering of \$150,000,000 of Senior Notes and the issuance of 1,200,000 shares (pre-split basis) of the Company's Common Stock valued at an average price of \$18.51 per share (pre-split basis) in connection with the acquisition of the Southwestern Rigs.

The pro forma financial information is based upon the historical consolidated financial statements of the Company and Southwestern for the year ended December 31, 1996. The historical financial statements of Southwestern include the operating results of the Southwestern Rigs during the periods indicated to the date of acquisition, May 23, 1996. However, the financial statements of Southwestern exclude depreciation expense related to the Southwestern Rigs because Southwestern managed, rather than owned, the rigs. The historical results of Southwestern include the results of operations of the rigs that were available for service during the indicated periods.

The pro forma financial information was prepared assuming that the transactions described above were consummated as of January 1, 1996. The pro forma financial information has been prepared based upon assumptions deemed appropriate by the Company and may not be indicative of actual results. The historical results of Southwestern's operations are included with the Company's results beginning May 23,

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1996. The unaudited Pro Forma Consolidating Statement of Operations for the year ended December 31, 1996 is included in the Company's Form 8-K dated September 19, 1997. The pro forma financial information for the year ended December 31, 1996 was as follows:

<TABLE>
<CAPTION>

	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (UNAUDITED)
<S>	<C>
Revenues.....	\$147,672
Net Income (Loss).....	\$ 10,273
Net Income Per Common Share:	
Basic.....	\$ 0.70
Diluted.....	\$ 0.68

</TABLE>

8. DEFINED CONTRIBUTION PLAN

The Company has a defined contribution plan ("401(k) Plan"). Under the 401(k) Plan, an employee who has reached age 18 and completed 90 days of service is eligible to participate in the plan through contributions that range in one percent multiples up to 16% of salary, with a 1998 dollar maximum of \$10,000. Through November 30, 1998, the Company contributed (or "matched") on behalf of each participant shares of Common Stock equal to 100% of the portion of each participant's contribution which does not exceed 6% of the participant's annual salary. Effective December 1, 1998, employer contributions were made in cash. Employer contributions for certain highly compensated employees may be further limited through the operation of the non-discrimination requirements found in Sections 401(k) and 401(m) of the Internal Revenue Code.

Employee contributions can be invested in any or all of 6 investment options in multiples of 5%. Employee contributions are 100% vested and non-forfeitable. Employer contributions are subject to a graded vesting schedule, with participants becoming fully vested upon completion of five years

employment service with the Company. Distributions from the 401(k) Plan are made upon retirement, death, disability or separation of service. Participants may borrow up to one-half (1/2) of their vested interest in the plan, limited to a maximum of \$50,000. Contributions to the 401(k) Plan and earnings on contributions are not included in a participant's gross income until distributed to the participant. Contributions to the 401(k) Plan by the Company were \$1,160,000, \$737,000 and \$499,000 for the years 1998, 1997 and 1996, respectively.

9. CAPITAL STOCK

The Company's Revolving Credit Facility and the indenture governing the Senior Notes of the Company restrict payment of dividends on the Common Stock. Specifically, the indenture restricts the payment of dividends based on (i) availability of funds under a formula based on previously unapplied cumulative net income since April 1, 1996 plus certain stock sale proceeds raised after May 15, 1996 plus \$10,000,000 and (ii) satisfaction of the then applicable minimum interest coverage ratio for debt incurrence. Cumulative net income for purposes of the test excludes gains or losses on asset sales and certain other non-recurring charges or credits as specified in the indenture. No dividends have been paid on the Common Stock.

The Company had a 1988 Incentive Equity Plan under which stock options, stock appreciation rights, restricted stock and deferred stock awards for up to 650,000 shares (pre-split basis) of the Company's Common Stock were available for award to officers, directors and key employees. During 1998, shareholders approved the 1998 Incentive Equity Plan, thereby authorizing the Company to make stock awards for up to 1,000,000 shares of the Company's Common Stock. The Company's incentive equity plans were designed to attract and reward key executive personnel.

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Stock Options

Stock options granted pursuant to the 1988 and 1998 Incentive Equity Plans expire not more than ten years from the date of grant and typically vest over three years, with 50% vesting after one year and 25% vesting in each of the succeeding two years. All of the options granted by the Company were granted at an option price equal to the fair market value of the Common Stock at the date of grant. All outstanding stock options vested on August 21, 1998, the date the Company signed the Merger Agreement, pursuant to change of control provisions in the related incentive equity plans.

Changes in the number of outstanding options on the Company's Common Stock through December 31, 1998 are summarized as follows:

<TABLE>

<CAPTION>

	NUMBER OF SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE (PER SHARE)
<S>	<C>	<C>
Outstanding Options at December 31, 1995.....	520,000	\$ 6.68
Granted.....	368,000	\$13.82
Exercised.....	(316,050)	\$ 6.74
Canceled.....	(500)	\$ 6.44

Outstanding Options at December 31, 1996.....	571,450	\$11.24
	=====	
Granted.....	86,500	\$33.39
Exercised.....	(243,900)	\$ 9.27
Canceled.....	(80,000)	\$14.00

Outstanding Options at December 31, 1997.....	334,050	\$17.76
	=====	
Granted.....	312,000	\$50.50
Exercised.....	(26,550)	\$ 7.90
Canceled.....	(500)	\$14.00
Converted into R&B Falcon options.....	(619,000)	\$34.69

Outstanding Options at December 31, 1998.....	--	--
	=====	
Exercisable, December 31,		
1996.....	199,700	\$ 6.60
1997.....	103,550	\$10.27

Pro forma information regarding net income and earnings per share is required by SFAS 123, and was determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

<TABLE>
 <CAPTION>

	YEAR ENDED DECEMBER 31,	
	1997	1996
<S>	<C>	<C>
Weighted average risk-free interest rate.....	6.5%	6.3%
Dividend yield.....	0.0%	0.0%
Weighted average stock price volatility factor.....	60.1%	41.7%
Expected life of the options (years).....	4	4

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

value of its employee stock options. The calculated weighted average fair values of options granted during 1997 and 1996 were \$17.41 and \$5.67, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' expected life. This pro forma financial information is calculated in accordance with SFAS 123, but is not likely to be representative of the effects on reported net income in future years. The Company's pro forma information follows:

<TABLE>
 <CAPTION>

	YEAR ENDED DECEMBER 31,	
	1997	1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>
Pro Forma Net Income.....	\$45,965	\$13,973
Pro Forma Net Income Per Common Share:		
Basic.....	\$ 3.02	\$ 1.02
Diluted.....	\$ 2.95	\$ 0.99

Restricted Stock

The Company's Board of Directors awarded restricted stock to the Company's officers and key employees from time to time. Awards totaling 90,600 shares and one award of 5,000 shares (pre-split) were made during 1997 and 1996, respectively. Restrictions on awards lapsed with respect to either 33 1/3% of the entire award after one year and after each of the succeeding two years or 25% of the entire award after one year and after each of the succeeding three years. The 1996 award of 5,000 shares (pre-split) was forfeited during 1997. All restricted stock vested on August 21, 1998, the date the Company signed the Merger Agreement, pursuant to change of control provisions in the incentive equity plans. Expense related to amortization of restricted stock was \$2,212,000, \$430,000 and \$29,000 for the years 1998, 1997 and 1996, respectively. Prior to August 21, 1998, deferred compensation expense relative to non-vested shares of restricted stock, measured by the market value of the stock on the date of grant, was amortized on a straight-line basis over the restriction period. The unamortized deferred compensation expense, which was deducted from equity in the Consolidated Balance Sheets at December 31, 1997 was

\$2,467,000.

Effective December 31, 1992, the Company's Board of Directors approved the sale of 35,000 shares of restricted Common Stock to certain key executives. The price paid for the restricted stock was \$6.63 per share. The Company extended full recourse, interest-bearing loans to the key executives in the aggregate amount of \$232,000. Interest was calculated at seven and one-half percent (7 1/2%) per annum payable quarterly and accrued on the last day of March, June, September and December until the notes were due on December 31, 1997. All such loans were paid by December 31, 1997. In connection with the restricted stock sale, the Company executed deferred stock agreements with the executives which provided for a share match in the event certain performance criteria were achieved over the five-year period ending December 31, 1997. The performance measures were attained by the Company, resulting in an award of 14,400 additional shares of Common Stock on February 18, 1998. Compensation expense of \$590,000 related to the deferred stock awards was accrued during 1997 when it became probable that the Company performance criteria would be met. No such compensation expense was accrued during the year ended December 31, 1996.

10. REDEEMABLE PREFERRED STOCK

On January 17, 1996, the Company issued 2,113,557 shares (pre-split) of Common Stock upon conversion of 1,115,988 shares of its 1,150,000 issued and outstanding shares of Preferred Stock. The remaining 34,012 shares of Preferred Stock were redeemed for cash in the amount of \$25.69 per share plus \$0.22 per share in accrued dividends thereon at a cost to the Company of approximately \$881,000.

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

11. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
Numerator:			
Net Income.....	N/A	\$46,659	\$14,422
Preferred Stock Dividends.....	N/A	--	(31)
	---	-----	-----
Numerator for Basic Earnings Per Share --			
Income Available to Common Shareholders.....	N/A	46,659	14,391
Effect of Dilutive Securities:			
Preferred Stock Dividends.....	N/A	--	31
	---	-----	-----
Numerator for Diluted Earnings Per Share -- Income Available to Common Shareholders After Assumed Conversions.....	N/A	\$46,659	\$14,422
Denominator:			
Denominator for Basic Earnings Per Share -- Weighted Average Shares.....	N/A	15,237	13,736
Effect of Dilutive Securities:			
Stock Options.....	N/A	196	147
Restricted Stock.....	N/A	56	6
Contingent Deferred Stock.....	N/A	4	--
Convertible Exchangeable Preferred Stock.....	N/A	--	194
	---	-----	-----
Dilutive Potential Common Shares.....	N/A	256	347
Denominator for Diluted Earnings Per Share -- Adjusted Weighted Average Shares and Assumed Conversions.....	N/A	15,493	14,083
Net Income Per Common Share:			
Basic.....	N/A	\$ 3.06	\$ 1.05
	===	=====	=====
Diluted.....	N/A	\$ 3.01	\$ 1.02
	===	=====	=====

</TABLE>

12. COMMITMENTS AND CONTINGENT LIABILITIES

The Company leases its headquarters office, office equipment and other

items under operating leases expiring at various dates during the next five years. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rent expense under operating leases was \$1,956,000, \$1,534,000 and \$856,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Minimum future obligations under non-cancelable operating leases at December 31, 1998 for the following five years are \$1,446,000, \$952,000, \$261,000, \$58,000 and \$1,000, respectively.

The Company has other contingent liabilities resulting from litigation, claims and commitments incidental to the ordinary course of business. Management believes that the probable resolution of such contingencies will not materially affect the financial position or results of operations of the Company.

13. BUSINESS SEGMENTS

Description of reportable segments

Daywork Drilling -- domestic and foreign drilling of oil and gas wells on a dayrate basis for major and independent oil and gas companies on land, inland waters and offshore.

46

48

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Engineering Services -- domestic and foreign drilling of oil and gas wells on a turnkey basis for major and independent oil and gas companies on land, inland waters and offshore and foreign well engineering and management services.

MOPU Operations -- domestic and foreign operation of mobile offshore production units on a dayrate basis for major and independent oil and gas companies.

Oil and Gas -- domestic exploration, development and production of hydrocarbon reserves.

Measurement of segment profit or loss and segment assets

The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales are accounted for at prices comparable to unaffiliated customer sales.

Factors management used to identify the Company's reportable segments

The Company's reportable segments are business units that offer different services. The reportable segments are each managed separately because they offer distinct services, including drilling, engineering services and production.

<TABLE>
<CAPTION>

	REVENUES	OPERATING INCOME (LOSS)	SEGMENT ASSETS	EXPENDITURES FOR LONG- LIVED ASSETS	DEPRECIATION, DEPLETION AND AMORTIZATION
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
December 31, 1998					
Daywork Drilling.....	\$222,055	\$ 71,823	\$567,456	\$ 65,499	\$ 23,575
Engineering Services.....	133,366	35,919	46,101	602	45
MOPU Operations.....	8,676	3,331	32,360	716	4,091
Oil and Gas.....	272	(215)	760	56	337
Corporate Office.....	--	(13,108)	70,579	3,009	653
Eliminations.....	(28,545)	--	--	--	--
Consolidated.....	\$335,824	\$ 97,750	\$717,256	\$ 69,882	\$ 28,701
	=====	=====	=====	=====	=====
December 31, 1997					
Daywork Drilling.....	\$173,602	\$ 71,623	\$422,587	\$168,822	\$ 15,750
Engineering Services.....	91,723	20,446	40,685	--	27
MOPU Operations.....	8,663	3,582	34,866	6,976	4,065
Oil and Gas.....	410	(330)	2,013	456	311
Corporate Office.....	--	(9,021)	--	--	290
Eliminations.....	(10,766)	--	--	--	--
Consolidated.....	\$263,632	\$ 86,300	\$500,151	\$176,254	\$ 20,443
	=====	=====	=====	=====	=====
December 31, 1996					

Daywork Drilling.....	\$ 77,882	\$ 23,048	\$257,555	\$158,650	\$ 9,021
Engineering Services.....	60,517	8,036	42,521	--	32
MOPU Operations.....	4,329	2,872	35,661	7,719	793
Oil and Gas.....	1,156	(3,108)	3,809	350	654
Corporate Office.....	--	(6,411)	--	--	111
Eliminations.....	(10,775)	--	--	--	(223)
Consolidated.....	\$133,109	\$ 24,437	\$339,546	\$166,719	\$ 10,388
	=====	=====	=====	=====	=====

</TABLE>

Intersegment sales between the Daywork Drilling and Engineering Services business segments were \$28,545,000, \$10,766,000 and \$10,775,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

Segment assets include assets directly identified with those operations. Purchase price adjustments of \$97,537,000 related to the Merger were "pushed down" and recorded in "Rigs and Related Equipment" in the Consolidated Balance Sheets as of December 31, 1998. Expenditures for long-lived assets for the year

47

49

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

ending December 31, 1997 include \$20,500,000 of non-cash investing activity related to 437,939 shares of Common Stock issued in connection with the acquisition of the assets used in the offshore contract drilling business in Trinidad of Well Services and \$9,250,000 of non-cash investing activity related to the acquisition of substantially all of the remaining 50% interest of the WINDJV. Expenditures for long-lived assets for the year ending December 31, 1996 include \$22,215,000 of non-cash investing activity related to 1,200,000 shares (pre-split basis) of Common Stock issued in connection with the acquisition of the Southwestern Rigs.

The Company derived a significant amount of its revenues from a few customers in each of the three years in the period ended December 31, 1998. The following table summarizes information with respect to these major customers.

<TABLE>

<CAPTION>

CUSTOMER -----	REPORTING SEGMENT -----	% OF CONSOLIDATED REVENUES -----
<S>	<C>	<C>
December 31, 1998		
PDVSA Exploration and Production (and its predecessors).....	Daywork Drilling and Engineering Services	33%
December 31, 1997		
PDVSA Exploration and Production (and its predecessors).....	Daywork Drilling and Engineering Services	31%
December 31, 1996		
PDVSA Exploration and Production (and its predecessors).....	Daywork Drilling and Engineering Services	31%

</TABLE>

48

50

CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

14. GEOGRAPHIC INFORMATION

The following table sets forth financial information with respect to the Company and its subsidiaries on a consolidated basis by geographical area.

<TABLE>

<CAPTION>

	REVENUES (a) -----	LONG-LIVED ASSETS (b) -----
	(IN THOUSANDS)	
<S>	<C>	<C>
December 31, 1998 (Post-Acquisition)		
United States.....	\$111,902	\$237,727
Venezuela.....	160,155	111,419
Qatar.....	28,156	57,570
Trinidad.....	23,792	66,306

Other.....	11,819	32,819
Total.....	\$335,824	\$505,841
December 31, 1997 (Pre-Acquisition)		
United States.....	\$ 97,199	\$145,859
Venezuela.....	124,242	94,074
Qatar.....	26,448	50,626
Trinidad.....	4,782	59,561
Other.....	10,961	19,107
Total.....	\$263,632	\$369,227
December 31, 1996 (Pre-Acquisition)		
United States.....	\$ 59,961	\$139,500
Venezuela.....	56,242	30,761
Qatar.....	5,767	16,863
Trinidad.....	909	--
Other.....	10,230	29,350
Total.....	\$133,109	\$216,474

</TABLE>

-
- (a) Revenues are attributed to countries based on the location of the drilling operations.
- (b) The Merger was effective on December 1, 1998 and was accounted for using the purchase method of accounting. The purchase price adjustments were "pushed down" and recorded in the consolidated financial statements of the Company, which affects the comparability of the post-acquisition and pre-acquisition long-lived assets. See Note 2.

49

51
CLIFFS DRILLING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly operating results for the years ended December 31, 1998 and 1997 are summarized as follows:

<TABLE>
<CAPTION>

	(UNAUDITED)			
	FOR THE QUARTER ENDED			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>	<C>
1998:				
Revenues.....	\$97,776	\$77,248	\$94,506	\$66,294 (a)
Operating Income.....	28,033	26,100	28,107	15,510 (a)
Net Income.....	14,972	13,846	14,577	7,694 (a)
Net Income per Common Share:				
Basic.....	\$ 0.95	\$ 0.87	\$ 0.92	N/A (b)
Diluted.....	\$ 0.93	\$ 0.86	\$ 0.91	N/A (b)
1997:				
Revenues.....	\$60,876	\$60,470	\$68,120	\$74,166
Operating Income.....	14,576	22,367	23,880	25,477
Net Income.....	6,958	13,628	12,291	13,782 (c)
Net Income per Common Share:				
Basic.....	\$ 0.46	\$ 0.90	\$ 0.80	\$ 0.90 (c) (d)
Diluted.....	\$ 0.45	\$ 0.89	\$ 0.79	\$ 0.88 (c) (d)

</TABLE>

-
- (a) Reduced dayrates and utilization affected operating results during the fourth quarter of 1998.
- (b) As a result of the Merger, each outstanding share of Common Stock of the Company was converted into 1.7 shares of R&B Falcon common stock and cash in lieu of fractional shares on December 1, 1998. The Company is now a wholly-owned subsidiary of R&B Falcon.

(c) The second quarter of 1997 includes a net gain on disposition of assets of \$2,575,000.

(d) The first three quarters of 1997 earnings per share amounts have been restated to comply with SFAS No. 128. In addition, the first quarter of 1997 earnings per share and weighted average shares have been retroactively adjusted to reflect the Stock Split.

50

52

EXHIBIT INDEX

<TABLE>

<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----
<C>	<S>
2.1	-- Stock Purchase Agreement dated as of December 6, 1996 by and among Delavney-Gestao E Consultadoria LDA., Construtora Andrade Gutierrez S.A., Andrade Gutierrez Perfuracao LTDA., Driltech Inc. and the Company (incorporated by reference to Exhibit 2.3 to the Company's Form 10-K for the year ended December 31, 1996).
2.1.1	-- Amendment No. 1 dated as of January 24, 1997 to Stock Purchase Agreement dated as of December 6, 1996 by and among Delavney-Gestao E Consultadoria LDA., Construtora Andrade Gutierrez S.A., Andrade Gutierrez Perfuracao LTDA., Driltech Inc. and the Company (incorporated by reference to Exhibit 2.3.1 to the Company's Form 10-K for the year ended December 31, 1996).
2.1.2	-- Amendment No. 2 dated as of April 24, 1997 to Stock Purchase Agreement dated as of December 6, 1996 by and among Delavney-Gestao E Consultadoria LDA., Construtora Andrade Gutierrez S.A., Andrade Gutierrez Perfuracao LTDA., Driltech Inc. and the Company (incorporated by reference to Exhibit 2.3.2 to the Company's Form 10-Q for the quarter ended March 31, 1997).
2.2	-- Asset Purchase Agreement dated as of December 29, 1997 by and among Cliffs Drilling Trinidad Offshore Limited, Well Services (Marine) Ltd., Charles A. Brash and Philip A. Pollonais (incorporated by reference to Exhibit 2.4 to the Company's Form 8-K dated December 29, 1997).
2.3	-- Agreement and Plan of Merger dated as of August 21, 1998, among R&B Falcon Corporation, RBF Cliffs Acquisition Corp. and Cliffs Drilling Company (incorporated by reference from Exhibit 2.1 to the Company's Form 8-K dated August 20, 1998).
*3.1.1	-- Certificate of Merger merging RBF Cliffs Acquisition Corp. with and into Cliffs Drilling Company effective December 1, 1998, filed November 25, 1998.
*3.1.2	-- Amended and Restated Certificate of Incorporation of Cliffs Drilling Company filed February 5, 1999.
3.2	-- By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed August 4, 1988).
4.1	-- Amended and Restated Certificate of Incorporation of the Company (included as Exhibit 3.1.2).
4.2	-- By-Laws of the Company (included as Exhibit 3.2).
4.3	-- Indenture dated as of May 15, 1996 among the Company, as issuer, Cliffs Drilling Asset Acquisition Company, Cliffs Drilling Merger Company, Cliffs Drilling International, Inc. and Cliffs Oil and Gas Company, as subsidiary guarantors, and Fleet National Bank, predecessor of State Street Bank and Trust Company, as trustee, including a Form of the Company's 10.25% Senior Notes due 2003 (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K dated May 23, 1996).
4.3.1	-- First Supplemental Indenture dated as of July 11, 1996 among the Company, as issuer, Southwestern Offshore Corporation (f/k/a Cliffs Drilling Asset Acquisition Company), Cliffs Drilling Merger Company, Cliffs Drilling International, Inc., Cliffs Oil and Gas Company and DRL, Inc., as subsidiary guarantors, and Fleet National Bank, predecessor of State Street Bank and Trust Company, as trustee (incorporated by reference to Exhibit 4.3.1 to the Company's Registration Statement on Form S-4, Registration No. 333-08273, filed July 17, 1996).

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----
<C>	<S>
4.3.2	-- Second Supplemental Indenture dated as of January 4, 1997 among the Company, as issuer, Southwestern Offshore Corporation (f/k/a Cliffs Drilling Asset Acquisition Company), Cliffs Drilling Merger Company, Cliffs Drilling International, Inc., Cliffs Oil and Gas Company, DRL, Inc. and Greenbay Drilling Company Ltd., as subsidiary guarantors, and Fleet National Bank, predecessor of State Street Bank and Trust Company, as trustee (incorporated by reference to Exhibit 4.6.2 to the Company's Form 10-K for the fiscal year ended December 31, 1996).
4.3.3	-- Third Supplemental Indenture dated as of August 29, 1997 among the Company, as issuer, Southwestern Offshore Corporation (f/k/a Cliffs Drilling Asset Acquisition Company), Cliffs Drilling Merger Company, Cliffs Drilling International, Inc., Cliffs Oil and Gas Company, DRL, Inc., Cliffs Drilling Trinidad Limited and West Indies Drilling Joint Venture, as subsidiary guarantors, and State Street Bank and Trust Company, successor to Fleet National Bank, as trustee (incorporated by reference to Exhibit 4.3.3 to the Company's Registration Statement on Form S-4, Registration No. 333-36325, filed September 24, 1997).
4.3.4	-- Fourth Supplemental Indenture dated as of March 2, 1998 among the Company, as issuer, Southwestern Offshore Corporation (f/k/a Cliffs Drilling Asset Acquisition Company), Cliffs Drilling Merger Company, Cliffs Drilling International, Inc., Cliffs Oil and Gas Company, DRL, Inc., Cliffs Drilling Trinidad Limited, West Indies Drilling Joint Venture, Cliffs Drilling (Barbados) Holdings ESRL, Cliffs Drilling (Barbados) SRL and Cliffs Drilling Trinidad Offshore Limited, as subsidiary guarantors, and State Street Bank and Trust Company, successor to Fleet National Bank, as trustee (incorporated by reference to Exhibit 4.3.4 to the Company's Form 10-K for the year ended December 31, 1997).
4.4	-- Rights Agreement dated effective June 17, 1997 between the Company and Harris Trust and Savings Bank, which includes as Exhibit B thereto the Form of Right Certificate (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form 8-A filed June 6, 1997).
4.4.1	-- Amendment No. 1 to Rights Agreement dated as of August 20, 1998, between Cliffs Drilling Company and Harris Trust and Savings Bank (incorporated by reference from Exhibit 4.3.1 to the Company's Form 8-K dated August 20, 1998).
4.5	-- Indenture dated as of August 7, 1997 among the Company, as issuer, Southwestern Offshore Corporation, Cliffs Drilling Merger Company, Cliffs Drilling International, Inc., Cliffs Oil and Gas Company and DRL, Inc., as subsidiary guarantors, and State Street Bank and Trust Company, as trustee, including a form of the Company's 10.25% Senior Notes due 2003 (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-4, Registration No. 333-36325, filed September 24, 1997).
4.5.1	-- First Supplemental Indenture dated as of August 29, 1997 among the Company, as issuer, Southwestern Offshore Corporation, Cliffs Drilling Merger Company, Cliffs Drilling International, Inc., Cliffs Oil and Gas Company, DRL, Inc., Cliffs Drilling Trinidad Limited and the West Indies Drilling Joint Venture, as subsidiary guarantors, and State Street Bank and Trust Company, as trustee, (incorporated by reference to Exhibit 4.4.1 to the Company's Registration Statement on Form S-4, Registration No. 333-36325, filed September 24, 1997).

</TABLE>

<TABLE>
 <CAPTION>
 EXHIBIT
 NUMBER

DESCRIPTION

<C>	<S>
4.5.2	-- Second Supplemental Indenture dated as of March 2, 1998 among the Company, as issuer, Southwestern Offshore Corporation, Cliffs Drilling Merger Company, Cliffs Drilling International, Inc., Cliffs Oil and Gas Company, DRL, Inc., Cliffs Drilling Trinidad Limited, West Indies Drilling Joint Venture, Cliffs Drilling (Barbados) Holdings ESRL, Cliffs Drilling (Barbados) SRL and Cliffs Drilling Trinidad Offshore Limited, as subsidiary guarantors, and State Street Bank and Trust Company, as trustee (incorporated by reference to Exhibit 4.7.2 to the Company's Form 10-K for the year ended December 31, 1997).
10.1	-- Cliffs Drilling Company 1988 Incentive Equity Plan (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.1.1	-- Amendment No. 1 dated May 17, 1990 to the Cliffs Drilling Company 1988 Incentive Equity Plan (incorporated by reference to Exhibit 10.7.1 to the Company's Form 10-K for the year ended December 31, 1993).
10.1.2	-- Amendment No. 2 dated May 20, 1993 to the Cliffs Drilling Company 1988 Incentive Equity Plan (incorporated by reference to Exhibit 10.7.2 to the Company's Form 10-K for the year ended December 31, 1993).
10.1.3	-- Amendment No. 3 dated May 22, 1996 to the Cliffs Drilling Company 1988 Incentive Equity Plan (incorporated by reference to Exhibit 10.7.3 to the Company's Form 10-K for the year ended December 31, 1996).
10.2	-- Cliffs Drilling Company Incentive Bonus Plan (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.3	-- Cliffs Drilling Company Retention Plan for Salaried Employees (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.3.1	-- Amendment No. 1 dated May 17, 1990 to the Cliffs Drilling Company Retention Plan for Salaried Employees (incorporated by reference to Exhibit 10.9.1 to the Company's Form 10-K for the year ended December 31, 1993).
10.3.2	-- Amendment No. 2 dated May 21, 1992 to the Cliffs Drilling Company Retention Plan for Salaried Employees (incorporated by reference to Exhibit 10.9.2 to the Company's Form 10-K for the year ended December 31, 1993).
10.4	-- Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.5	-- Form of Restricted Stock Award Agreement entered into between the Company and certain key executive officers (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.6	-- Exploration and Development Agreement dated as of May 25, 1988 among the Company, Mosbacher Offshore, Inc. and Cliffs Oil and Gas Company (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1, Registration No. 33-23508, filed under the Securities Act).
10.6.1	-- Letter Agreement dated February 15, 1991 extending Exploration and Development Agreement (incorporated by reference to Exhibit 10.13.1 to the Company's Form 10-K for the year ended December 31, 1990).
10.7	-- Third Restated Credit Agreement dated as of July 29, 1998 by and among Cliffs Drilling Company, Cliffs Oil and Gas Company, Cliffs Drilling International, Inc. and ING (U.S.) Capital Corporation. (incorporated by reference to Exhibit 10.13.5 to the Company's Form 10-Q for the

</TABLE>

53

55

<TABLE>

<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----
<C>	<S>
10.8	-- Form of Executive Agreement dated as of July 20, 1994 (incorporated by reference to Exhibit 10.20 to the Company's Form 10-Q for the quarter ended June 30, 1994).
10.9	-- Stock Purchase Agreement dated as of December 6, 1996 (included as Exhibit 2.3).
10.9.1	-- Amendment No. 1 dated as of January 24, 1997 to Stock Purchase Agreement dated December 6, 1996 (included as Exhibit 2.3.1).
10.9.2	-- Amendment No. 2 dated as of April 24, 1997 to Stock Purchase Agreement dated as of December 6, 1996 (included as Exhibit 2.3.2).
10.10	-- Indenture dated as of May 15, 1996 (included as Exhibit 4.3).
10.10.1	-- First Supplemental Indenture dated as of July 11, 1996 (included as Exhibit 4.3.1).
10.10.2	-- Second Supplemental Indenture dated as of January 24, 1997 (included as Exhibit 4.3.2).
10.10.3	-- Third Supplemental Indenture dated as of August 29, 1997 (included as Exhibit 4.3.3).
10.10.4	-- Fourth Supplemental Indenture dated as of March 2, 1998 (included as Exhibit 4.3.4).
10.11	-- Joint Venture Agreement dated as of April 18, 1996 between Well Services (Marine) Limited and Viking Trinidad Limited, as Partners, and Well Services (Marine) Limited, as Operator, establishing the West Indies Drilling Joint Venture (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K dated May 23, 1996).
10.11.1	-- First Amendment dated effective as of April 1, 1996 to Joint Venture Agreement between Well Services (Marine) Limited and Viking Trinidad Limited, as Partners, and Well Services (Marine) Limited, as Operator (incorporated by reference to Exhibit 99.1.1 to the Company's Form 8-K dated May 23, 1996).
10.11.2	-- Purchase and Sale and Joint Venture Amendment Agreement dated as of July 23, 1997 by and between Well Services (Marine) Limited and Cliffs Drilling Trinidad Limited (f/k/a Viking Trinidad Limited) (incorporated by reference to Exhibit 10.20.2 to the Company's Form 10-K for the year ended December 31, 1997).
10.12	-- Asset Purchase Agreement dated as of December 29, 1997 (included as Exhibit 2.4).
10.13	-- Indenture dated as of August 7, 1997 (included as Exhibit 4.7).
10.13.1	-- First Supplemental Indenture dated as of August 29, 1997 (included as Exhibit 4.7.1).
10.13.2	-- Second Supplemental Indenture dated as of March 2, 1998 (included as Exhibit 4.7.2).
10.14	-- Cliffs Drilling Company Compensation Deferral Plan (incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 1997).
10.14.1	-- Amendment No. 1 to Cliffs Drilling Company Compensation Deferral Plan dated as of August 20, 1998 (incorporated by reference from Exhibit 10.23.1 to the Company's Form 8-K dated August 20, 1998).
10.14.2	-- Amendment No. 2 to Cliffs Drilling Company Compensation Deferral Plan dated as of November 20, 1998 (incorporated by reference from Exhibit 10.23.2 to the Company's Form 8-K dated December 1, 1998).
*10.14.3	-- Amendment No. 3 to Cliffs Drilling Company Compensation Deferral Plan dated as of February 22, 1999.

</TABLE>

54

56

<TABLE>

<CAPTION>

EXHIBIT
NUMBER
-----DESCRIPTION

<C> <S>

10.15	-- Cliffs Drilling Company 1998 Incentive Equity Plan (incorporated by reference to Exhibit 10.24 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.15.1	-- Amendment No. 1 dated May 13, 1998 to the Cliffs Drilling Company 1998 Incentive Equity Plan (incorporated by reference to Exhibit 10.24.1 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.16	-- Form of Non-Qualified Stock Option Agreement for non-employee members of the Board of Directors (incorporated by reference to Exhibit 10.25 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.17	-- Form of Non-Qualified Stock Option Agreement for key employees and officers (incorporated by reference to Exhibit 10.26 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.18	-- Cliffs Drilling Company Savings Plan (As Amended and Restated Effective June 21, 1988) (incorporated by reference to Exhibit 10.27 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.18.1	-- Amendment No. 1 to the Cliffs Drilling Company Savings Plan (As Amended and Restated Effective June 21, 1988) (incorporated by reference to Exhibit 10.27.1 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.19	-- Cliffs Drilling Company Savings Trust (As Amended and Restated Effective January 1, 1998) (incorporated by reference to Exhibit 10.28 to the Company's Form 10-Q for the quarter ended June 30, 1998).
10.20	-- Agreement and Plan of Merger dated as of August 21, 1998 (included as Exhibit 2.3).
*10.21	-- Employment Agreement dated December 1, 1998 between the Company and Douglas E. Swanson.
*10.22	-- Employment Agreement dated December 1, 1998 between the Company and Charles M. McCall.
*10.23	-- Employment Agreement dated December 1, 1998 between the Company and Edward A. Guthrie.
*10.24	-- Employment Agreement dated December 1, 1998 between the Company and James P. Mitchen.
*10.25	-- Employment Agreement dated December 1, 1998 between the Company and Gary W. Owen.
*10.26	-- Employment Agreement dated December 1, 1998 between the Company and Cindy B. Taylor.
*10.27	-- Employment Agreement dated December 1, 1998 between the Company and Jim R. Wise.
*21.1	-- Subsidiaries of the Registrant.
*23.1	-- Consent of Ernst & Young LLP.
*27	-- Financial Data Schedule.

</TABLE>

* Filed herewith

All other exhibits are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or Notes thereto.

CERTIFICATE OF MERGER
OF
RBF CLIFFS ACQUISITION CORP.
INTO
CLIFFS DRILLING COMPANY

Cliffs Drilling Company, organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That the name and state of incorporation of each of the constituent corporations is as follows:

Corporation -----	State of Incorporation -----
RBF Cliffs Acquisition Corp.	Delaware
Cliffs Drilling Company	Delaware

SECOND: That an agreement and plan of merger has been approved, adopted, certified and executed and acknowledged by RBF Cliffs Acquisition Corp. and Cliffs Drilling Company in accordance with the provisions of Section 251 of the General Corporation Law of the State of Delaware.

THIRD: That the name of the surviving corporation of the merger is Cliffs Drilling Company.

FOURTH: That the certificate of incorporation of Cliffs Drilling Company shall be the certificate of incorporation of the surviving corporation.

FIFTH: That the executed agreement and plan of merger is on file at the principal place of business of Cliffs Drilling Company at 1200 Smith Street, Suite 300, Houston, Texas 77002.

SIXTH: A copy of the agreement and plan of merger will be furnished by Cliffs Drilling Company, on request and without cost, to any stockholder of Cliffs Drilling Company or RBF Cliffs Acquisition Corp.

SEVENTH: That this Certificate of Merger shall not become effective upon filing but shall become effective immediately at 12:01 a.m. on December 1, 1998.

IN WITNESS WHEREOF, the undersigned corporation has caused this instrument to be executed by and on its behalf and in its corporate name.

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Douglas E. Swanson, President and Chief
Executive Officer

CERTIFICATE OF AMENDMENT AND RESTATEMENT
OF
CERTIFICATE OF INCORPORATION
OF
CLIFFS DRILLING COMPANY

Cliffs Drilling Company, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify:

I.

That by unanimous consent of the Board of Directors of the Corporation, resolutions were adopted setting forth a proposed amendment to and restatement of the Corporation's Certificate of Incorporation filed on April 14, 1988 with the Secretary of State of the State of Delaware, as amended, declaring said amendment and restatement to be advisable and submitting same to the Corporation's sole stockholder for consideration thereof. The resolutions setting forth the proposed amendment and restatement are as follows:

"RESOLVED, that the Certificate of Incorporation of the Corporation, as amended, be further amended and restated in its entirety by deleting the existing text and substituting the following therefor:

'FIRST: The name of the corporation is Cliffs Drilling Company.

SECOND: The address of the registered office of the Corporation in the State of Delaware is The Corporation Trust Company, 1209 Orange Street, in the City of Wilmington, County of New Castle, State of Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code (the "GCL").

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is One Thousand (1,000) shares of Common Stock, each having a par value of one cent (\$.01) per share.

FIFTH: The following provisions are included for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

(1) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

(2) The directors shall have concurrent power with the stockholders to make, alter, amend, change, add to or repeal the Bylaws of the Corporation.

(3) The number of directors of the Corporation shall be as from time to time fixed by, or in the manner provided in, the Bylaws of the Corporation. Election of directors need not be by written ballot unless the Bylaws so provide.

2

(4) No director shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under section 174 of the GCL, or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of the foregoing paragraph shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

(5) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provision of the GCL, this Certificate of Incorporation, and any Bylaws adopted by the stockholders; provided, however, that no Bylaws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such Bylaws had not been adopted.

SIXTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the GCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

SEVENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

EIGHTH: Each person who is or was or had agreed to become a director or officer of the Corporation, or each such person who is or was serving or who had agreed to serve at the request of the Board of Directors or an officer of the Corporation as an employee or agent of the Corporation or as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (including the heirs, executors, administrators or estate of such person), shall be indemnified by the Corporation to the full extent permitted from time to time by the GCL or any other applicable laws as presently or hereafter in effect. Without limiting the generality or the effect of the foregoing, the Corporation may enter into one or more agreements with any person which provide for indemnification greater or different than that provided in this Article. Any amendment or repeal of this Article shall not adversely affect any right or protection existing hereunder immediately prior to such amendment or repeal.'"

II.

That pursuant to the resolutions of the Corporation's Board of Directors, the proposed amendment and restatement was adopted by the sole stockholder of the Corporation at a Special Meeting of Stockholders held on February 2, 1999.

III.

That said amendment and restatement was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Cliffs Drilling Company has caused this Certificate of Amendment and Restatement of the Certificate of Incorporation to be signed by Douglas E. Swanson, its President, this 2nd day of February, 1999.

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Douglas E. Swanson, President

AMENDMENT NO. 3
TO
CLIFFS DRILLING COMPANY
COMPENSATION DEFERRAL PLAN

THIS AGREEMENT by Cliffs Drilling Company, a Delaware Corporation (the "Sponsor"),

WITNESSETH:

WHEREAS, the Sponsor has previously executed the Plan known as "Cliffs Drilling Company Compensation Deferral Plan" (the "Plan");

WHEREAS, pursuant to Section 9.1 of the Plan, the Sponsor has the right to amend the Plan; and

WHEREAS, the Sponsor has determined that the Plan should be amended in the manner hereinafter set forth;

NOW, THEREFORE, the Sponsor agrees that the Plan is hereby amended as follows:

Section 1.55 of the Plan is amended to read in its entirety as follows:

1.55 RETIREMENT. "Retirement" shall mean Separation of a Participant (i) after completion of 15 years of service and attainment of age 55, (ii) after attainment of age 62, or (iii) only in the case of a Participant who has not been an Employee at any time during his participation in the Plan, at any time. For purposes of this Section, years of service shall be determined under the rules applied in determining years of service for purposes of vesting under the Savings Plan. Additionally, any years of service required to be credited for purposes of this Plan under a severance agreement between the Sponsor and the Participant shall be considered years of service for purposes of this Plan.

IN WITNESS WHEREOF, the Sponsor has executed this Agreement this 22nd day of February, 1999, to be effective as of January 1, 1999.

CLIFFS DRILLING COMPANY

By /s/ DOUGLAS E. SWANSON

President

ATTEST:

/s/ EDWARD A. GUTHRIE

THE STATE OF TEXAS)
)
COUNTY OF HARRIS)

This instrument was acknowledged before me on 22nd February, 1999, by Douglas E. Swanson, president of Cliffs Drilling Company, a Delaware Corporation, on behalf of said corporation.

/s/ KATHLEEN A. LOPEZ

Notary Public in and for
the State of Texas

[NOTARY SEAL]

-2-

EMPLOYMENT AGREEMENT

This Agreement is entered into between Cliffs Drilling Company, a Delaware corporation (the "Company"), and Douglas E. Swanson (the "Executive") on the 1st day of December, 1998.

The Company has determined that it is in its best interests and those of its shareholders to assure that the Company will have the services of the Executive and to provide the Executive with compensation and benefit arrangements which are competitive with those of other corporations.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS;

1. Employment Period. The Company hereby agrees to employ the Executive, and the Executive hereby agrees to be employed by the Company, in accordance with the terms and provisions of this Agreement, for the period commencing on the date hereof (the "the Effective Date") and ending on the third anniversary of such date (the "Employment Period").

2. Terms of Employment. (a) Position and Duties. (i) During the Employment Period, (A) the Executive's position, authority, duties and responsibilities shall be at least commensurate in all material respects with and include status as President of the Company, and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office of the Company located in Houston, Texas which is the principal office of the Company or one of its affiliated companies. The Company is a wholly-owned subsidiary of R&B Falcon Corporation ("Parent") which operates through subsidiaries. Executive agrees that if requested by Parent or Company, he shall serve in comparable positions of other subsidiaries of Parent, in addition to or in lieu of serving as President of Company, provided his overall authority, duties and responsibilities shall not be materially diminished.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially full attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or

teach at educational institutions and (C) manage personal investments, so long as such activities do not materially interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement.

(b) Compensation. (i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary of not less than \$450,000 ("Annual Base Salary"), which shall be paid on a monthly basis. During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as may

2

be determined by the Board, based on the Executive's performance of his position and responsibilities (to be measured in a fair and objective manner). It may also be decreased by the Board as a part of Company wide salary reduction program applicable to all executives and employees generally as a result of financial losses experienced by the Company. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase (except as provided in this Section 2(b)(i)), and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased or decreased. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans that are tax qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended ("Code"), applicable generally to other executives of the Company and its affiliated companies.

(iii) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, vision, disability, salary continuance, group life and supplemental group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other executives of the Company and its affiliated companies.

(iv) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company and its affiliated companies.

(v) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company and its affiliated companies.

(vi) Notwithstanding the foregoing, as provided in the Agreement and Plan of Merger dated August 21, 1998 among Parent, RBF Cliffs Acquisition Corp., and Company, Executive shall participate in the employee benefit plans of the Company as in existence prior to the date hereof until such plans are merged with those of Parent.

3. Termination of Employment. (a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 11(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the

2

3

"Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

- (i) chronic alcoholism or controlled substance abuse, as determined by a doctor mutually acceptable to the Company and the Executive, and continuing failure by the Executive to commence and pursue with due diligence appropriate treatment for same in accordance with such doctor's recommendations;
- (ii) a deliberate act of proven fraud on the part of the Executive having a material adverse impact on the business or consolidated financial condition or results of operations of the Company and its subsidiaries;

- (iii) a deliberate and continuing failure by the Executive to comply with the applicable laws and regulations having a material adverse impact on the business or consolidated financial condition or results of operations of the Company and its subsidiaries; or
- (iv) conviction of the Executive of a criminal offense constituting a felony.

(c) Good Reason. The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean

(i) the assignment to the Executive of any duties materially inconsistent in any respect with the Executive's authority, duties or responsibilities as contemplated by Section 2 of this Agreement, or any other action by the Company which results in a material diminution in such authority, duties or responsibilities (excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive);

(ii) any failure by the Company to comply with any of the provisions of Section 2(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 2(a)(i)(B) hereof;

3

4

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 9 of this Agreement, provided that such successor has received, at least ten days prior to the giving of Notice of Termination by the Executive, written notice from the Company or the Executive of the requirements of Section 9 of the Agreement.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 10(b) of

this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than fifteen days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's right hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

4. Obligations of the Company upon Termination.

(a) Good Reason; Other than for Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay or provide to or in respect of the Executive the aggregate of the following amounts and benefits:

A. in a lump sum in cash within 30 days after the Date of Termination the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the highest annual bonus paid or accrued for the benefit of Executive during the three year period preceding the

Date of Termination and (y) a fraction, the numerator of which is the number of days since the date of the last bonus payment through the Date of Termination, and the denominator of which

is 365 and (3) any compensation previously deferred or earned by the Executive (together with any accrued interest or earnings thereon), any unreimbursed expenses and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2) and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

B. in a lump sum in cash within 30 days after the Date of Termination the product of (i) the sum of the highest Annual Base Salary and the highest annual bonus which has been payable to the Executive within the past three years (including such salary and bonus paid by a previous employer which is a direct subsidiary of the Company as of the date of this Agreement) for one year's service times (ii) a fraction, (A) the numerator of which is the number of days remaining in the Employment Period following the Date of Termination and (B) the denominator of which is 365.

(ii) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 2(b)(iii) of this Agreement if the Executive's employment had not been terminated in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliated companies as in effect and applicable generally to other executives and their families on the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other executives of the Company and its affiliated companies and their families (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as "Welfare Benefit Continuation"). [For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies and for purposes of determining Vesting Service (as defined in the Reading & Bates Pension Plan) under the Reading & Bates Pension Plan and the Reading & Bates Benefits Replacement Plan, the Executive shall be considered to have remained employed until the end of the Employment Period and to have retired on the last day of such period.]

(b) Death; Disability; Cause; Other than for Good Reason. If the Executive's employment shall be terminated for Death, Disability or Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than for Accrued Obligations and the timely payment of reimbursement of expenses incurred by Executive under Section 2(b)(iv). If the Executive terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment of reimbursement of expenses incurred by Executive under Section

2(b) (iv). In such case, all Accrued Obligations and reimbursement of expenses shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

5

6

5. Non-exclusivity of Rights. Except as provided in Section 4 of this Agreement, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

6. Challenge to Validity. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of any provision of this Agreement or any guarantee of performance thereof, plus interest on any delayed payment at the Applicable Federal Rate provided for in Section 7872(f) (2) (A) of the Code.

7. Certain Additional Payments by the Company. (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 7) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 7(c), all determinations required to be made under this Section 7, including whether and

when Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen & Co. (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm

6

7

determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 7(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claims by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than thirty days after the Executive actually receives notice in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by

the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in

7

8

a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount

advanced by the Company pursuant to Section (c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 7(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

9. Successors. (a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of

law, or otherwise.

10. Miscellaneous. (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given if by the Executive to the Company by telecopy or facsimile transmission at the telecommunications number set forth below and if by either the Company or the Executive either by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Douglas E. Swanson
1104 Potomac Drive
Houston, Texas 77057

If to the Company:

R&B Falcon Corporation
901 Threadneedle
Houston, Texas 77079
Attention: Chief Executive Officer

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to

terminate employment for Good Reason pursuant to Section 3(c) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) This Agreement may be superseded by another written agreement entered into between the Executive and Company on mutually agreeable terms, provided such agreement expressly by its terms supersedes this Agreement. However, an offer by the Company to enter into any such agreement with the Executive shall not constitute an independent basis for the Executive to terminate this Agreement for Good Reason.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ DOUGLAS E. SWANSON

DOUGLAS E. SWANSON

CLIFFS DRILLING COMPANY

By /s/ EDWARD A. GUTHRIE

Name: Edward A. Guthrie
Title: Vice President--Finance

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of December 1, 1998, between CLIFFS DRILLING COMPANY, a Delaware corporation (the "Company"), and Charles M. McCall (the "Executive").

R&B Falcon Corporation ("Parent") has acquired the Company, and Parent and Company desire that the Company employ the Executive and the Executive desires to remain in the employ of the Company, on the terms and conditions of this Agreement.

Accordingly, the parties agree as follows:

1. Employment Duties and Acceptance.

1.1 Employment by the Company: Duties. The Company hereby agrees to employ the Executive for a term (the "Term") commencing on December 1, 1998 and expiring on November 30, 2000 (the "Termination Date"), unless earlier terminated as provided in Section 4. During the Term, the Executive shall at all times serve in the capacity of Senior Vice President - Drilling Operations of Company and shall also serve in those offices and directorships of subsidiary corporations or entities of the Parent to which he may from time to time be appointed or elected. During the Term, the Executive shall devote his best efforts on a full time basis in fulfillment of his employment hereunder, subject to the direction of the Board of Directors of the Company. The Executive may engage in commercial pursuits and in charitable and civic activities that do not interfere with the performance of his duties hereunder.

1.2 Acceptance of Employment by the Executive. The Executive hereby accepts such employment and shall render the services and perform the duties described above.

2. Compensation and Other Benefits.

2.1 Annual Salary. The Company shall pay to the Executive an annual salary at a rate of not less than \$205,000 (the "Annual Salary"), prorated for any partial calendar year, subject to increase at the sole discretion of the Board. The Annual Salary shall be payable in accordance with the payroll policies of the Company as from time to time in effect, but in no event less frequently than once each month, less such deductions as shall be required to be withheld by applicable law and regulations.

2.2 Bonuses. The Executive may receive, at the sole discretion of the

Board, bonuses.

2.3 Participation in Employee Benefit Plans. The Company agrees to permit the Executive during the Term, if and to the extent eligible, to participate in any group life, hospitalization or disability insurance plan, health program, pension plan, similar benefit plan or other so-called "fringe benefits" of the Parent and its affiliated companies (collectively, "Benefits") which may be available to other comparable executives of the Parent and its affiliated companies on terms no less favorable to the Executive than the terms offered to such other executives. Notwithstanding the foregoing, to

2

the extent provided in the Agreement And Plan of Merger dated August 21, 1998 among Parent, RBF Cliffs Acquisition Corp., and Company (the "Merger Agreement"). Executive shall be covered by Company benefit plans in existence as of the date hereof until such plans are merged into the plans of Parent, and Executive shall be entitled to all benefits to be provided to Company employees pursuant to the Merger Agreement.

2.4 General Business Expenses. The Company shall pay or reimburse the Executive for all expenses reasonably and necessarily incurred by the Executive during the Term in the performance of the Executive's services under this Agreement. Such payment shall be made upon presentation of such documentation as the Company customarily requires of its senior executive employees prior to making such payments or reimbursements.

3. Proprietary Matters.

3.1 Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and that it has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others all confidential matters directly relating to the Company and its business, including without limitation, financial information, trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans, new personnel acquisition plans, technical processes, designs and design projects, inventions and research projects of the Company, its affiliates, or any entity which may hereafter become an affiliate thereof.

3.2 Property of the Company. All memoranda, notes, lists, records, engineering drawings, technical specifications and related documents and other documents or papers (and all copies thereof) relating to the Company, including

such items stored in computer memories, microfiche or by any other means, made or compiled by or on behalf of the Executive after the date hereof, or made available to the Executive after the date hereof relating to the Company, its affiliates or any entity which may hereafter become an affiliate thereof, shall be the property of the Company, and shall be delivered to the Company promptly upon the termination of the Executive's employment with the Company or at any other time upon request; provided, however, that Executive's address books, diaries and rolodex files shall be deemed to be property of the Executive.

3.3 Original Material. The Executive agrees that any inventions, discoveries, improvements, ideas, concepts or original works of authorship relating directly to the business of the Company, including without limitation computer systems, programs and manufacturing techniques, whether or not protectable by patent or copyright, that have been originated, developed or reduced to practice by the Executive alone or jointly with others during the Executive's employment with the Company shall be the property of and belong exclusively to the Company. The Executive shall promptly and fully disclose to the Company the origination or development by the Executive of any such material and shall provide the Company with any information that it may reasonably request about such material.

2

3

4. Termination.

4.1 Termination upon Death. If the Executive dies during the Term, this Employment Agreement shall terminate, except that the Executive's legal representatives shall be entitled to receive the Annual Salary and bonuses, if any, earned up to the date of the Executive's death, plus any Benefits accrued up to the date of Executive's death.

4.2 Termination By Company With Cause. The Company has the right, at any time, subject to all of the provisions hereof, exercisable by serving notice, effective on or after the date of service of such notice as specified therein, to terminate the Executive's employment under this Agreement and discharge the Executive with Cause. As used in this Section 4.2, the term "Cause" shall mean and include (i) chronic alcoholism or controlled substance abuse as determined by a doctor mutually acceptable to the Company and the Executive, (ii) an act of proven fraud or dishonesty on the part of the Executive with respect to the Company or its subsidiaries; (iii) knowing and material failure by the Executive to comply with material applicable laws and regulations relating to the business of the Company or its subsidiaries; (iv) the Executive's material and continuing failure to perform (as opposed to unsatisfactory performance) his duties hereunder or a material breach by the Executive of this Agreement except, in each case, where such failure or breach is caused by the illness or other similar incapacity or disability of the Executive; or (v) conviction of a misdemeanor involving moral turpitude or a

felony. Prior to the effectiveness of termination for Cause under subclause (i), (ii), (iii) or (iv) above, the Executive shall be given 30 days' prior notice from the Board specifically identifying the reasons which are alleged to constitute cause for any termination hereunder and an opportunity to be heard by the Board in the event Executive disputes such allegations. If Executive is terminated for Cause, the Company's obligation to the Executive shall be limited solely to the payment of unpaid Annual Salary accrued, bonuses earned, if any, and any Benefits vested up to the effective date specified in the Company's notice of termination.

4.3 Termination By Company Without Cause. The Company may terminate Executive's employment without Cause; provided, in the event of termination by the Company without Cause, the Company shall be obligated (but shall only be obligated) to Executive for the payment, at the times and upon the terms provided for herein, of the Executive's Annual Salary for the number of full months remaining in the Term of this Agreement had the Executive not been so terminated, based on the Annual Salary of the Executive in effect on the date of termination (or, if the Company has reduced the Executive's Annual Salary in breach of this Agreement, the Executive's Annual Salary before such reduction), and assuming such Annual Salary would remain in effect for the full Term together with all Benefits awarded or accrued and bonuses earned, if any, up to the date of termination.

4.4 Termination By Executive. Any termination by Executive of his employment by the Company (i) shall entitle the Company to discontinue payment of all Annual Salary, bonuses, if any, and Benefits accruing from and after the date of such termination, and (ii) shall not terminate the obligations of Executive under Section 3 or the rights of the Company under Section 3.

3

4

4.5 Suspension upon Disability. If during the Term the Executive becomes physically or mentally disabled, whether totally or partially, as evidenced by the written statement of a competent physician licensed to practice medicine in the United States who is mutually acceptable to the Company and the Executive or his closest relative if he is not then able to make such a choice, so that the Executive is unable substantially to perform his services hereunder for (i) a period of sixty days, or (ii) for shorter periods aggregating sixty days during any twelve-month period, the Company may at any time thereafter, by written notice to the Executive, suspend the Term of the Executive's employment hereunder and discontinue payments of the Annual Salary for the duration of the disability. The Executive shall be entitled to the full compensation payable to him hereunder for periods of disability shorter than the periods specified in clauses (i) and (ii) of the sentence. Nothing contained in this Section 4.5 shall be deemed to extend the Term or to constitute a breach of this Agreement.

5. Insurance. The Company may, from time to time, apply for and take out, in its

own name and at its own expense, naming itself or others as the designated beneficiary (which it may change from time to time), policies for life, health, accident, disability or other insurance upon the Executive in any amount or amounts that it may deem necessary or appropriate to protect its interest. The Executive agrees to aid the Company in procuring such insurance by submitting to medical examinations and by filling out, executing and delivering such applications and other instruments in writing as may reasonably be required by an insurance company or companies to which any application or applications for insurance may be made by or for the Company.

6. Other Provisions.

6.1 Certain Definitions. As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

(i) "affiliate" with respect to the Company means any other person controlled by or under common control with the Company but shall not include any stockholder or director of the Company, as such.

(ii) "person" means any individual, corporation, partnership, firm, joint Company, association, joint-stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

6.2 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed or sent by facsimile transmission or, if mailed, on the date of actual receipt thereof, as follows:

(i) if to the Company, to:
Cliffs Drilling Company

1200 Smith Street, Suite 300

Houston, Texas 77002

Attention: Chief Executive Officer

(ii) if to the Executive, to:
Charles M. McCall

2819 Kings Forest Drive

Any party may change its address for notice hereunder by notice to the other party hereto.

6.3 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

6.4 Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the choice of law provisions thereof).

6.6 Assignment. This Agreement, and any rights and obligations hereunder, may not be assigned by the Executive and may be assigned by the Company only to a successor by merger or purchasers of substantially all of the assets of the Company.

6.7 Counterparts. This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.8 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

6.9 Affiliates. For purposes of this Agreement, the term "Company" shall include the direct and indirect wholly owned subsidiaries of R&B Falcon Corporation and their successors, it being understood that R&B Falcon Corporation conducts its activities primarily through subsidiaries.

Executed to be effective as of the date hereof.

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Name: Douglas E. Swanson
Title: President

/s/ CHARLES M. MCCALL

Charles M. McCall

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of December 1, 1998, between CLIFFS DRILLING COMPANY, a Delaware corporation (the "Company"), and Edward A. Guthrie (the "Executive").

R&B Falcon Corporation ("Parent") has acquired the Company, and Parent and Company desire that the Company employ the Executive and the Executive desires to remain in the employ of the Company, on the terms and conditions of this Agreement.

Accordingly, the parties agree as follows:

1. Employment Duties and Acceptance.

1.1 Employment by the Company: Duties. The Company hereby agrees to employ the Executive for a term (the "Term") commencing on December 1, 1998 and expiring on November 30, 2000 (the "Termination Date"), unless earlier terminated as provided in Section 4. During the Term, the Executive shall at all times serve in the capacity of Vice President - Finance and Chief Financial Officer of Company and shall also serve in those offices and directorships of subsidiary corporations or entities of the Parent to which he may from time to time be appointed or elected. During the Term, the Executive shall devote his best efforts on a full time basis in fulfillment of his employment hereunder, subject to the direction of the Board of Directors of the Company. The Executive may engage in commercial pursuits and in charitable and civic activities that do not interfere with the performance of his duties hereunder.

1.2 Acceptance of Employment by the Executive. The Executive hereby accepts such employment and shall render the services and perform the duties described above.

2. Compensation and Other Benefits.

2.1 Annual Salary. The Company shall pay to the Executive an annual salary at a rate of not less than \$200,000 (the "Annual Salary"), prorated for any partial calendar year, subject to increase at the sole discretion of the Board. The Annual Salary shall be payable in accordance with the payroll policies of the Company as from time to time in effect, but in no event less frequently than once each month, less such deductions as shall be required to be withheld by applicable law and regulations.

2.2 Bonuses. The Executive may receive, at the sole discretion of the Board, bonuses.

2.3 Participation in Employee Benefit Plans. The Company agrees to permit the Executive during the Term, if and to the extent eligible, to participate in any group life, hospitalization or disability insurance plan, health program, pension plan, similar benefit plan or other so-called "fringe benefits" of the Parent and its affiliated companies (collectively, "Benefits") which may be available to other comparable executives of the Parent and its affiliated companies on terms no less favorable to the Executive than the terms offered to such other executives. Notwithstanding the foregoing, to

2

the extent provided in the Agreement And Plan of Merger dated August 21, 1998 among Parent, RBF Cliffs Acquisition Corp., and Company (the "Merger Agreement"). Executive shall be covered by Company benefit plans in existence as of the date hereof until such plans are merged into the plans of Parent, and Executive shall be entitled to all benefits to be provided to Company employees pursuant to the Merger Agreement.

2.4 General Business Expenses. The Company shall pay or reimburse the Executive for all expenses reasonably and necessarily incurred by the Executive during the Term in the performance of the Executive's services under this Agreement. Such payment shall be made upon presentation of such documentation as the Company customarily requires of its senior executive employees prior to making such payments or reimbursements.

3. Proprietary Matters.

3.1 Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and that it has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others all confidential matters directly relating to the Company and its business, including without limitation, financial information, trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans, new personnel acquisition plans, technical processes, designs and design projects, inventions and research projects of the Company, its affiliates, or any entity which may hereafter become an affiliate thereof.

3.2 Property of the Company. All memoranda, notes, lists, records, engineering drawings, technical specifications and related documents and other documents or papers (and all copies thereof) relating to the Company, including such items stored in computer memories, microfiche or by any other means, made or compiled by or on behalf of the Executive after the date hereof, or made

available to the Executive after the date hereof relating to the Company, its affiliates or any entity which may hereafter become an affiliate thereof, shall be the property of the Company, and shall be delivered to the Company promptly upon the termination of the Executive's employment with the Company or at any other time upon request; provided, however, that Executive's address books, diaries and rolodex files shall be deemed to be property of the Executive.

3.3 Original Material. The Executive agrees that any inventions, discoveries, improvements, ideas, concepts or original works of authorship relating directly to the business of the Company, including without limitation computer systems, programs and manufacturing techniques, whether or not protectable by patent or copyright, that have been originated, developed or reduced to practice by the Executive alone or jointly with others during the Executive's employment with the Company shall be the property of and belong exclusively to the Company. The Executive shall promptly and fully disclose to the Company the origination or development by the Executive of any such material and shall provide the Company with any information that it may reasonably request about such material.

2

3

4. Termination.

4.1 Termination upon Death. If the Executive dies during the Term, this Employment Agreement shall terminate, except that the Executive's legal representatives shall be entitled to receive the Annual Salary and bonuses, if any, earned up to the date of the Executive's death, plus any Benefits accrued up to the date of Executive's death.

4.2 Termination By Company With Cause. The Company has the right, at any time, subject to all of the provisions hereof, exercisable by serving notice, effective on or after the date of service of such notice as specified therein, to terminate the Executive's employment under this Agreement and discharge the Executive with Cause. As used in this Section 4.2, the term "Cause" shall mean and include (i) chronic alcoholism or controlled substance abuse as determined by a doctor mutually acceptable to the Company and the Executive, (ii) an act of proven fraud or dishonesty on the part of the Executive with respect to the Company or its subsidiaries; (iii) knowing and material failure by the Executive to comply with material applicable laws and regulations relating to the business of the Company or its subsidiaries; (iv) the Executive's material and continuing failure to perform (as opposed to unsatisfactory performance) his duties hereunder or a material breach by the Executive of this Agreement except, in each case, where such failure or breach is caused by the illness or other similar incapacity or disability of the Executive; or (v) conviction of a misdemeanor involving moral turpitude or a felony. Prior to the effectiveness of termination for Cause under subclause

(i), (ii), (iii) or (iv) above, the Executive shall be given 30 days' prior notice from the Board specifically identifying the reasons which are alleged to constitute cause for any termination hereunder and an opportunity to be heard by the Board in the event Executive disputes such allegations. If Executive is terminated for Cause, the Company's obligation to the Executive shall be limited solely to the payment of unpaid Annual Salary accrued, bonuses earned, if any, and any Benefits vested up to the effective date specified in the Company's notice of termination.

4.3 Termination By Company Without Cause. The Company may terminate Executive's employment without Cause; provided, in the event of termination by the Company without Cause, the Company shall be obligated (but shall only be obligated) to Executive for the payment, at the times and upon the terms provided for herein, of the Executive's Annual Salary for the number of full months remaining in the Term of this Agreement had the Executive not been so terminated, based on the Annual Salary of the Executive in effect on the date of termination (or, if the Company has reduced the Executive's Annual Salary in breach of this Agreement, the Executive's Annual Salary before such reduction), and assuming such Annual Salary would remain in effect for the full Term together with all Benefits awarded or accrued and bonuses earned, if any, up to the date of termination.

4.4 Termination By Executive. Any termination by Executive of his employment by the Company (i) shall entitle the Company to discontinue payment of all Annual Salary, bonuses, if any, and Benefits accruing from and after the date of such termination, and (ii) shall not terminate the obligations of Executive under Section 3 or the rights of the Company under Section 3.

3

4

4.5 Suspension upon Disability. If during the Term the Executive becomes physically or mentally disabled, whether totally or partially, as evidenced by the written statement of a competent physician licensed to practice medicine in the United States who is mutually acceptable to the Company and the Executive or his closest relative if he is not then able to make such a choice, so that the Executive is unable substantially to perform his services hereunder for (i) a period of sixty days, or (ii) for shorter periods aggregating sixty days during any twelve-month period, the Company may at any time thereafter, by written notice to the Executive, suspend the Term of the Executive's employment hereunder and discontinue payments of the Annual Salary for the duration of the disability. The Executive shall be entitled to the full compensation payable to him hereunder for periods of disability shorter than the periods specified in clauses (i) and (ii) of the sentence. Nothing contained in this Section 4.5 shall be deemed to extend the Term or to constitute a breach of this Agreement.

5. Insurance. The Company may, from time to time, apply for and take out, in

its own name and at its own expense, naming itself or others as the designated beneficiary (which it may change from time to time), policies for life, health, accident, disability or other insurance upon the Executive in any amount or amounts that it may deem necessary or appropriate to protect its interest. The Executive agrees to aid the Company in procuring such insurance by submitting to medical examinations and by filling out, executing and delivering such applications and other instruments in writing as may reasonably be required by an insurance company or companies to which any application or applications for insurance may be made by or for the Company.

6. Other Provisions.

6.1 Certain Definitions. As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

(i) "affiliate" with respect to the Company means any other person controlled by or under common control with the Company but shall not include any stockholder or director of the Company, as such.

(ii) "person" means any individual, corporation, partnership, firm, joint Company, association, joint-stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

6.2 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed or sent by facsimile transmission or, if mailed, on the date of actual receipt thereof, as follows:

(i) if to the Company, to:

Cliffs Drilling Company

1200 Smith Street, Suite 300

Houston, Texas 77002

Attention: Chief Executive Officer

(ii) if to the Executive, to:

Edward A. Guthrie

14626 Carols Way Drive

Houston, TX 77070

Any party may change its address for notice hereunder by notice to the other party hereto.

6.3 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

6.4 Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the choice of law provisions thereof).

6.6 Assignment. This Agreement, and any rights and obligations hereunder, may not be assigned by the Executive and may be assigned by the Company only to a successor by merger or purchasers of substantially all of the assets of the Company.

6.7 Counterparts. This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.8 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

6.9 Affiliates. For purposes of this Agreement, the term "Company" shall include the direct and indirect wholly owned subsidiaries of R&B Falcon Corporation and their successors, it being understood that R&B Falcon Corporation conducts its activities primarily through subsidiaries.

Executed to be effective as of the date hereof.

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Name: Douglas E. Swanson
Title: President

/s/ EDWARD A. GUTHRIE

Edward A. Guthrie

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of December 1, 1998, between CLIFFS DRILLING COMPANY, a Delaware corporation (the "Company"), and James P. Mitchen (the "Executive").

R&B Falcon Corporation ("Parent") has acquired the Company, and Parent and Company desire that the Company employ the Executive and the Executive desires to remain in the employ of the Company, on the terms and conditions of this Agreement.

Accordingly, the parties agree as follows:

1. Employment Duties and Acceptance.

1.1 Employment by the Company: Duties. The Company hereby agrees to employ the Executive for a term (the "Term") commencing on December 1, 1998 and expiring on November 30, 2000 (the "Termination Date"), unless earlier terminated as provided in Section 4. During the Term, the Executive shall at all times serve in the capacity of Vice President - Business Development of Company and shall also serve in those offices and directorships of subsidiary corporations or entities of the Parent to which he may from time to time be appointed or elected. During the Term, the Executive shall devote his best efforts on a full time basis in fulfillment of his employment hereunder, subject to the direction of the Board of Directors of the Company. The Executive may engage in commercial pursuits and in charitable and civic activities that do not interfere with the performance of his duties hereunder.

1.2 Acceptance of Employment by the Executive. The Executive hereby accepts such employment and shall render the services and perform the duties described above.

2. Compensation and Other Benefits.

2.1 Annual Salary. The Company shall pay to the Executive an annual salary at a rate of not less than \$147,000 (the "Annual Salary"), prorated for any partial calendar year, subject to increase at the sole discretion of the Board. The Annual Salary shall be payable in accordance with the payroll policies of the Company as from time to time in effect, but in no event less frequently than once each month, less such deductions as shall be required to be withheld by applicable law and regulations.

2.2 Bonuses. The Executive may receive, at the sole discretion of the Board, bonuses.

2.3 Participation in Employee Benefit Plans. The Company agrees to permit the Executive during the Term, if and to the extent eligible, to participate in any group life, hospitalization or disability insurance plan, health program, pension plan, similar benefit plan or other so-called "fringe benefits" of the Parent and its affiliated companies (collectively, "Benefits") which may be available to other comparable executives of the Parent and its affiliated companies on terms no less favorable to the Executive than the terms offered to such other executives. Notwithstanding the foregoing, to

2

the extent provided in the Agreement And Plan of Merger dated August 21, 1998 among Parent, RBF Cliffs Acquisition Corp., and Company (the "Merger Agreement"). Executive shall be covered by Company benefit plans in existence as of the date hereof until such plans are merged into the plans of Parent, and Executive shall be entitled to all benefits to be provided to Company employees pursuant to the Merger Agreement.

2.4 General Business Expenses. The Company shall pay or reimburse the Executive for all expenses reasonably and necessarily incurred by the Executive during the Term in the performance of the Executive's services under this Agreement. Such payment shall be made upon presentation of such documentation as the Company customarily requires of its senior executive employees prior to making such payments or reimbursements.

3. Proprietary Matters.

3.1 Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and that it has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others all confidential matters directly relating to the Company and its business, including without limitation, financial information, trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans, new personnel acquisition plans, technical processes, designs and design projects, inventions and research projects of the Company, its affiliates, or any entity which may hereafter become an affiliate thereof.

3.2 Property of the Company. All memoranda, notes, lists, records,

engineering drawings, technical specifications and related documents and other documents or papers (and all copies thereof) relating to the Company, including such items stored in computer memories, microfiche or by any other means, made or compiled by or on behalf of the Executive after the date hereof, or made available to the Executive after the date hereof relating to the Company, its affiliates or any entity which may hereafter become an affiliate thereof, shall be the property of the Company, and shall be delivered to the Company promptly upon the termination of the Executive's employment with the Company or at any other time upon request; provided, however, that Executive's address books, diaries and rolodex files shall be deemed to be property of the Executive.

3.3 Original Material. The Executive agrees that any inventions, discoveries, improvements, ideas, concepts or original works of authorship relating directly to the business of the Company, including without limitation computer systems, programs and manufacturing techniques, whether or not protectable by patent or copyright, that have been originated, developed or reduced to practice by the Executive alone or jointly with others during the Executive's employment with the Company shall be the property of and belong exclusively to the Company. The Executive shall promptly and fully disclose to the Company the origination or development by the Executive of any such material and shall provide the Company with any information that it may reasonably request about such material.

2

3

4. Termination.

4.1 Termination upon Death. If the Executive dies during the Term, this Employment Agreement shall terminate, except that the Executive's legal representatives shall be entitled to receive the Annual Salary and bonuses, if any, earned up to the date of the Executive's death, plus any Benefits accrued up to the date of Executive's death.

4.2 Termination By Company With Cause. The Company has the right, at any time, subject to all of the provisions hereof, exercisable by serving notice, effective on or after the date of service of such notice as specified therein, to terminate the Executive's employment under this Agreement and discharge the Executive with Cause. As used in this Section 4.2, the term "Cause" shall mean and include (i) chronic alcoholism or controlled substance abuse as determined by a doctor mutually acceptable to the Company and the Executive, (ii) an act of proven fraud or dishonesty on the part of the Executive with respect to the Company or its subsidiaries; (iii) knowing and material failure by the Executive to comply with material applicable laws and regulations relating to the business of the Company or its subsidiaries; (iv) the Executive's material and continuing failure to perform (as opposed to

unsatisfactory performance) his duties hereunder or a material breach by the Executive of this Agreement except, in each case, where such failure or breach is caused by the illness or other similar incapacity or disability of the Executive; or (v) conviction of a misdemeanor involving moral turpitude or a felony. Prior to the effectiveness of termination for Cause under subclause (i), (ii), (iii) or (iv) above, the Executive shall be given 30 days' prior notice from the Board specifically identifying the reasons which are alleged to constitute cause for any termination hereunder and an opportunity to be heard by the Board in the event Executive disputes such allegations. If Executive is terminated for Cause, the Company's obligation to the Executive shall be limited solely to the payment of unpaid Annual Salary accrued, bonuses earned, if any, and any Benefits vested up to the effective date specified in the Company's notice of termination.

4.3 Termination By Company Without Cause. The Company may terminate Executive's employment without Cause; provided, in the event of termination by the Company without Cause, the Company shall be obligated (but shall only be obligated) to Executive for the payment, at the times and upon the terms provided for herein, of the Executive's Annual Salary for the number of full months remaining in the Term of this Agreement had the Executive not been so terminated, based on the Annual Salary of the Executive in effect on the date of termination (or, if the Company has reduced the Executive's Annual Salary in breach of this Agreement, the Executive's Annual Salary before such reduction), and assuming such Annual Salary would remain in effect for the full Term together with all Benefits awarded or accrued and bonuses earned, if any, up to the date of termination.

4.4 Termination By Executive. Any termination by Executive of his employment by the Company (i) shall entitle the Company to discontinue payment of all Annual Salary, bonuses, if any, and Benefits accruing from and after the date of such termination, and (ii) shall not terminate the obligations of Executive under Section 3 or the rights of the Company under Section 3.

4.5 Suspension upon Disability. If during the Term the Executive becomes physically or mentally disabled, whether totally or partially, as evidenced by the written statement of a competent physician licensed to practice medicine in the United States who is mutually acceptable to the Company and the Executive or his closest relative if he is not then able to make such a choice, so that the Executive is unable substantially to perform his services hereunder for (i) a period of sixty days, or (ii) for shorter periods aggregating sixty days during any twelve-month period, the Company may

at any time thereafter, by written notice to the Executive, suspend the Term of the Executive's employment hereunder and discontinue payments of the Annual Salary for the duration of the disability. The Executive shall be entitled to the full compensation payable to him hereunder for periods of disability shorter than the periods specified in clauses (i) and (ii) of the sentence. Nothing contained in this Section 4.5 shall be deemed to extend the Term or to constitute a breach of this Agreement.

5. Insurance. The Company may, from time to time, apply for and take out, in its own name and at its own expense, naming itself or others as the designated beneficiary (which it may change from time to time), policies for life, health, accident, disability or other insurance upon the Executive in any amount or amounts that it may deem necessary or appropriate to protect its interest. The Executive agrees to aid the Company in procuring such insurance by submitting to medical examinations and by filling out, executing and delivering such applications and other instruments in writing as may reasonably be required by an insurance company or companies to which any application or applications for insurance may be made by or for the Company.

6. Other Provisions.

6.1 Certain Definitions. As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

(i) "affiliate" with respect to the Company means any other person controlled by or under common control with the Company but shall not include any stockholder or director of the Company, as such.

(ii) "person" means any individual, corporation, partnership, firm, joint Company, association, joint-stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

6.2 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed or sent by facsimile transmission or, if mailed, on the date of actual receipt thereof, as follows:

(i) if to the Company, to:

Cliffs Drilling Company

1200 Smith Street, Suite 300

Houston, Texas 77002

Attention: Chief Executive Officer

(ii) if to the Executive, to:

James P. Mitchen

15519 San Milo

Houston, TX 77068

Any party may change its address for notice hereunder by notice to the other party hereto.

6.3 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

6.4 Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the choice of law provisions thereof).

6.6 Assignment. This Agreement, and any rights and obligations hereunder, may not be assigned by the Executive and may be assigned by the Company only to a successor by merger or purchasers of substantially all of the assets of the Company.

6.7 Counterparts. This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.8 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

6.9 Affiliates. For purposes of this Agreement, the term "Company" shall include the direct and indirect wholly owned subsidiaries of R&B Falcon Corporation and their successors, it being understood that R&B Falcon Corporation conducts its activities primarily through subsidiaries.

5

6

Executed to be effective as of the date hereof.

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Name: Douglas E. Swanson

Title: President

/s/ JAMES P. MITCHEN

James P. Mitchen

6

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of December 1, 1998, between CLIFFS DRILLING COMPANY, a Delaware corporation (the "Company"), and Gary W. Owen (the "Executive").

R&B Falcon Corporation ("Parent") has acquired the Company, and Parent and Company desire that the Company employ the Executive and the Executive desires to remain in the employ of the Company, on the terms and conditions of this Agreement.

Accordingly, the parties agree as follows:

1. Employment Duties and Acceptance.

1.1 Employment by the Company: Duties. The Company hereby agrees to employ the Executive for a term (the "Term") commencing on December 1, 1998 and expiring on November 30, 2000 (the "Termination Date"), unless earlier terminated as provided in Section 4. During the Term, the Executive shall at all times serve in the capacity of Vice President - Engineering Services of Company and shall also serve in those offices and directorships of subsidiary corporations or entities of the Parent to which he may from time to time be appointed or elected. During the Term, the Executive shall devote his best efforts on a full time basis in fulfillment of his employment hereunder, subject to the direction of the Board of Directors of the Company. The Executive may engage in commercial pursuits and in charitable and civic activities that do not interfere with the performance of his duties hereunder.

1.2 Acceptance of Employment by the Executive. The Executive hereby accepts such employment and shall render the services and perform the duties described above.

2. Compensation and Other Benefits.

2.1 Annual Salary. The Company shall pay to the Executive an annual salary at a rate of not less than \$165,000 (the "Annual Salary"), prorated for any partial calendar year, subject to increase at the sole discretion of the Board. The Annual Salary shall be payable in accordance with the payroll policies of the Company as from time to time in effect, but in no event less frequently than once each month, less such deductions as shall be required to be withheld by applicable law and regulations.

2.2 Bonuses. The Executive may receive, at the sole discretion of the Board, bonuses.

2.3 Participation in Employee Benefit Plans. The Company agrees to permit the Executive during the Term, if and to the extent eligible, to participate in any group life, hospitalization or disability insurance plan, health program, pension plan, similar benefit plan or other so-called "fringe benefits" of the Parent and its affiliated companies (collectively, "Benefits") which may be available to other comparable executives of the Parent and its affiliated companies on terms no less favorable to the Executive than the terms offered to such other executives. Notwithstanding the foregoing, to

1

2

the extent provided in the Agreement And Plan of Merger dated August 21, 1998 among Parent, RBF Cliffs Acquisition Corp., and Company (the "Merger Agreement"). Executive shall be covered by Company benefit plans in existence as of the date hereof until such plans are merged into the plans of Parent, and Executive shall be entitled to all benefits to be provided to Company employees pursuant to the Merger Agreement.

2.4 General Business Expenses. The Company shall pay or reimburse the Executive for all expenses reasonably and necessarily incurred by the Executive during the Term in the performance of the Executive's services under this Agreement. Such payment shall be made upon presentation of such documentation as the Company customarily requires of its senior executive employees prior to making such payments or reimbursements.

3. Proprietary Matters.

3.1 Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and that it has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others all confidential matters directly relating to the Company and its business, including without limitation, financial information, trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans, new personnel acquisition plans, technical processes, designs and design projects, inventions and research projects of the Company, its affiliates, or any entity which may hereafter become an affiliate thereof.

3.2 Property of the Company. All memoranda, notes, lists, records, engineering drawings, technical specifications and related documents and other documents or papers (and all copies thereof) relating to the Company, including such items stored in computer memories, microfiche or by any other means, made or compiled by or on behalf of the Executive after the date hereof, or made available to the Executive after the date hereof relating to the Company, its

affiliates or any entity which may hereafter become an affiliate thereof, shall be the property of the Company, and shall be delivered to the Company promptly upon the termination of the Executive's employment with the Company or at any other time upon request; provided, however, that Executive's address books, diaries and rolodex files shall be deemed to be property of the Executive.

3.3 Original Material. The Executive agrees that any inventions, discoveries, improvements, ideas, concepts or original works of authorship relating directly to the business of the Company, including without limitation computer systems, programs and manufacturing techniques, whether or not protectable by patent or copyright, that have been originated, developed or reduced to practice by the Executive alone or jointly with others during the Executive's employment with the Company shall be the property of and belong exclusively to the Company. The Executive shall promptly and fully disclose to the Company the origination or development by the Executive of any such material and shall provide the Company with any information that it may reasonably request about such material.

2

3

4. Termination.

4.1 Termination upon Death. If the Executive dies during the Term, this Employment Agreement shall terminate, except that the Executive's legal representatives shall be entitled to receive the Annual Salary and bonuses, if any, earned up to the date of the Executive's death, plus any Benefits accrued up to the date of Executive's death.

4.2 Termination By Company With Cause. The Company has the right, at any time, subject to all of the provisions hereof, exercisable by serving notice, effective on or after the date of service of such notice as specified therein, to terminate the Executive's employment under this Agreement and discharge the Executive with Cause. As used in this Section 4.2, the term "Cause" shall mean and include (i) chronic alcoholism or controlled substance abuse as determined by a doctor mutually acceptable to the Company and the Executive, (ii) an act of proven fraud or dishonesty on the part of the Executive with respect to the Company or its subsidiaries; (iii) knowing and material failure by the Executive to comply with material applicable laws and regulations relating to the business of the Company or its subsidiaries; (iv) the Executive's material and continuing failure to perform (as opposed to unsatisfactory performance) his duties hereunder or a material breach by the Executive of this Agreement except, in each case, where such failure or breach is caused by the illness or other similar incapacity or disability of the Executive; or (v) conviction of a misdemeanor involving moral turpitude or a felony. Prior to the effectiveness of termination for Cause under subclause (i), (ii), (iii) or (iv) above, the Executive shall be given 30 days' prior notice from the Board specifically identifying the reasons which are alleged to constitute cause for any termination hereunder and an opportunity to be heard by

the Board in the event Executive disputes such allegations. If Executive is terminated for Cause, the Company's obligation to the Executive shall be limited solely to the payment of unpaid Annual Salary accrued, bonuses earned, if any, and any Benefits vested up to the effective date specified in the Company's notice of termination.

4.3 Termination By Company Without Cause. The Company may terminate Executive's employment without Cause; provided, in the event of termination by the Company without Cause, the Company shall be obligated (but shall only be obligated) to Executive for the payment, at the times and upon the terms provided for herein, of the Executive's Annual Salary for the number of full months remaining in the Term of this Agreement had the Executive not been so terminated, based on the Annual Salary of the Executive in effect on the date of termination (or, if the Company has reduced the Executive's Annual Salary in breach of this Agreement, the Executive's Annual Salary before such reduction), and assuming such Annual Salary would remain in effect for the full Term together with all Benefits awarded or accrued and bonuses earned, if any, up to the date of termination.

4.4 Termination By Executive. Any termination by Executive of his employment by the Company (i) shall entitle the Company to discontinue payment of all Annual Salary, bonuses, if any, and Benefits accruing from and after the date of such termination, and (ii) shall not terminate the obligations of Executive under Section 3 or the rights of the Company under Section 3.

3

4

4.5 Suspension upon Disability. If during the Term the Executive becomes physically or mentally disabled, whether totally or partially, as evidenced by the written statement of a competent physician licensed to practice medicine in the United States who is mutually acceptable to the Company and the Executive or his closest relative if he is not then able to make such a choice, so that the Executive is unable substantially to perform his services hereunder for (i) a period of sixty days, or (ii) for shorter periods aggregating sixty days during any twelve-month period, the Company may at any time thereafter, by written notice to the Executive, suspend the Term of the Executive's employment hereunder and discontinue payments of the Annual Salary for the duration of the disability. The Executive shall be entitled to the full compensation payable to him hereunder for periods of disability shorter than the periods specified in clauses (i) and (ii) of the sentence. Nothing contained in this Section 4.5 shall be deemed to extend the Term or to constitute a breach of this Agreement.

5. Insurance. The Company may, from time to time, apply for and take out, in its own name and at its own expense, naming itself or others as the designated beneficiary (which it may change from time to time), policies for life, health, accident, disability or other insurance upon the Executive in any amount or amounts that it may deem necessary or appropriate to protect its interest. The Executive agrees to aid the Company in procuring such insurance by submitting to

medical examinations and by filling out, executing and delivering such applications and other instruments in writing as may reasonably be required by an insurance company or companies to which any application or applications for insurance may be made by or for the Company.

6. Other Provisions.

6.1 Certain Definitions. As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

(i) "affiliate" with respect to the Company means any other person controlled by or under common control with the Company but shall not include any stockholder or director of the Company, as such.

(ii) "person" means any individual, corporation, partnership, firm, joint Company, association, joint-stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

6.2 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed or sent by facsimile transmission or, if mailed, on the date of actual receipt thereof, as follows:

4

5

(i) if to the Company, to:

Cliffs Drilling Company

1200 Smith Street, Suite 300

Houston, Texas 77002

Attention: Chief Executive Officer

(ii) if to the Executive, to:

Gary W. Owen

22106 Haden Park

Katy, TX 77450

Any party may change its address for notice hereunder by notice to the other

party hereto.

6.3 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

6.4 Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the choice of law provisions thereof).

6.6 Assignment. This Agreement, and any rights and obligations hereunder, may not be assigned by the Executive and may be assigned by the Company only to a successor by merger or purchasers of substantially all of the assets of the Company.

6.7 Counterparts. This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.8 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

6.9 Affiliates. For purposes of this Agreement, the term "Company" shall include the direct and indirect wholly owned subsidiaries of R&B Falcon Corporation and their successors, it being understood that R&B Falcon Corporation conducts its activities primarily through subsidiaries.

Executed to be effective as of the date hereof.

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Name: Douglas E. Swanson
Title: President

/s/ GARY W. OWEN

Gary W. Owen

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of December 1, 1998, between CLIFFS DRILLING COMPANY, a Delaware corporation (the "Company"), and Cindy B. Taylor (the "Executive").

R&B Falcon Corporation ("Parent") has acquired the Company, and Parent and Company desire that the Company employ the Executive and the Executive desires to remain in the employ of the Company, on the terms and conditions of this Agreement.

Accordingly, the parties agree as follows:

1. Employment Duties and Acceptance.

1.1 Employment by the Company: Duties. The Company hereby agrees to employ the Executive for a term (the "Term") commencing on December 1, 1998 and expiring on November 30, 2000 (the "Termination Date"), unless earlier terminated as provided in Section 4. During the Term, the Executive shall at all times serve in the capacity of Vice President - Controller of Company and shall also serve in those offices and directorships of subsidiary corporations or entities of the Parent to which he may from time to time be appointed or elected. During the Term, the Executive shall devote his best efforts on a full time basis in fulfillment of his employment hereunder, subject to the direction of the Board of Directors of the Company. The Executive may engage in commercial pursuits and in charitable and civic activities that do not interfere with the performance of his duties hereunder.

1.2 Acceptance of Employment by the Executive. The Executive hereby accepts such employment and shall render the services and perform the duties described above.

2. Compensation and Other Benefits.

2.1 Annual Salary. The Company shall pay to the Executive an annual salary at a rate of not less than \$147,000 (the "Annual Salary"), prorated for any partial calendar year, subject to increase at the sole discretion of the Board. The Annual Salary shall be payable in accordance with the payroll policies of the Company as from time to time in effect, but in no event less frequently than once each month, less such deductions as shall be required to be withheld by applicable law and regulations.

2.2 Bonuses. The Executive may receive, at the sole discretion of the Board, bonuses.

2.3 Participation in Employee Benefit Plans. The Company agrees to permit the Executive during the Term, if and to the extent eligible, to participate in any group life, hospitalization or disability insurance plan, health program, pension plan, similar benefit plan or other so-called "fringe benefits" of the Parent and its affiliated companies (collectively, "Benefits") which may be available to other comparable executives of the Parent and its affiliated companies on terms no less favorable to the Executive than the terms offered to such other executives. Notwithstanding the foregoing, to

2

the extent provided in the Agreement And Plan of Merger dated August 21, 1998 among Parent, RBF Cliffs Acquisition Corp., and Company (the "Merger Agreement"). Executive shall be covered by Company benefit plans in existence as of the date hereof until such plans are merged into the plans of Parent, and Executive shall be entitled to all benefits to be provided to Company employees pursuant to the Merger Agreement.

2.4 General Business Expenses. The Company shall pay or reimburse the Executive for all expenses reasonably and necessarily incurred by the Executive during the Term in the performance of the Executive's services under this Agreement. Such payment shall be made upon presentation of such documentation as the Company customarily requires of its senior executive employees prior to making such payments or reimbursements.

3. Proprietary Matters.

3.1 Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and that it has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others all confidential matters directly relating to the Company and its business, including without limitation, financial information, trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans, new personnel acquisition plans, technical processes, designs and design projects, inventions and research projects of the Company, its affiliates, or any entity which may hereafter become an affiliate thereof.

3.2 Property of the Company. All memoranda, notes, lists, records, engineering drawings, technical specifications and related documents and other documents or papers (and all copies thereof) relating to the Company, including such items stored in computer memories, microfiche or by any other means, made or compiled by or on behalf of the Executive after the date hereof, or made

available to the Executive after the date hereof relating to the Company, its affiliates or any entity which may hereafter become an affiliate thereof, shall be the property of the Company, and shall be delivered to the Company promptly upon the termination of the Executive's employment with the Company or at any other time upon request; provided, however, that Executive's address books, diaries and rolodex files shall be deemed to be property of the Executive.

3.3 Original Material. The Executive agrees that any inventions, discoveries, improvements, ideas, concepts or original works of authorship relating directly to the business of the Company, including without limitation computer systems, programs and manufacturing techniques, whether or not protectable by patent or copyright, that have been originated, developed or reduced to practice by the Executive alone or jointly with others during the Executive's employment with the Company shall be the property of and belong exclusively to the Company. The Executive shall promptly and fully disclose to the Company the origination or development by the Executive of any such material and shall provide the Company with any information that it may reasonably request about such material.

2

3

4. Termination.

4.1 Termination upon Death. If the Executive dies during the Term, this Employment Agreement shall terminate, except that the Executive's legal representatives shall be entitled to receive the Annual Salary and bonuses, if any, earned up to the date of the Executive's death, plus any Benefits accrued up to the date of Executive's death.

4.2 Termination By Company With Cause. The Company has the right, at any time, subject to all of the provisions hereof, exercisable by serving notice, effective on or after the date of service of such notice as specified therein, to terminate the Executive's employment under this Agreement and discharge the Executive with Cause. As used in this Section 4.2, the term "Cause" shall mean and include (i) chronic alcoholism or controlled substance abuse as determined by a doctor mutually acceptable to the Company and the Executive, (ii) an act of proven fraud or dishonesty on the part of the Executive with respect to the Company or its subsidiaries; (iii) knowing and material failure by the Executive to comply with material applicable laws and regulations relating to the business of the Company or its subsidiaries; (iv) the Executive's material and continuing failure to perform (as opposed to unsatisfactory performance) his duties hereunder or a material breach by the Executive of this Agreement except, in each case, where such failure or breach is caused by the illness or other similar incapacity or disability of the Executive; or (v) conviction of a misdemeanor involving moral turpitude or a felony. Prior to the effectiveness of termination for Cause under subclause (i), (ii), (iii) or (iv) above, the Executive shall be given 30 days' prior

notice from the Board specifically identifying the reasons which are alleged to constitute cause for any termination hereunder and an opportunity to be heard by the Board in the event Executive disputes such allegations. If Executive is terminated for Cause, the Company's obligation to the Executive shall be limited solely to the payment of unpaid Annual Salary accrued, bonuses earned, if any, and any Benefits vested up to the effective date specified in the Company's notice of termination.

4.3 Termination By Company Without Cause. The Company may terminate Executive's employment without Cause; provided, in the event of termination by the Company without Cause, the Company shall be obligated (but shall only be obligated) to Executive for the payment, at the times and upon the terms provided for herein, of the Executive's Annual Salary for the number of full months remaining in the Term of this Agreement had the Executive not been so terminated, based on the Annual Salary of the Executive in effect on the date of termination (or, if the Company has reduced the Executive's Annual Salary in breach of this Agreement, the Executive's Annual Salary before such reduction), and assuming such Annual Salary would remain in effect for the full Term together with all Benefits awarded or accrued and bonuses earned, if any, up to the date of termination.

4.4 Termination By Executive. Any termination by Executive of his employment by the Company (i) shall entitle the Company to discontinue payment of all Annual Salary, bonuses, if any, and Benefits accruing from and after the date of such termination, and (ii) shall not terminate the obligations of Executive under Section 3 or the rights of the Company under Section 3.

3

4

4.5 Suspension upon Disability. If during the Term the Executive becomes physically or mentally disabled, whether totally or partially, as evidenced by the written statement of a competent physician licensed to practice medicine in the United States who is mutually acceptable to the Company and the Executive or his closest relative if he is not then able to make such a choice, so that the Executive is unable substantially to perform his services hereunder for (i) a period of sixty days, or (ii) for shorter periods aggregating sixty days during any twelve-month period, the Company may at any time thereafter, by written notice to the Executive, suspend the Term of the Executive's employment hereunder and discontinue payments of the Annual Salary for the duration of the disability. The Executive shall be entitled to the full compensation payable to him hereunder for periods of disability shorter than the periods specified in clauses (i) and (ii) of the sentence. Nothing contained in this Section 4.5 shall be deemed to extend the Term or to constitute a breach of this Agreement.

5. Insurance. The Company may, from time to time, apply for and take out, in its own name and at its own expense, naming itself or others as the designated

beneficiary (which it may change from time to time), policies for life, health, accident, disability or other insurance upon the Executive in any amount or amounts that it may deem necessary or appropriate to protect its interest. The Executive agrees to aid the Company in procuring such insurance by submitting to medical examinations and by filling out, executing and delivering such applications and other instruments in writing as may reasonably be required by an insurance company or companies to which any application or applications for insurance may be made by or for the Company.

6. Other Provisions.

6.1 Certain Definitions. As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

(i) "affiliate" with respect to the Company means any other person controlled by or under common control with the Company but shall not include any stockholder or director of the Company, as such.

(ii) "person" means any individual, corporation, partnership, firm, joint Company, association, joint-stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

6.2 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed or sent by facsimile transmission or, if mailed, on the date of actual receipt thereof, as follows:

(i) if to the Company, to:

Cliffs Drilling Company

1200 Smith Street, Suite 300

Houston, Texas 77002

Attention: Chief Executive Officer

(ii) if to the Executive, to:

Cindy B. Taylor

2260 Sunset Oaks

West Columbia, TX 77486

Any party may change its address for notice hereunder by notice to the other party hereto.

6.3 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

6.4 Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the choice of law provisions thereof).

6.6 Assignment. This Agreement, and any rights and obligations hereunder, may not be assigned by the Executive and may be assigned by the Company only to a successor by merger or purchasers of substantially all of the assets of the Company.

6.7 Counterparts. This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.8 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

6.9 Affiliates. For purposes of this Agreement, the term "Company" shall include the direct and indirect wholly owned subsidiaries of R&B Falcon Corporation and their successors, it being understood that R&B Falcon Corporation conducts its activities primarily through subsidiaries.

Executed to be effective as of the date hereof.

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Name: Douglas E. Swanson
Title: President

/s/ CINDY B. TAYLOR

Cindy B. Taylor

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of December 1, 1998, between CLIFFS DRILLING COMPANY, a Delaware corporation (the "Company"), and Jim R. Wise (the "Executive").

R&B Falcon Corporation ("Parent") has acquired the Company, and Parent and Company desire that the Company employ the Executive and the Executive desires to remain in the employ of the Company, on the terms and conditions of this Agreement.

Accordingly, the parties agree as follows:

1. Employment Duties and Acceptance.

1.1 Employment by the Company: Duties. The Company hereby agrees to employ the Executive for a term (the "Term") commencing on December 1, 1998 and expiring on November 30, 2000 (the "Termination Date"), unless earlier terminated as provided in Section 4. During the Term, the Executive shall at all times serve in the capacity of Vice President - Domestic Drilling Operations of Company and shall also serve in those offices and directorships of subsidiary corporations or entities of the Parent to which he may from time to time be appointed or elected. During the Term, the Executive shall devote his best efforts on a full time basis in fulfillment of his employment hereunder, subject to the direction of the Board of Directors of the Company. The Executive may engage in commercial pursuits and in charitable and civic activities that do not interfere with the performance of his duties hereunder.

1.2 Acceptance of Employment by the Executive. The Executive hereby accepts such employment and shall render the services and perform the duties described above.

2. Compensation and Other Benefits.

2.1 Annual Salary. The Company shall pay to the Executive an annual salary at a rate of not less than \$184,000 (the "Annual Salary"), prorated for any partial calendar year, subject to increase at the sole discretion of the Board. The Annual Salary shall be payable in accordance with the payroll policies of the Company as from time to time in effect, but in no event less frequently than once each month, less such deductions as shall be required to be withheld by applicable law and regulations.

2.2 Bonuses. The Executive may receive, at the sole discretion of the Board, bonuses.

2.3 Participation in Employee Benefit Plans. The Company agrees to permit the Executive during the Term, if and to the extent eligible, to participate in any group life, hospitalization or disability insurance plan, health program, pension plan, similar benefit plan or other so-called "fringe benefits" of the Parent and its affiliated companies (collectively, "Benefits") which may be available to other comparable executives of the Parent and its affiliated companies on terms no less favorable to the Executive than the terms offered to such other executives. Notwithstanding the foregoing, to

2

the extent provided in the Agreement And Plan of Merger dated August 21, 1998 among Parent, RBF Cliffs Acquisition Corp., and Company (the "Merger Agreement"). Executive shall be covered by Company benefit plans in existence as of the date hereof until such plans are merged into the plans of Parent, and Executive shall be entitled to all benefits to be provided to Company employees pursuant to the Merger Agreement.

2.4 General Business Expenses. The Company shall pay or reimburse the Executive for all expenses reasonably and necessarily incurred by the Executive during the Term in the performance of the Executive's services under this Agreement. Such payment shall be made upon presentation of such documentation as the Company customarily requires of its senior executive employees prior to making such payments or reimbursements.

3. Proprietary Matters.

3.1 Confidential Information; Personal Relationships. The Executive acknowledges that the Company has a legitimate and continuing proprietary interest in the protection of its confidential information and that it has invested substantial sums and will continue to invest substantial sums to develop, maintain and protect confidential information. The Executive agrees that the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others all confidential matters directly relating to the Company and its business, including without limitation, financial information, trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans, new personnel acquisition plans, technical processes, designs and design projects, inventions and research projects of the Company, its affiliates, or any entity which may hereafter become an affiliate thereof.

3.2 Property of the Company. All memoranda, notes, lists, records, engineering drawings, technical specifications and related documents and other

documents or papers (and all copies thereof) relating to the Company, including such items stored in computer memories, microfiche or by any other means, made or compiled by or on behalf of the Executive after the date hereof, or made available to the Executive after the date hereof relating to the Company, its affiliates or any entity which may hereafter become an affiliate thereof, shall be the property of the Company, and shall be delivered to the Company promptly upon the termination of the Executive's employment with the Company or at any other time upon request; provided, however, that Executive's address books, diaries and rolodex files shall be deemed to be property of the Executive.

3.3 Original Material. The Executive agrees that any inventions, discoveries, improvements, ideas, concepts or original works of authorship relating directly to the business of the Company, including without limitation computer systems, programs and manufacturing techniques, whether or not protectable by patent or copyright, that have been originated, developed or reduced to practice by the Executive alone or jointly with others during the Executive's employment with the Company shall be the property of and belong exclusively to the Company. The Executive shall promptly and fully disclose to the Company the origination or development by the Executive of any such material and shall provide the Company with any information that it may reasonably request about such material.

2

3

4. Termination.

4.1 Termination upon Death. If the Executive dies during the Term, this Employment Agreement shall terminate, except that the Executive's legal representatives shall be entitled to receive the Annual Salary and bonuses, if any, earned up to the date of the Executive's death, plus any Benefits accrued up to the date of Executive's death.

4.2 Termination By Company With Cause. The Company has the right, at any time, subject to all of the provisions hereof, exercisable by serving notice, effective on or after the date of service of such notice as specified therein, to terminate the Executive's employment under this Agreement and discharge the Executive with Cause. As used in this Section 4.2, the term "Cause" shall mean and include (i) chronic alcoholism or controlled substance abuse as determined by a doctor mutually acceptable to the Company and the Executive, (ii) an act of proven fraud or dishonesty on the part of the Executive with respect to the Company or its subsidiaries; (iii) knowing and material failure by the Executive to comply with material applicable laws and regulations relating to the business of the Company or its subsidiaries; (iv) the Executive's material and continuing failure to perform (as opposed to unsatisfactory performance) his duties hereunder or a material breach by the Executive of this Agreement except, in each case, where such failure or breach is caused by the illness or other similar incapacity or disability of the

Executive; or (v) conviction of a misdemeanor involving moral turpitude or a felony. Prior to the effectiveness of termination for Cause under subclause (i), (ii), (iii) or (iv) above, the Executive shall be given 30 days' prior notice from the Board specifically identifying the reasons which are alleged to constitute cause for any termination hereunder and an opportunity to be heard by the Board in the event Executive disputes such allegations. If Executive is terminated for Cause, the Company's obligation to the Executive shall be limited solely to the payment of unpaid Annual Salary accrued, bonuses earned, if any, and any Benefits vested up to the effective date specified in the Company's notice of termination.

4.3 Termination By Company Without Cause. The Company may terminate Executive's employment without Cause; provided, in the event of termination by the Company without Cause, the Company shall be obligated (but shall only be obligated) to Executive for the payment, at the times and upon the terms provided for herein, of the Executive's Annual Salary for the number of full months remaining in the Term of this Agreement had the Executive not been so terminated, based on the Annual Salary of the Executive in effect on the date of termination (or, if the Company has reduced the Executive's Annual Salary in breach of this Agreement, the Executive's Annual Salary before such reduction), and assuming such Annual Salary would remain in effect for the full Term together with all Benefits awarded or accrued and bonuses earned, if any, up to the date of termination.

4.4 Termination By Executive. Any termination by Executive of his employment by the Company (i) shall entitle the Company to discontinue payment of all Annual Salary, bonuses, if any, and Benefits accruing from and after the date of such termination, and (ii) shall not terminate the obligations of Executive under Section 3 or the rights of the Company under Section 3.

4.5 Suspension upon Disability. If during the Term the Executive becomes physically or mentally disabled, whether totally or partially, as evidenced by the written statement of a competent physician licensed to practice medicine in the United States who is mutually acceptable to the Company and the Executive or his closest relative if he is not then able to make such a choice, so that the Executive is unable substantially to perform his services hereunder for (i) a period of sixty days, or (ii) for shorter periods aggregating sixty days during any twelve-month period, the Company may at any time thereafter, by written notice to the Executive, suspend the Term of the Executive's employment hereunder and discontinue payments of the Annual Salary for the duration of the disability. The Executive shall be entitled to the full compensation payable to him hereunder for periods of disability shorter than the periods specified in clauses (i) and (ii) of the sentence. Nothing contained in this Section 4.5

shall be deemed to extend the Term or to constitute a breach of this Agreement.

5. Insurance. The Company may, from time to time, apply for and take out, in its own name and at its own expense, naming itself or others as the designated beneficiary (which it may change from time to time), policies for life, health, accident, disability or other insurance upon the Executive in any amount or amounts that it may deem necessary or appropriate to protect its interest. The Executive agrees to aid the Company in procuring such insurance by submitting to medical examinations and by filling out, executing and delivering such applications and other instruments in writing as may reasonably be required by an insurance company or companies to which any application or applications for insurance may be made by or for the Company.

6. Other Provisions.

6.1 Certain Definitions. As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

(i) "affiliate" with respect to the Company means any other person controlled by or under common control with the Company but shall not include any stockholder or director of the Company, as such.

(ii) "person" means any individual, corporation, partnership, firm, joint Company, association, joint-stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

6.2 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed or sent by facsimile transmission or, if mailed, on the date of actual receipt thereof, as follows:

4

5

(i) if to the Company, to:

Cliffs Drilling Company

1200 Smith Street, Suite 300

Houston, Texas 77002

Attention: Chief Executive Officer

(ii) if to the Executive, to:

Jim R. Wise

7919 Burgoyne

Houston, TX 77063

Any party may change its address for notice hereunder by notice to the other party hereto.

6.3 Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

6.4 Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the choice of law provisions thereof).

6.6 Assignment. This Agreement, and any rights and obligations hereunder, may not be assigned by the Executive and may be assigned by the Company only to a successor by merger or purchasers of substantially all of the assets of the Company.

6.7 Counterparts. This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.8 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

6.9 Affiliates. For purposes of this Agreement, the term "Company" shall include the direct and indirect wholly owned subsidiaries of R&B Falcon Corporation and their successors, it being understood that R&B Falcon Corporation conducts its activities primarily through subsidiaries.

Executed to be effective as of the date hereof.

CLIFFS DRILLING COMPANY

By: /s/ DOUGLAS E. SWANSON

Name: Douglas E. Swanson

Title: President

/s/ JIM R. WISE

Jim R. Wise

SUBSIDIARIES OF THE REGISTRANT

1. Cliffs Drilling International, Inc., a Delaware corporation wholly owned by Cliffs Drilling Company.
2. Cliffs Oil and Gas Company, a Delaware corporation wholly owned by Cliffs Drilling Company (f/k/a Cliffs Exploration Company, f/k/a Cliffs Offshore, Inc.)
3. Cliffs Drilling Venezuela, Inc., a Delaware corporation wholly owned by Cliffs Drilling Company.
4. Cliffs Drilling de Venezuela, S.A., a Venezuelan corporation wholly owned by Cliffs Drilling Company.
5. Cliffs Drilling de Mexico, S.A. de C.V., a Mexican corporation wholly owned by Cliffs Drilling International, Inc.
6. Cliffs Drilling do Brasil Servicos de Petroleo S/C Ltda., a Brazilian corporation owned 90% by Cliffs Drilling Company and 10% by a third party as nominee for the benefit of Cliffs Drilling Company.
7. Cliffs Central Drilling International, a joint venture between Cliffs Drilling International, Inc. and Perforadora Central, S.A. de C.V., in which Cliffs Drilling International, Inc. owns a 50% interest.
8. Servicios Integrados Petroleros C.C.I., S.A., a Venezuelan joint venture company among Cliffs Drilling Company, Inelectra S.A. and Cementaciones Petroleras Venezolanas C.A., in which Cliffs Drilling Company owns a one-third (33 1/3%) interest.
9. Cliffs Neddrill Central Turnkey International, a joint venture among Cliffs Drilling International, Inc., Neddrill Turnkey Drilling B.V. and Perforadora Central, S.A. de C.V., in which Cliffs Drilling International, Inc. owns a one-third (33 1/3%) interest.
10. Cliffs Drilling Trinidad L.L.C., a Delaware limited liability company of which Cliffs Drilling Company is the single member.
11. Cliffs Drilling (Barbados) Holdings SRL, a Barbados Exempt Societies with Restricted Liability owned 99.99% by Cliffs Drilling Company and .01% by Cliffs Drilling Trinidad L.L.C.
12. Cliffs Drilling (Barbados) SRL, a regular Barbados Societies with

Restricted Liability, owned 99.99% by Cliffs Drilling (Barbados) Holdings SRL and .01% by Cliffs Drilling Trinidad L.L.C.

13. Cliffs Drilling Trinidad Offshore Limited., a Trinidad and Tobago private limited company wholly owned by Cliffs Drilling (Barbados) SRL.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-29915, 33-37162, 33-71778 and 333-27543) pertaining to the 1988 Incentive Equity Plan of Cliffs Drilling Company of our report dated February 17, 1999, with respect to the consolidated financial statements of Cliffs Drilling Company included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

/s/ ERNST & YOUNG LLP

Houston, Texas
March 25, 1999

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF OPERATIONS AND THE CONSOLIDATED BALANCE SHEETS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-START>	JAN-01-1998
<PERIOD-END>	DEC-31-1998
<CASH>	36,276
<SECURITIES>	0
<RECEIVABLES>	42,846
<ALLOWANCES>	472
<INVENTORY>	10,335
<CURRENT-ASSETS>	123,609
<PP&E>	508,739
<DEPRECIATION>	2,898
<TOTAL-ASSETS>	717,256
<CURRENT-LIABILITIES>	52,941
<BONDS>	202,935
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	0
<OTHER-SE>	404,489
<TOTAL-LIABILITY-AND-EQUITY>	717,256
<SALES>	335,824
<TOTAL-REVENUES>	335,824
<CGS>	196,918
<TOTAL-COSTS>	238,074
<OTHER-EXPENSES>	(606)
<LOSS-PROVISION>	279
<INTEREST-EXPENSE>	20,443
<INCOME-PRETAX>	77,634
<INCOME-TAX>	26,545
<INCOME-CONTINUING>	51,059
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	51,089
<EPS-PRIMARY>	0
<EPS-DILUTED>	0

</TABLE>