Seadrill Limited

Consolidated Financial Statements

For the Years ended December 31, 2008, 2007 and 2006

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Independent auditor's report

To the shareholders and Board of directors of Seadrill Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Seadrill Limited and its subsidiaries (the 'group') which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

April 30, 2009
PricewaterhouseCoopers AS

Gunnar Slettebø
State Authorized Public Accountant (Norway)

Seadrill Limited

Consolidated Statement of Operations for the years ended December 31, 2008, 2007 and 2006
(In millions of US dollar, except per share data)

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Operating revenues			
Contract revenues	1,867.8	1,318.5	942.3
Reimbursables	163.5	146.6	109.0
Other revenues	74.5	87.0	103.3
Total operating revenues	2,105.8	1,552.1	1,154.6
Gain on sale of assets	80.1	124.2	-
Operating expenses			
Vessel and rig operating expenses	1,021.6	755.4	587.8
Reimbursable expenses	156.6	139.4	103.4
Depreciation and amortization	233.2	182.9	167.6
General and administrative expenses	125.8	109.8	69.7
Total operating expenses	1,537.2	1,187.5	928.5
Operating income	648.7	488.8	226.1
Financial items			
Interest income	30.9	23.6	14.0
Interest expenses	(130.0)	(112.7)	(79.8)
Share in results from associated companies	15.6	23.2	26.6
Gain on sale of associated companies	150.5	-	-
Impairment loss on marketable securities and investments in associated companies	(615.0)	-	-
Change in fair value of derivative financial instruments	(353.3)	6.9	-
Foreign exchange gain (loss)	130.8	(52.9)	(3.6)
Other financial items	22.2	9.8	83.6
Total financial items	(748.3)	(102.1)	40.8
(Loss)/income before income taxes and minority interest	(99.6)	386.7	266.9
Income taxes	(48.3)	78.3	(22.4)
Minority interest in net income of subsidiaries	(41.7)	(13.0)	(30.4)
Gain on issuance of shares by subsidiary	25.2	50.0	0.0
Net (loss)/ income	(164.4)	502.0	214.1
Basic (loss)/earnings per share (US dollar)	(0.41)	1.28	0.61
Diluted (loss)/earnings per share (US dollar)	(0.41)	1.20	0.61

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

Seadrill Limited

Consolidated Balance Sheets as of December 31, 2008 and 2007

(In millions of US dollar)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	376.4	997.0
Restricted cash	280.7	15.9
Marketable securities	134.7	240.4
Accounts receivables, net	341.1	220.5
Other current assets	530.9	223.1
Total current assets	1,663.8	1,696.9
Non-current assets		
Investment in associated companies	240.1	176.1
Newbuildings	3,660.5	3,339.8
Drilling units	4,645.5	2,451.9
Goodwill	1,547.3	1,509.5
Other intangible assets	20.1	-
Restricted cash	345.9	-
Deferred tax assets	9.7	3.7
Equipment	83.1	61.4
Other non-current assets	88.5	53.8
Total non-current assets	10,640.7	7,596.2
Total assets	12,304.5	9,293.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	746.1	484.1
Other current liabilities	1,311.7	670.6
Total current liabilities	2,057.8	1,154.7
Non-current liabilities		
Long-term interest bearing debt	6,690.7	4,116.4
Deferred taxes	125.0	96.1
Other non-current liabilities	209.0	198.1
Total non-current liabilities	7,024.7	4,410.6
Commitments and contingencies	-	-
Minority interest	592.8	104.6
Shareholders' equity		
Paid-in capital	2,791.9	2,777.2
Accumulated other comprehensive income	0.9	152.0
Accumulated (deficit)/earnings	(163.6)	694.0
Total shareholders' equity	2,629.2	3,623.2
Total liabilities and shareholders' equity	12,304,5	9,293.1

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

Seadrill Limited

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006
(In millions of US dollar)

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Cash Flows from Operating Activities			
Net (loss)/income	(164.4)	502.0	214.1
Adjustment to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	233.2	182.9	167.6
Amortization of deferred loan charges	12.7	14.0	6.3
Amortization of unfavorable contracts	(65.3)	(87.0)	(113.6)
Impairment loss on marketable securities and investments in associated companies	615.0	-	-
Share of results from associated companies	(15.6)	(23.2)	(26.6)
Share-based compensation expense	14.9	15.1	9.6
Income attributable to minority interest	41.7	13.0	30.4
Gain on disposal of fixed assets	(80.1)	(124.2)	-
Gain on issuance of shares in subsidiary	(25.2)	(50.0)	-
Gain on disposal of associated companies	(150.5)	-	-
Unrealized loss (gain) related financial derivatives	168.8	(19.8)	(9.1)
Realized gain on disposal of other investments	(22.2)	(9.8)	(83.6)
Dividend received from associated company	-	5.4	-
Deferred income tax expense	22.6	(134.6)	22.4
Changes in working capital items:			
Trade accounts receivable	(83.0)	(26.4)	(186.6)
Trade accounts payable	(62.8)	31.6	92.3
Prepaid expenses/accrued revenue	(95.6)	8.3	(68.9)
Other, net	124.4	327.6	119.9
Net cash provided by operating activities	468.6	624.9	174.2

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

Seadrill Limited

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

(In millions of US dollar)

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Cash Flows from Investing Activities			
Additions to newbuildings	(2,591.2)	(1,568.0)	(1,159.7)
Additions to rigs and equipment	(176.3)	(169.6)	(36.1)
Sale of rigs and equipment	103.8	170.0	7.6
Investment in subsidiaries, net of cash acquired	(173.2)	(355.8)	(2,595.8)
Change in margin calls and other restricted cash	(610.7)	(15.9)	-
Investment in associated companies	(369.2)	-	(4.9)
Short term loan to related parties	(115.0)	-	-
Gain on issuance of shares in associate	25.2	50.0	-
Purchase of marketable securities	(309.9)	(141.4)	(126.8)
Disposal of associated company	221.0	83.3	-
Sale of marketable securities	148.1	49.3	322.6
Net cash used in investing activities	(3,847.4)	(1,898.1)	(3,180.3)
Cash Flows from Financing Activities			
Proceeds from long term debt	5,150.0	3,854.6	1,979.8
Proceeds from short term debt	-	92.8	98.2
Repayments of short term capital lease obligations	-	(0.1)	(11.3)
Repayments of short term debt	(593.2)	(196.1)	(48.7)
Repayments of long term debt	(1,514.5)	(2,015.6)	(593.9)
Debt fees paid	(30.1)	(21.1)	(31.9)
Contribution by minority interests	440.0	40.0	45.0
Purchase of treasury shares	(13.7)	(21.2)	-
Sale of treasury shares	8.3	21.4	-
Paid dividend	(688.1)	-	-
Proceeds from issuance of equity	-	303.9	1,724.4
Net cash provided by financing activities	2,758.8	2,058.6	3,161.6
Effect of exchange rate changes on cash and cash equivalents	(0.6)	1.2	3.1
Net increase in cash and cash equivalents	(620.6)	786.6	158.6
Cash and cash equivalents at beginning of the period	997.0	210.4	51.8
Cash and cash equivalents at the end of the period	376.4	997.0	210.4
Interest paid	(245.4)	(247.0)	(108.1)
Taxes paid	(52.0)	(13.5)	(11.6)

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

Seadrill Limited

Consolidated Statements of Comprehensive Income for the years ended December 31, 2008, 2007 and 2006

(In millions of US dollar)

	Year ended December 31, 2008	**Year ended December 31, 2007**	**Year ended December 31, 2006**
Net (loss)/income	(164.4)	502.0	214.1
Change in unrealized gain/loss on marketable securities	(61.9)	61.9	(82.4)
Change in unrealized foreign exchange differences	(28.2)	33.9	51.8
Change in actuarial (loss)/gain related to pension	(5.8)	7.1	(2.7)
Change in unrealized gain/loss on interest rate swap agreements in VIE companies	(55.2)	-	-
Comprehensive (Loss)/income	**(315.5)**	**605.0**	**180.8**

	Unrealized gain/loss on marketable securities	**Pension – unrecognized gains/losses net of tax**	**Change in unrealized foreign exchange differences**	**Change in unrealized gain/loss on interest rate swap agreements in VIE companies**	**Total**
Opening balance January 1, 2006	82.4	-	-	-	82.4
Change in unrealized gain/loss on marketable securities	(82.4)	-	-	-	(82.4)
Implementation of FASB Statement No. 158	-	(2.7)	-	-	(2.7)
Foreign exchange differences	-	-	51.8	-	51.8
Balance at December 31, 2006	**-**	**(2.7)**	**51.8**	**-**	**49.1**
Change in unrealized gain/loss on marketable securities	61.9	-	-	-	61.9
Net change in gains or losses and prior service costs	-	7.1	-	-	7.1
Foreign exchange differences	-	-	33.9	-	33.9
Balance at December 31, 2007	**61.9**	**4.4**	**85.7**	**-**	**152.0**
Change in unrealized gain/loss on marketable securities	(61.9)	-	-	-	(61.9)
Net change in gains or losses and prior service costs	-	(5.8)	-	-	(5.8)
Foreign exchange differences	-	-	(28.2)	-	(28.2)
Change in unrealized gain/loss on interest rate swap agreements in VIE companies	-	-	-	(55.2)	(55.2)
Balance at December 31, 2008	**-**	**(1.4)**	**57.5**	**(55.2)**	**0.9**

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

Seadrill Limited

Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006

(In millions of US dollar)

	Share capital	**Additional paid in capital**	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained Earnings (deficit)**	**Total share- holders' equity**
Balance at December 31, 2005	458.3	267.1	–	82.4	(7.6)	800.2
Issued shares, net of issuance costs	308.0	1,416.4	–	–	–	1,724.4
Share based compensation plans	–	–	9.6	–	–	9.6
Unrealized gain/loss on marketable securities	–	–	–	(82.4)	–	(82.4)
Foreign exchange differences, other	–	–	–	51.8	–	51.8
Implementation of FASB No. 158	–	–	–	(2.7)	–	(2.7)
Net income	–	–	–	–	214.1	214.1
Balance at December 31, 2006	**766.3**	**1,683.5**	**9.6**	**49.1**	**206.5**	**2,715.0**
Issued shares, net of issuance costs	32.0	271.9	–	–	–	303.9
Unrealized gain on marketable securities	–	–	–	61.9	–	61.9
Share based compensation plans	–	–	15.1	–	–	15.1
Net purchase/sale Treasury shares	(1.2)	–	–	–	1.4	0.2
Effect of shares issued to minority	–	–	–	–	(16.0)	(16.0)
Pension – unrecognized gain/losses	–	–	–	7.1	–	7.1
Foreign exchange differences	–	–	–	33.9	–	33.9
Net Income	–	–	–	–	502.0	502.0
Balance at December 31, 2007	**797.0**	**1,955.5**	**24.7**	**152.0**	**693.9**	**3,623.2**

Seadrill Limited

Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006
(In millions of US dollar)

Balance at December 31, 2007	**797.0**	**1,955.5**	**24.7**	**152.0**	**693.9**	**3,623.2**
Pension – unrecognized gain/losses	–	–	–	(5.8)	–	(5.8)
Reversal of unrealized gain on marketable securities	–	–	–	(61.9)	–	(61.9)
Dividend payment	–	–	–	–	(688.1)	(688.1)
Share based compensation plans	–	–	14.9	–	–	14.9
Net purchase/sale Treasury shares	(0.2)	–	–	–	(5.2)	(5.4)
Foreign exchange differences	–	–	–	(28.2)	–	(28.2)
Net Income	–	–	–	–	(164.4)	(164.4)
Transfer between categories	–	(1,955.5)	1,955.5	–	–	–
Change in unrealized gain/loss on interest rate swap agreements in VIE companies	–	–	–	(55.2)	–	(55.2)
Balance at December 31, 2008	**796.8**	–	**1,995.1**	**0.9**	**(163.6)**	**2,629.2**

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

Note 1- General information

Seadrill Limited ("Seadrill" or the "Company") is an international offshore drilling contractor providing services within drilling and well services incorporated under the laws of Bermuda. As of December 31, 2008 the Company, together with partners, had an interest in 43 offshore drilling units, including 11 units under construction. The Company has a versatile fleet of drillships, jack-ups, semi-submersible rigs and tender rigs for operations in shallow and deepwater areas as well as benign and harsh environment. In addition to owning and operating offshore mobile drilling units, Seadrill provides platform drilling, well intervention and engineering services through the separately OTC listed subsidiary company Seawell Limited ("Seawell"), a Bermuda company in which Seadrill owned 74% at December 31, 2008. Seadrill is listed in Norway on the Oslo Stock Exchange.

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

Basis of presentation

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

The accompanying consolidated financial statements present the financial position of Seadrill Limited, the consolidated subsidiaries and the group's interest in associated entities. Investments in companies in which the Company directly or indirectly holds more than 50 per cent of the voting control are consolidated in the financial statements, as well as certain variable interest entities in which the Company is deemed to be subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both.

In accordance with US GAAP, Seawell's acquisition of the Noble Corporation North Sea Platform division ("Noble"), Peak Well Solutions AS ("Peak") and TecWel AS ("TechWel") in 2008, the step-up acquisition of Eastern Drilling ASA ("Eastern Drilling") in 2007, the acquisition of Smedvig ASA ("Smedvig"), Mosvold Drilling Ltd ("Mosvold") and Eastern Drilling in 2006 have been accounted for as purchases in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations". The fair value of the assets acquired and liabilities assumed were included in the Company's consolidated financial statements beginning on the date when control was achieved. Derivative financial instruments, financial instruments that are held for trading or classified as available-for-sale and other investments in entities owned less than 20 percent where the Company does not exercise significant influence, are recognized at fair value if fair value is readily determinable.

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

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

Basis of consolidation

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

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

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

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

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

Note 2- Accounting policies

Use of estimates

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

Contract revenue

A substantial majority of the Company's revenues are derived from dayrate based drilling contracts, other service contracts and fixed price contracts. Revenues are recognized over the contract period when services are rendered at contract rates. Under some contracts, the Company is entitled to additional payments for exceeding performance targets. Such additional payments are recognized when any uncertainties are resolved or upon completion of the drilling program.

In connection with drilling contracts, the Company may receive lump sum fees for the mobilization of equipment and personnel or for capital additions and upgrades prior to commencement of drilling services. These up front fees are recognized as revenue over the contract term, excluding option periods.

In some cases, the Company may receive lump sum fees or dayrate fees from customers for demobilization upon completion of a drilling program. When realization is probable, demobilization fees are recognized as revenue over contract term, excluding option periods not exercised.

Fees received from customers under drilling contracts for capital upgrades are deferred and recognized over the contract term, excluding option periods not exercised.

Reimbursables

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

Other revenues

In a business combination there may exists favorable and unfavorable drilling contracts which are recorded at fair value at the date of acquisition when the purchase price allocation is prepared. A favorable or unfavorable drilling contract is a contract that has a dayrate which differs from prevailing rates at the time of acquisition. The net present value of such contracts is recorded as an asset or liability at the purchase date and subsequently recognized as revenue or reduction to revenue over the contract term.

Other operating items

Gain from sale of assets is classified on a separate line item.

Mobilization and demobilization expenses

Demobilization costs are costs to return a vessel or drilling rig to a safe harbor or geographic area and are expensed as incurred.

Mobilization costs incurred as part of a contract are capitalized and recognized as expense over the contract term, excluding option periods not exercised. The costs of relocating drilling units that are not under contract are expensed as incurred.

First time mobilization costs related to fuel and towing of the rig as well as personnel cost and other costs, excluding training- and indirect costs, are capitalized as part of the rig costs and depreciated over the lifetime of the unit.

Repairs, maintenance and periodic surveys

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

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

Foreign currencies

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

Transactions in foreign currencies are translated into U.S. Dollars at the rates of exchange in effect at the date of the transaction. Foreign currency assets and liabilities are translated using rates of exchange at the balance sheet date. Gains and losses on foreign currency transactions are included in the consolidated statements of operations.

Current and non-current classification

Receivables and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Otherwise, they are classified as non-current assets and liabilities.

Cash and cash equivalents

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

Restricted cash

Restricted cash consists of bank deposits which have been pledged as collateral for certain guarantees issued by a bank or minimum deposits which must be maintained in accordance with contractual arrangements. Restricted cash with maturity longer than one year are classified on a separate line as non-current assets.

Marketable securities

Marketable equity securities held by the Company are considered to be available-for-sale and, as such, are recorded at fair value with resulting unrealized gains and losses recorded as a separate component of accumulated other comprehensive income in shareholders' equity. Gains and losses on forward contracts to purchase marketable equity securities are accounted for as available-for-sale securities when they do not meet the definition of a derivative.

Receivables

Receivables, including accounts receivable, are recorded in the balance sheet at their nominal amount less an allowance for doubtful accounts. The Company establishes reserves for doubtful accounts on a case-by-case basis when it is unlikely that required payments of specific amounts will occur. In establishing these reserves, the Company considers the financial condition of the customer as well as specific circumstances such as customer disputes. Uncollectible trade accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance.

Impairment of marketable securities and equity method investees

The Company analyzes its available-for-sale securities and equity method investees for impairment during each reporting period to evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment. The Company records an impairment charge for other-than-temporary declines in fair value when the fair value is not anticipated to recover above cost within reasonably period after the measurement date, unless there are mitigating factors that indicate impairment may not be required. If an impairment charge is recorded, subsequent recoveries in fair value are not reflected in earnings until sale of the securities held as available for sale or of the equity method investee are sold.

Newbuildings

The carrying value of rigs under construction ("Newbuildings") represents the accumulated costs at the balance sheet date. Cost components include payments for yard installments and variation orders, construction supervision, equipment, spare parts, capitalized interest, costs related to first time mobilization and commissioning costs. No charge for depreciation is made until commissioning of the newbuilding has been completed and it is ready for its intended use.

In some cases, the Company may have options with shipyards to construct rigs at fixed or variable prices which require some or no additional payment upon exercise. Payments for rig purchase options are capitalized at the time when option contracts are acquired or entered into. The Company reviews the expected future cash flows, which would result from the exercise of each option contract on a contract by contract basis to determine whether the carrying value of the option is recoverable.

Capitalized interest

Interest expenses are capitalized during construction of newbuildings based on accumulated expenditures for the applicable project at the Company's current rate of borrowing. The amount of interest expense capitalized in an accounting period shall be determined by applying an interest rate ("the capitalization rate") to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period. The Company does not capitalize amounts beyond the actual interest expense incurred in the period.

If the Company's financing plans associate a specific new borrowing with a qualifying asset, the Company uses the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowings of the Company.

Drilling units

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

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

Assets are classified as held for sale when management is actively committed to a probable asset sale within one year of an asset ready for immediate sale. Cost of property and equipment sold or retired, with the related accumulated depreciation and write-downs are removed from the balance sheet, and resulting gains or losses are included in the consolidated statement of operations.

Other equipment

Other equipment is recorded at historical cost less accumulated depreciation and is depreciated over its estimated remaining useful life, which approximates is between three and five years depending on the type of asset.

Goodwill

The Company allocates the cost of acquired businesses to the identifiable tangible and intangible assets and liabilities acquired, with any remaining amount being capitalized as goodwill. Goodwill is tested for impairment at least annually at the reporting unit level, which is defined as an operating segment or a component of an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. The Company has determined that its reporting units are the same as the operating segments for the purpose of allocating goodwill and the subsequent testing of goodwill for impairment. The goodwill impairment test requires the Company to compare the fair value of its reporting units to their carrying value. In the event that the fair value is less than carrying value, the Company must perform an exercise similar to a purchase price allocation in a business combination in order to determine the amount of the impairment charge.

Other intangible assets

Other intangible assets are recorded at historical cost less accumulated amortization. The cost of these assets less estimated residual value is amortized on a straight-line basis over the estimated remaining economic useful lives. Other intangible assets include technology and customer relationships.

Impairment of long-lived assets

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

Defined benefit pension plans

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

The projected future benefit obligation is discounted to its present value, and the fair value of any plan assets is deducted. The discount rate is the market yield at the balance sheet date on government bonds in the currency and based on terms consistent with the post-employment benefit obligations. The retirement benefits are generally a function of years of employment and amount of compensation. The plans are primarily funded through payments to insurance companies. The Company records its pension costs in the period during which the services are rendered by the employees. Actuarial gains and losses are recognized in the statement of operations when the net cumulative unrecognized actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10 percent of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected remaining working lives of the employees participating in the plans. Otherwise, recognition of actuarial gains and losses is included in other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income.

Treasury shares

Treasury shares are recognized as a separate component of shareholders' equity at cost. The purchase of treasury shares reduces the Company's share capital by the nominal value of the acquired treasury shares. The amount paid in excess of the nominal value is treated as a reduction of retained earnings.

Derivatives Instruments and Hedging Activities

The Company's interest-rate swap agreements, foreign currency options and forward exchange contracts are recorded at fair value when they do not qualify as hedges for accounting purposes, as they are not designated as hedges of specific assets, liabilities or firm commitments. Consequently, changes in the fair value of interest-rate swap agreements, forward exchange and currency options contracts are recorded as a gain or loss under Other Financial Items. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is designated as a cash flow hedge. When the interest swap qualifies for hedge accounting the Company has formally designated the swap instrument as a hedge of cash flows to be paid on the underlying loan, and when the hedge is effective, the changes in the fair value of the swap is recognized in the "Accumulated other comprehensive loss" line of the Consolidated Balance Sheets. Ineffective portions of the hedges are charged to the income statement. When the hedged item affects the income statement, the gain or loss included in accumulated other comprehensive income (loss) is reported on the same line in the Consolidated Statements of Income as the hedged item.

Financial instruments such as forward contracts to purchase shares that do not qualify as derivative instruments are not recognized on the balance sheet, unless deemed impaired. Such instruments are off-balance transactions and result in only disclosures.

Income taxes

Seadrill is a Bermuda company. Currently, Seadrill is not required to pay taxes in Bermuda on ordinary income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, it will be exempt from taxation until 2016. Certain subsidiaries operate in other jurisdictions where taxes are imposed. Consequently income taxes have been recorded in these jurisdictions when appropriate.

Significant judgment is involved in determining the Group-wide provision for income taxes. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. The Group recognizes tax liabilities based on its assessment of whether its tax positions are sustainable and on estimates of taxes that will ultimately be due.

Income tax expense consists of taxes currently payable and changes in deferred tax assets and liabilities calculated according to local tax rules. Deferred tax assets and liabilities are based on temporary differences that arise between the carrying values for financial reporting purposes and the amounts used for taxation purposes of assets and liabilities and the future tax benefits of tax loss carry forwards. A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The impact of tax law changes is recognized in periods when the change is enacted or substantially enacted.

Deferred charges

Loan related costs, including debt arrangement fees, are capitalized and amortized over the term of the related loan and are included in interest expense.

Convertible debt

Convertible bond loans issued by the Company include both a loan component (host contract) and an option to convert the loan to shares (embedded derivative).

An embedded derivative, such as a conversion option, is separated from its host contract and accounted for separately if certain criteria are met (including if the contract ("the hybrid instrument") that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value, the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract and if a separate instrument with the same terms as the embedded derivative instrument would be a derivative).

If an embedded derivative instrument is separated from its host contract, the host contract shall be accounted for based on generally accepted accounting principles applicable to instruments of that type that do not contain embedded derivative instruments.

Total Return Equity Swaps

From time to time, the Company enters into total return equity swaps ("TRS") indexed to the Company's own shares, where the counterparty acquires shares in the Company and the Company carries the risk of fluctuations in the share price of the acquired shares. The fair value of each TRS is recorded as an asset or liability, with the changes in fair value recorded in the consolidated statement of operations. The Company may, from time to time, enter into TRS arrangements indexed to shares in other companies and these are accounted for in the same way.

Share-based compensation

The Company has established an employee share ownership plan under which employees, directors and officers of the Group may be allocated options to subscribe for new shares in the ultimate parent, Seadrill Limited. The compensation cost for stock options is recognized as an expense over the service period based on the fair value of the options granted.

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

Provisions

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

Segment reporting

The Company has three reportable business segments which include mobile units, tender rigs and well services. The mobile unit segment reflects the activities of the Company's drillships, semi-submersible and jack-up rigs. The tender rigs business segment includes activities of the Company tender and semi-tender units. The well services business segment includes the activities of Seawell, the Company's 74% owned subsidiary (as of December 31, 2008) which performs various services related to platform drilling, drilling facility engineering, well intervention and oilfield services.

Related parties

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

Issuance of shares by a subsidiary/associate

The Company recognizes a profit when its subsidiary or associate issues its stock to third parties at a price per share in excess of its carrying amount if such profit is realizable. If such profit is not realizable, it is recorded as an increase to additional paid in capital. If a loss is realized, the Company performs an impairment evaluation of its remaining investment.

Earnings per share

Basic earnings per share ("EPS") is calculated based on the income (loss) for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments which for the Company includes share options and convertible debt. The determination of dilutive earnings per share requires the Company to potentially make certain adjustments to net income and for the weighted average shares outstanding used to compute basic earnings per share unless anti-dilutive.

Reclassifications

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

New Accounting Pronouncements

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements" ("FAS No. 157"), which establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles ("GAAP") and expands disclosures about fair value measurements. This statement is effective for financial assets and liabilities as well as for any assets and liabilities that are carried at fair value on a recurring basis in financial statements as of the beginning of the entity's first fiscal year that begins after November 15, 2007. In November 2007, the FASB issued a one-year deferral for non-financial assets and liabilities to comply with FAS No. 157 which delayed the effective date for these items until fiscal years beginning after November 15, 2008. In 2008, we adopted those provisions of FAS 157 which were not effected by the delay which did not have a material effect on the Company's consolidated financial statements.

In February 2008 the FASB issued FSP No. FAS157-1 “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13” (“FSP FAS157-1”). FSP FAS157-1 amends FAS 157 to exclude FASB Statement No. 13 “Accounting for Leases” (“FAS 13”) and its related interpretive accounting pronouncements that address leasing transactions. The FASB decided to exclude leasing transactions covered by FAS 13 in order to allow it to more broadly consider the use of fair value measurements for these transactions as part of its project to comprehensively reconsider the accounting for leasing transactions. The Company does not expect the adoption of the remaining elements of FAS 157 and FSP FAS157-1 to have a material impact on its financial statements.

In February 2007 the FASB issued SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115” (“FAS 159”). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. FAS 159 is effective for fiscal years beginning after November 15 2007. The adoption of FAS 159 did not have a material impact on the Company’s consolidated financial statements.

In December 2007 the FASB issued SFAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No.51” (“FAS 160”). FAS 160 is intended to improve the relevance, comparability and transparency of financial information that a reporting entity provides in its consolidated financial statements with reference to a noncontrolling interest in a subsidiary. Such a noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to the parent entity. FAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company has clarified that the implementation will have classification effects, but does not expect the adoption of FAS 160 to have a material impact on its financial statements.

In December 2007 the FASB issued SFAS No. 141 (revised 2007) “Business Combinations” (“FAS 141R”). The objective of FAS 141R is to improve the relevance, representational

faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish this, FAS 141R establishes principles and requirements for how the acquirer a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain price, and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is effective for fiscal years beginning on or after December 15, 2008. FAS 141R is applied prospectively so the Company is unable to predict the future impact of adoption.

In March 2008, the FASB issued SFAS 161 “Disclosures about Derivative Instruments and Hedging Activities, an Amendment to FASB Statement No. 133” (SFAS 161) which requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is of opinion that the adoption of SFAS 161 will not have a significant effect on the Company’s consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* . FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years, requiring prospective application to intangible assets acquired after the effective date. The Company will be required to adopt the principles of FSP FAS 142-3 with respect to intangible assets acquired on or after January 1, 2009. Because FSP FAS 142-3 will effect future transactions, the Company is unable to determine the effect, if any, that the adoption of FSP FAS 142-3 will have on its consolidated financial statements.

In May 2008, the FASB also issued FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"), which requires the issuer of certain convertible debt instruments to separately account for the liability and equity components of the instrument and reflect interest expense at the entity's market rate of borrowing for non-convertible debt instruments. FSP APB 14-1 requires retrospective restatement of all periods presented with the cumulative effect of the change in accounting principle on prior periods being recognized as of the beginning of the first period presented. The adoption of FSP APB 14-1 did not have an effect on the accounting, both retrospectively and prospectively, for the Company's convertible notes.

In June 2008, the FASB ratified the consensus on Emerging Issues Task Force ("EITF") Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF 07-5"). An instrument or embedded feature that is both indexed to an entity's own stock and potentially settled in shares may be exempt, if certain other criteria are met, from mark-to-market accounting of derivative financial instruments. EITF 07-5 addresses instruments with contingent and other adjustment features that may change the exercise price or notional amount or otherwise alter the payoff at settlement. Convertible notes are outstanding that are exercisable or convertible into the Company's shares. EITF 07-5, which is effective for fiscal years beginning after December 15, 2008, is not expected to have a material effect on the Company's consolidated statement of financial position, results of operations or cash flows after adoption.

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* ("FSP FAS 140-4 and FIN 46R-8"). FSP FAS 140-4 and FIN 46R-8 require public entities to provide additional disclosures about transfers of financial assets as an amendment to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* . Additionally, FSP FAS 140-4 and FIN 46R-8 require additional disclosures about a sponsor's involvement with variable interest entities as an amendment to FASB

Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. FSP FAS 140-4 and FIN 46R-8 are effective for periods ending after December 15, 2008. The Company has adopted the principles of FSP FAS 140-4 and FIN 46R-8 and has included such additional disclosures in the notes to the consolidated financial statements for the year ended December 31, 2008.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ("FSP FAS 132R-1"), which provides additional guidance regarding required disclosures for plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132R-1 is effective for fiscal years ending after December 15, 2009. The Company will be required to adopt the principles of FSP FAS 132R-1 in the fourth quarter of 2009 and will include the additional disclosures in the notes to the consolidated financial statements for the year ending December 31, 2009.

Subsidiaries and investments included in the consolidated financial statements

Name of company	Jurisdiction of incorporation	Principal activities	Percent owned
Seadrill Limited	**Bermuda**	**Ultimate parent company**	
Seadrill Norge Holding AS	Svalbard	Holding company	100
Seadrill Norge AS	Svalbard	Holding company and owner of West Alpha, West Epsilon and West Venture	100
Seadrill Offshore AS	Norway	Drilling services contractor	100
Seadrill Management AS	Norway	Management company	100
Seadrill Deepwater Rigs Ltd	Bermuda	Owner of West Phoenix and West Eminence	100
Seadrill Deepwater Units Ltd	Bermuda	Owner of West Navigator	100
Seadrill Deepwater Drillship Ltd	Cayman Islands	Owner of West Capella and newbuild West Gemini	100
Seadrill Mobile Units (Nigeria) Ltd	Nigeria	Management company	100
Subsea Drilling IV Ltd	Cyprus	Owner of West Aquarius	100
Subsea Drilling V Inc	Liberia	Owner of West Capricorn and West Orion	100
Seadrill Polaris Ltd	Bermuda	Charterer of West Polaris from Ship Finance International Ltd	100
Seadrill Deepwater Charterer Ltd	Bermuda	Charterer of West Taurus and West Hercules from Ship Finance International Ltd	100
Seadrill Hungary Kft	Hungary	Owner of West Sirius	100
Seadrill Americas Inc	USA	Drilling services contractor and management company	100
Seadrill Servicos de Petroleo Ltda	Brazil	Management company	100
Seadrill Insurance Ltd	Bermuda	Captive	100
Seadrill Deepwater Units (S) Pte Ltd	Singapore	Management company	100
Seadrill Deepwaters Management Ltd	Bermuda	Management company	100
Atlas Drilling (S) Pte Ltd	Singapore	Owner of West Atlas and West Triton	100
Seadrill Larissa Ltd	Cyprus	Owner of West Larissa	100
Seadrill Janus Ltd	Cyprus	Owner of West Janus	100
Seadrill Jack-Ups Ltd	Bermuda	Owner of West Callisto, West Juno, West Elara and West Leda	100
Seadrill Invest Ltd	Bermuda	Holding company	100
Seadrill Invest I Ltd	Bermuda	Charterer of West Ceres from Ship Finance International Ltd	100
Seadrill Invest II Ltd	Bermuda	Charterer of West Prospero from Ship Finance International Ltd	100
Seadrill Invest III Ltd	Liberia	Owner of West Ariel	100
Seadrill Labuan Leasing Ltd	Labuan	Drilling services	100
Seadrill Management (S) Pte Ltd	Singapore	Management company	100
Seadrill Management Services Ltd	British Virgin Islands	Management company	100

Name of company	Jurisdiction of incorporation	Principal activities	Percent owned
Seadrill Tender Rig Ltd	Bermuda	Holding company and owner of West Alliance, West Berani, West Menang, West Pelaut, T-4, T-7, T-8 and T-11	100
Seadrill Tender Rigs Pte Ltd	Singapore	Owner of West Setia	100
Seadrill Asia Ltd	Hong Kong	Drilling services contractor, holding company and owner of newbuildings West Vencedor, West Berani III and T-12	100
Seadrill Offshore Singapore Ltd	Singapore	Management company	100
Petrodril Holdings Inc	Panama	Charter company	100
Seadrill Sdn. Bhd.	Brunei	Drilling services	50
Seadrill UK Ltd	UK	Holding company	100
Seawell Limited	Bermuda	Holding company	73.8
Seawell Management AS	Norway	Management company	73.8
Seawell Norge AS	Norway	Onshore administration and holding company	73.8
Seawell AS	Norway	Drilling and well services	73.8
Seawell Engineering AS	Norway	Drilling facility engineering services	73.8
Seawell Services Ltd	Hong Kong	Drilling Services	73.8
Seawell Holding UK	UK	Holding company	73.8
Seawell Ltd (UK)	UK	Drilling and engineering services	73.8
Seawell Management Services Ltd	UK	Onshore administration and management	73.8
Seawell Offshore Denmark AS	Denmark	Well services	73.8
Seawell Emerald Ltd	Bermuda	Owner of module rig	73.8
Wellbore Solutions AS	Norway	Well services	40.3
Seawell America Inc	USA	Drilling facility engineering and well services	73.8
Seawell Drilling Ltd	UK	Well services	73.8
Tecwel AS	Norway	Well services	73.8
Tecwel Inc	USA	Well services	73.8
Tecwel Telemetri AS	Norway	Well services	73.8
Tecwel Ltd	UK	Well services	73.8
Peak Well Solutions	Norway	Well services	73.8
Associated companies			
SapuraCrest Petroleum Berhad	Malaysia	Drilling services contractor	24.3
Scorpion Offshore Ltd	Bermuda	Drilling services contractor	39.6
Varia Perdana Sdn. Bhd.	Malaysia	Holding company	49
Tioman Drilling Co Sdn	Malaysia	Drilling services contractor	49
Crest Tender Rigs	Malaysia	Owner of 4 tender rigs	49
Variable interest entities (VIE)			
Rig Finance Ltd	Bermuda	Owner of West Ceres	0
Rig Finance II Ltd	Bermuda	Owner of West Prospero	0
SFL Polaris Ltd	Bermuda	Owner of West Polaris	0
SFL Deepwater Ltd	Bermuda	Owner of West Taurus and West Hercules	0

Note: Dormant companies are excluded from the overview

Note 3 – Segment information

The Company provides drilling and related services to the offshore oil and gas industry. Our reportable segments consist of the primary services we provide. Although our segments are generally influenced by the same economic factors, each represents a distinct service to the oil and gas industry. Segment results are evaluated based on operating profit. The operating segments in this report are based on numbers used for internal reporting. The accounting principles for the segments are the same as for the Company's consolidated financial statements.

The split of our organization into three segments were based on differences in management structure and reporting, economic characteristics, customer base, asset class and contract structure. As of December 31, 2008, the Company operates in the following three segments:

• Mobile Units: The Company offers services encompassing drilling, completion and maintenance of offshore wells. The drilling contracts relate to semi-submersible rigs, jack-ups and drillships.

• Tender Rigs: The Company operates self-erecting tender rigs and semi-submersible tender rigs, which are used for production drilling and well maintenance in Southeast Asia and West Africa.

• Well Services: The Company performs production drilling and maintenance activities on several fixed installations in the North Sea. The Company also provides wireline services including well maintenance, modification and abandonment.

Revenues (including gain on sale of drilling units)

(In millions of US dollar)	**2008**	**2007**	**2006**
Mobile Units	1,224.2	961.6	638.1
Tender Rigs	341.4	265.7	179.0
Well Services	620.3	449.1	337.5
Total	2,185.9	1,676.3	1,154.6

Depreciation and amortization

(In millions of US dollar)	**2008**	**2007**	**2006**
Mobile Units	173.0	135.1	127.3
Tender Rigs	41.7	38.6	33.7
Well Services	18.5	9.2	6.6
Total	233.2	182.9	167.6

Operating income (loss) - net income (loss)

(In millions of US dollar)	2008	2007	2006
Mobile Units	467.7	348.6	138.6
Tender Rigs	126.1	97.0	56.7
Well Services	54.9	43.3	30.8
Operating income	648.7	488.8	226.1
Unallocated items:			
Total financial items	(748.3)	(102.1)	40.8
Income taxes	(48.3)	78.3	(22.4)
Minority interest	(41.7)	(13.0)	(30.4)
Gain on issuance of shares by subsidiary	25.2	50.0	-
Net income (loss)	(164.4)	502.0	214.1

Total assets

(In millions of US dollar)	2008	2007
Mobile Units	10,667.0	8,059.2
Tender Rigs	1,147.1	939.6
Well Services	490.4	294.3
Total	12,304.5	9,293.1

Goodwill:

(In millions of US dollar)	2008	2007
Mobile Units	1,170.9	1,170.8
Tender Rigs	149.3	149.3
Well Services	227.1	189.4
Total	1,547.3	1,509.5

Total liabilities

(In millions of US dollar)	2008	2007
Mobile Units	7,922.2	4,645.7
Tender Rigs	723.2	640.8
Well Services	437.1	278.8
Total	9,082.5	5,565.3

Capital expenditures – fixed assets

(In millions of US dollar)	2008	2007	2006
Mobile Units	2,581.5	1,654.7	3,302.5
Tender Rigs	177.0	66.0	580.4
Well Services	53.9	18.0	36.8
Total	2,812.4	1,738.7	3,919.7

Geographic segment data

Revenues are attributed to geographical segments based on the country of operations for drilling activities, meaning the area where the revenues were generated. The following presents the Company's revenues and fixed assets by geographic area:

Revenues (including gain on sale of assets)

(In millions of US dollar)	**2008**	**2007**	**2006**
Norway	967.3	859.4	672.7
UK	172.0	73.6	80.0
Brunei	30.3	23.5	52.9
Thailand	110.1	38.5	34.3
Malaysia	249.1	136.7	36.7
Congo	87.2	66.8	55.1
Nigeria	65.4	56.7	70.7
Australia	190.5	269.7	8.6
USA	78.7	-	-
Brazil	25.1	-	-
China	25.5	-	-
Other	184.7	151.4	143.6
Total	2,185.9	1,676.3	1,154.6

Fixed assets – operating drilling units [1)]

(In millions of US dollar)	**2008**	**2007**
Norway	1,285.2	1,351.1
UK	-	-
Brunei	54.4	52.9
Thailand	319.0	51.1
Malaysia	530.1	386.5
Congo	93.6	98.8
Nigeria	158.7	165.5
Australia	296.2	152.2
USA	539.9	-
Brazil	698.6	-
China	631.4	-
Other	38.4	193.8
Total	4,645.5	2,451.9

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

Note 4 – Taxes

The income taxes consist of the follows:

(In millions of US dollar)	**2008**	**2007**	**2006**
Current tax expense:			
Bermuda	-	-	-
Foreign	69.1	56.3	13.1
Deferred tax expense:			
Bermuda	-	-	-
Foreign	28.8	(134.6)	9.3
Deferred taxes acquired during the year	(6.2)	-	-
Tax related to internal sale of assets in subsidiary amortized for group purposes	(43.4)	-	-
Total provision	48.3	(78.3)	22.4
Effective tax	(48.5%)	(20.2%)	8.4%

Norwegian tax rules allow for offset of taxable income in one entity against taxable losses or carryforward losses in another entity within the same tax jurisdiction to reduce payable taxes (group tax relief). In 2008 and 2007 the effect of such rules reduced the company's payable tax by US$14.1 and US$14.9 respectively not reflected in the current tax expense above.

Seadrill is taxable in several jurisdictions based on its rig operations. A loss in one jurisdiction may not be offset against taxable income in another jurisdiction. Thus, the Company will be paying tax within some jurisdictions even if it has a significant deficit on a consolidated level.

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

(In millions of US dollar)	**2008**	**2007**	**2006**
Income taxes at statutory rate	-	-	-
Effect of transfers to new tax jurisdictions	(43.4)	(75.0)	-
Effect of change in taxable currency	-	(21.3)	-
Effect of taxable income in various countries	91.7	18.0	22.4
Total	48.3	(78.3)	22.4

Deferred Income Taxes

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

Deferred Tax Assets:

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**	**December 31, 2006**
Pension	7.4	16.0	15.5
Tax loss carry forward	15.7	12.2	30.3
Unfavorable contracts	12.0	26.4	63.9
Other	0.0	5.6	0.2
Gross deferred tax asset	35.1	60.2	109.9

Deferred Tax Liability:

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**	**December 31, 2006**
Property, plant and equipment	74.8	135.5	246.2
Provisions	0.0	0.0	1.0
Long term maintenance	15.3	11.0	10.3
Currency exchange fluctuations	0.0	0.0	23.6
Gain from sale of fixed assets	57.4	0.5	46.5
Other	3.2	0.0	9.1
Gross deferred tax liability	150.7	147.0	336.7
Net deferred tax	115.6	86.8	226.8

Deferred taxes are classified as follows:

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**	**December 31, 2006**
Short-term deferred tax asset	0.0	5.6	0.2
Long-term deferred tax asset	9.8	3.7	109.7
Short-term deferred tax liability	0.4	0.1	11.9
Long-term deferred tax liability	125.0	96.1	324.8
Net deferred tax	115.6	86.8	226.8

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

As a result of the Company's ongoing corporate restructuring plan, in the fourth quarter of 2007, the Company established a new office and moved several Norwegian legal entities holding four rigs and one newbuilding contract to a different tax jurisdiction. The Company carried out its FIN48 analysis under the current tax regulations relating to such transfers and based on such analysis, the Company recognized a tax benefit of approximately US$75 million in 2007.

Effective from January 1, 2007 the Company introduced US dollar as the functional currency for several Norwegian subsidiaries for statutory as well as tax reporting purposes. As a result, and for consolidation purposes, deferred taxes have been recalculated and adjusted as at January 1, 2007. The effect of the adjustment was a reduction of the deferred tax liability as of December 31, 2006 by approximately US$21.3 million. The recalculation and adjustment of the tax position at January 1, 2007 as well as the tax calculation of current and deferred taxes for 2007 have been based on the Company's interpretation of current tax regulations. At December 31, 2007 the Company performed a FIN48 analysis for uncertain tax positions in the various jurisdictions in which the Company operates. Under the FIN48 analysis, the Company believes that it is more likely than not that a provision for an estimated total tax exposure up to US$190 million will not be required. Due to fluctuations in foreign currency exchange rates including the strengthening of US dollar versus

Norwegian kroner the estimated total tax exposure have been significantly reduced. At December 31, 2008 the Company has updated its FIN48 analysis relating to uncertain tax positions. As such, the Company believes that it is more likely than not that a provision for an estimated total tax exposure in the range of US$140 million will not be required.

Note 5 – Earnings per share

The components of the numerator and denominator for the calculation of basic EPS and diluted EPS for net income from continuing operations are as follows:

	Net income	Weighted average shares outstanding	Earnings per share
2006			
Earnings per share	214.1	352,133,216	0.62
Effect of dilution:			
Options		1,085,195	
Diluted earnings per share		353,218,411	0.61
2007			
Earnings per share	502.0	392,829,818	1.28
Effect of dilution:			
Convertible bond		29,007,367	
Options		1,495,764	
Diluted earnings per share		423,332,949	1.20

	Net income adjusted for minority interest	Weighted average shares outstanding	Earnings per share
2008			
Earnings per share	(164.4)	398,257,603	(0.41)
Effect of dilution:			
Convertible bond		-	
Options		-	
Diluted earnings per share		398,257,603	(0,41)

Due to a net loss in 2008, share options and the convertible bond have been excluded from the calculation of diluted earnings per share, as they would have an antidilutive effect.

Note 6 – Gain on sale of assets

Other revenues

(In millions of US dollar)	**2008**	**2007**	**2006**
Gain from sale of jack-up rig West Titania	80.1	-	-
Gain from sale of FPSO Crystal Sea	-	54.7	-
Gain from sale of FPSO Crystal Ocean	-	69.5	-
Total	80.1	124.2	-

Note 7 – Other revenues

Other revenues

(In millions of US dollar)	**2008**	**2007**	**2006**
Amortization of unfavorable contracts	65.3	87.0	100.2
Other	9.2	-	3.1
Total	74.5	87.0	103.3

The unfavorable contract values arose from the acquisition of Smedvig and Eastern Drilling and represent the net present value of the existing contracts compared to the current market rates, discounted at the weighted average cost of capital. The estimated unfavorable contract values are amortized and recognized under other revenues over the terms of the contracts, ranging from two to five years.

Note 8 – Restricted cash

Restricted cash includes:

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
CIRR deposits*	387.4	-
Margin calls related to share forward agreements	206.2	-
Cash collateral of performance guarantees issued by bank	5.9	-
Restricted deposit related to loan facility	10.0	-
Tax withholding deposits	17.1	15.9
Total restricted cash	626.6	15.9
Long-term restricted cash (related to CIRR deposits)	345.9	-
Short-term restricted cash	280.7	15.9

* Commercial Interest Reference Rate ("CIRR") is fixed interest bank deposits with a corresponding fixed interest debt structure from Exportfinans (the Norwegian export credit institution for export financing). The deposits are used to pay the installments for the CIRR debt as described in note 22, and their classification corresponds to the timing of the related debt payment.

Note 9 – Marketable securities

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

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Original cost	282.1	197.6
Unrealized holding gain/(loss)	(147.4)	42.8
Carrying value	134.7	240.4

The unrealized holding loss of US$147.4 as of December 31, 2008 was recorded as an impairment charge in 2008. The unrealized holding gain of US$42.8 as of December 31, 2007 was recorded in accumulated other comprehensive income.

Other information regarding the marketable securities:

(In millions of US dollar)	**2008**	**2007**	**2006**
Purchase	309.9	141.4	126.8
Proceeds from sale	148.1	49.3	322.6
Realized gains	22.2	9.8	83.6

Marketable securities totaling US$99.5 as of December 31, 2007 have been reclassified to associated companies as of December 31, 2008 due to additional investments increasing the ownership interests in the companies comprising the balance of US$99.5.

Note 10 – Derivative financial instruments, foreign exchange and other financial items

(In millions of US dollar)	**Year ended December 31, 2008**	**Year ended December 31, 2007**	**Year ended December 31, 2006**
Foreign exchange gain (loss)			
Interest rate SWAP contracts	(176.7)	4.8	-
Forward contracts	(116.8)	2.1	-
Total return swap ("TRS") agreements	(59.8)	-	-
Total change in fair value of derivative financial instruments	(353.3)	6.9	-
Foreign exchange gain (loss)	130.8	(52.9)	(3.6)
Other financial items			
Gains on sale of available-for-sale securities	22.2	-	-
Gains from sale of shares	-	9.8	83.6
Total other financial items	22.2	9.8	83.6

Note 11 – Impairment loss on marketable securities and investments in associated companies

The Company holds a number of shares and share purchase agreements in Pride International Inc, Scorpion Offshore Ltd and SapuraCrest Bhd. As of December 31, 2008, the Company determined that the declines in fair value were other than temporary based primarily upon its evaluation of the severity of the excess of its cost basis over the market price of the security and the prospects for recovery within 2009. As a result of this evaluation the Company recognized an impairment charge so that its adjusted cost basis as of December 31, 2008 is equal to the market price of the securities.

Impairment loss:

(In millions of US dollar)	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Marketable securities	147.4	-	-
Associated companies	309.7	-	-
Forward share contracts accounted for as available-for - -sale securities	157.9	-	-
Total impairment loss	615.0	-	-

Note 12 – Accounts receivable, net

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

(In millions of US dollar)	December 31, 2008	December 31, 2007
Accounts receivables gross	354.1	242.5
Allowance for doubtful receivables	(13.0)	(22.0)
Accounts receivables, net	341.1	220.5

The Company has a disputed receivable with Gazprom related to drilling operation in 2005 and 2006, see legal proceedings in note 33. Apart from this the Company does not have any material receivables past 90 days as of December 31, 2008.

The Company has not recognized any bad debt expense in 2008 or in 2007.

Note 13 – Other current assets

Other current assets include:

(In millions of US dollar)	December 31, 2008	December 31, 2007
Unbilled revenue	34.3	48.3
Prepaid expenses/accrued revenue	160.2	64.6
Deferred charges – short term portion	17.2	7.1
Assets held for sale *	-	51.3
Short term receivables on related parties	115.0	-
Short-term deferred tax assets	-	5.6
Receivable for margin calls **	159.9	-
Other	44.3	46.2
Total other current assets	530.9	223.1

*Assets held for sale is related to the book value of West Titania, the jack-up that was sold on May 12, 2008, see note 6.

** Receivable for margin calls relates to share forward purchase contracts. The related liability for the share forward purchase contracts is recorded in other current liabilities, see note 30.

Note 14 – Newbuildings

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Newbuildings	3,660.5	3,339.8
Total	3,660.5	3,339.8

Included in capitalized cost of newbuildings are interest expenses and loan related costs amounting to US$176.4 million for the year ended December 31, 2008, US$134.0 million for the year ended December 31, 2007 and US$63.4 million for the year ended December 31, 2006.

At the end of December 2008 the Company agreed with the PPL Shipyard and Keppel FELS to make certain amendments to the construction agreements for the four new jack-ups entered into in June 2008. In the amendments to the existing contracts the yards agreed to postpone all remaining milestone payments for the second units to be built at both yards until delivery and revise the milestone payment schedule for the first two units.

Note 15 – Drilling units

The following table discloses cost and accumulated depreciation of the Group's operating drilling units:

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**	**December 31, 2006**
Cost	5,056.2	2,667.0	2,483.6
Accumulated depreciation	(410.7)	(215.1)	(190.3)
Net book value	4,645.5	2,451.9	2,293.3
Depreciation for the period	208.5	169.8	158.2

Note 16 – Equipment and Other non-current assets

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

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**	**December 31, 2006**
Equipment:			
Cost - Office equipment, furniture and fittings	164.4	120.9	50.6
Accumulated depreciation	(81.4)	(59.5)	(12.1)
Net book value	83.1	61.4	38.5
Depreciation for the period	24.7	13.1	9.4

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Other non-current assets consists of:		
Long-term part of deferred charges	43.8	30.6
Non-current receivables	1.3	23.2
Other	43.4	0.0
Total non-current assets	88.5	53.8

Note 17 – Acquisitions

Acquisitions in 2008

Noble Corporation North Sea Platform division

On January 16, 2008, Seawell acquired all the shares in Noble Corporation North Sea Platform division. The purchase price was US$53.9 million, including working capital.

Peak Well Solutions

On March 25, 2008, Seawell acquired all the shares in Peak Well Solutions. The purchase price was US$85.0 million, including working capital.

TecWel

On May 27, 2008, Seawell acquired all the shares in TecWel. The purchase price was US$34.3 million, including working capital.

The purchase price of the acquired companies has been allocated as follows according to the preliminary purchase price allocations:

Acquisitions in 2008 (in US dollar million)	**Noble Drilling**	**Peak Well Solutions**	**TecWel**	**Total**
Assets				
Intangible assets	8.5	14.1	12.2	34.9
Goodwill	30.5	61.0	20.7	112.2
Fixed assets	-	6.3	3.7	10.0
Receivables and other current assets	17.6	14.8	5.2	37.6
Total assets	56.6	96.2	41.9	194.7
Liabilities				
Deferred tax	2.4	0.4	3.4	6.2
Payables and other current liabilities	0.3	10.8	4.2	15.3
Total liabilities	2.7	11.2	7.6	21.5
Purchase Price	53.9	85.0	34.3	173.2

Acquisition in 2007

Eastern Drilling

As at December 31, 2006 Seadrill controlled approximately 60.4 percent of the shares in Eastern Drilling. On April 18, 2007 Seadrill made a mandatory offer for all of the outstanding shares in Eastern Drilling at a price of NOK135 per share. The offer price was determined by a ruling of the Oslo Stock Exchange Appeals Committee following a disagreement between the Company and the Oslo Stock Exchange related to the use of Total Return Swap Agreements for Eastern Drilling shares.

On April 26, 2007 Seadrill acquired 4,104,450 shares representing 10.8 percent of the shares in Eastern Drilling from Lime Rock Partners III LP.

Following the mandatory offer, Seadrill received acceptances from 35.8 percent of the total number of outstanding shares representing approximately 99.7 percent of the outstanding shares and votes in Eastern Drilling. The remaining minority interest was acquired shortly thereafter based on enforcement rules in the Norwegian Companies Act and resulted in Eastern Drilling becoming a wholly owned subsidiary of Seadrill. Eastern Drilling has subsequently changed its name to Seadrill X AS.

The total cost price for the step-up acquisition in Eastern Drilling from 60.4 percent to 100 percent of the outstanding shares amounted to US$401.8 million.

Seadrill has taken legal action against the Oslo Stock Exchange and the Norwegian State with a claim of damages relating to the mandatory offer for Eastern Drilling shares. See note 33.

Wellbore Solutions AS (“Wellbore”)

Seadrill has through Seawell a controlling interest in Wellbore through a Shareholder Agreement entered into in November 2007.

The purchase price of Wellbore and Eastern Drilling has been allocated as follows:

Acquisition in 2007 *(in US dollar million)*	Wellbore	Eastern Drilling ASA	**Total**
Current assets			
Cash and cash equivalent	0.6	-	0.6
Non-currrent assets			
Other non current assets	1.1	-	1.1
Goodwill	2.9	213.6	216.5
Debt			
Settlement minority interest	-	209.8	209.8
Unfavorable Contracts	-	30.0	30.0
Deferred tax assets (on Unfavorable Contracts)	-	(8.4)	(8.4)
Purchase Price	4.6	401.8	406.4

Acquisitions in 2006

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

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

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

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

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

Through the acquisition of Smedvig, Seadrill acquired one jack-up, two semi-submersible rigs, a drillship and seven tender rigs, in addition to a newbuild tender rig which was delivered in December 2006.

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

Through the acquisition of Mosvold, Seadrill acquired two drillship-newbuilds which were delivered from yard in July 2008 and December 2008.

Eastern Drilling

On January 20, 2006, Seadrill achieved control over Smedvig which already owned 39.44% of Eastern Drilling. Seadrill acquired in the period April 6 to July 31, 2006, through eight transactions, equity total return swap related products linked to the development of Eastern Drilling share price. These transactions were organized as future contracts and were extended through rollovers. The transactions were all unwound and resulted in a financial loss of NOK60.7 million. The purpose of these transactions was to increase Seadrill's financial exposure towards Eastern Drilling without changing or in any way influencing the control over or shareholder structure of the company. The arrangements were based on standardized swap contracts and did not provide Seadrill with any rights to acquire Eastern Drilling shares or in any way influence any voting of Eastern Drilling shares. The contract was based on cash settlement of any positive or negative developments in the swap.

Following an acquisition September 8, 2006, Seadrill controlled 20,299,811 shares which constituted approximately 60.4 percent of the outstanding shares and votes in Eastern Drilling.

Through the acquisition of Eastern Drilling, Seadrill acquired two semi-submersibles-newbuilds which were delivered from yard in April 2008 and March 2008.

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

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

Acquisitions in 2006 *(in US dollar million)*	**Smedvig**	**Mosvold**	**Eastern Drilling**	**Total**
Current assets				
Cash and cash equivalents	104.8	209.2	98.8	412.8
Accounts receivables	75.1	-	-	75.1
Other current assets	56.7	2.2	1.5	60.4
Total current assets	236.6	211.4	100.3	548.3
Non-current assets				
Investment in associated companies	282.5	-	-	282.5
Other non-current assets	39.4	-	-	39.4
Newbuildings	23.6	228.6	465.1	717.3
Drilling units	1,965.3	-	-	1,965.3
Goodwill	1,256.5	-	-	1,256.5
Total non-current assets	3,567.3	228.6	465.1	4,261.0

Current liabilities				
Short-term interest bearing debt	79.8	-	-	79.8
Other current liabilities	273.9	4.3	2.3	280.5
Total current liabilities	353.7	4.3	2.3	360.3
Non-current liabilities				
Long-term interest bearing debt	726.1	80.0	57.3	863.4
Deferred taxes	178.9	-	31.4	210.3
Other non-current liabilities	269.9	-	-	269.9
Total non-current liabilities	1,174.9	80.0	88.7	1,343.6
Minority interest	-	-	159.5	159.5
Total purchase price (fair value)	**2,303.0**	**353.5**	**312.6**	**2,969.1**

Note 18 - Goodwill

Goodwill 2008

During 2008 Seadrill acquired several entities through the subsidiary Seawell as discussed in note 17. All of the entities have been consolidated into Seadrill's financial statements since their respective acquisition dates. The acquired entities assets and liabilities were measured at faire value and taken into the consolidated accounts at the acquisition date. The purchase price paid in excess of the fair value of the net identifiable assets acquired (excess purchase price) was allocated to goodwill. The goodwill is related to human capital, synergies and expected market opportunities among others. All goodwill acquired has been assigned to the operating segment Well Services.

Goodwill 2007

Following the step-up acquisition mainly in April and May 2007 as discussed in note 17, Eastern Drilling became a wholly owned subsidiary of Seadrill. The purchase price paid in excess of the fair value of the net identifiable assets acquired (excess purchase price) was allocated to goodwill and amounted to US$213.6 million. In addition, a smaller acquisition in Seawell created goodwill of US$2.9 million. The goodwill is related to human capital, synergies and expected market opportunities among others, both for the acquired companies and Seadrill as well.

The goodwill arising from the step-up acquisition in Eastern Drilling was allocated to the Mobile Units operating segment whereas the goodwill arising from the smaller Seawell acquisition was allocated to the Well Services segment.

We perform our annual test of goodwill impairment as of December 31 for each reporting segment, based on a discounted cash flow model. When testing for impairment we have used expected future cash flows using contract day rates during the contract periods. For periods after expiry of the contract periods, day rates have been forecasted based on estimates regarding future market conditions, including zero escalation of day rates. The estimated future cash flows have been calculated based on remaining asset lives. The estimated cash flows have been discounted using a weighted average cost of capital (WACC). We had no impairment of goodwill for the years ended December 31, 2008 and 2007 as the net present value of the estimated future cash flows justify the book value of goodwill. We have also performed sensitivity analysis using different scenarios regarding future cash flows, remaining asset lives and discount rates showing acceptable tolerance to changes in underlying assumptions in the impairment model before changes in assumptions would result in impairment.

Goodwill balance and changes in the carrying amount of goodwill are as follows:

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Net book balance at January 1	1,509.5	1,256.5
Goodwill acquired during the year	112.2	216.5
Impairment losses	-	-
Currency adjustments	(74.4)	36.5
Net book balance at December 31	1,547.3	1,509.5
Goodwill included in disposals during the period	-	-
Other intangible assets acquired from purchase of subsidiaries (net after accumulated depreciation)	20.1	-

Other intangible assets relate to Seawell acquisitions in 2008 and consist of identified technology and customer relationship. The remaining average amortization period as of December 31, 2008 is 92 months.

Note 19 – Operational leases

The Company has operating leases for certain premises. The largest lease agreements are related to offices in Stavanger, Singapore, Houston and Aberdeen. Rental expenses amounted to US$9.1 million for 2008 and US$8.4 million for 2007. The future minimum rental payments are as follows:

Year	(In millions of US dollar)
2009	10.9
2010	11.9
2011	12.2
2012	11.9
2013	12.3
Thereafter	60.0
Total	119.1

Note 20 – Investment in associated companies

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

	December 31, 2008	December 31, 2007
Scorpion Offshore	39.6%	-
SapuraCrest Petroleum	24.3%	-
PT Apexindo Pratama Duta Tbk (Apexindo)	-	31.7%
Varia Perdana Sdn. Bhd.	49%	49%
Tioman Drilling Co Sdn. Bhd.	49%	49%

The shares in PT Apexindo Pratama Duta Tbk were sold in the first quarter 2008, resulting in a gain of US$150.5 million.

At year-end the book value of the Company's associated companies are as follows:

(In millions of US dollar)	December 31, 2008	December 31, 2007
Scorpion Offshore	53.1	-
SapuraCrest Petroleum	62.8	-
PT Apexindo Pratama Duta Tbk	-	70.5
Varia Perdana Bhd./Tioman Drilling Co Bhd.	124.2	105.6
Total	240.1	176.1

In 2008, the Company recorded impairment charges of US$247.5 and US$62.2 related to the investments in Scorpion Offshore and SapuraCrest Petroleum, respectively, (see note 11). The book value at December 31, 2008 has been determined using the quoted market price of the Company's shares in these two companies. There are no quoted market values of Varia Perdana Sdn Bhd.

At year-end the share of recorded equity in the statutory accounts of the Company's associated companies are as follows:

(In millions of US dollar)	December 31, 2008	December 31, 2007
Scorpion Offshore (39.6%)	149.8	N/A
SapuraCrest Petroleum (24.3%)	62.4	N/A
PT Apexindo Pratama Duta Tbk (31.7 %)	N/A	68.4
Varia Perdana Bhd./Tioman Drilling Co Bhd. (49%)	95.6	69.1
Total	311.4	137.5

The deviation between the book value and the recorded equity is due to the surplus values and goodwill related to the rig fleet at the time of acquisition (Varia Perdana/Tioman Drilling), and due to uncertainty in the market related to the financing and market conditions for the jack-up fleet (Scorpion).

Note 21 – Deferred charges

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

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Debt arrangement fees	76.3	42.8
Accumulated amortization	(15.3)	(4.0)
Total book value	61.0	38.8
Less: Short-term portion	(17.2)	(8.1)
Long-term portion	43.8	30.7
Amortization for the period	12.7	14.0

Note 22 – Long-term interest bearing debt and interest expenses

As of December 31, 2008 and 2007, the Company had the following debt facilities:

Interest bearing debt overview

(all amounts are stated in USD million)	Long-term portion, December 31 2008	Short-term portion, December 31 2008	Amount outstanding, December 31 2008	Amount outstanding December 31 2007
Credit Facilities				
US$1,500 facility	1,210.7	128.6	1,339.3	1,467.9
US$185 facility	45.0	26.6	71.6	98.2
US$100 facility	83.3	8.3	91.6	100.0
US$800 facility	587.0	81.3	668.3	465.0
US$585 facility	436.3	49.6	485.9	535.4
US$100 facility- T11	84.4	12.5	96.9	-
US$1,000 facility	792.1	0.0	792.1	-
NOK 1,500 facility (Seawell)	185.3	21.4	206.7	139.2
Total Bank Loans + other	3,424.1	328.3	3,752.4	2,805.7
Ship Finance International Loans				
US$165 facility	91.3	15.4	106.7	130.3
US$170 facility	110.8	10.0	120.8	149.6
US$700 facility	618.7	69.8	688.5	-
US$1,400 facility	1,005.7	137.1	1,142.8	-
Total Ship Finance Facilities	1,826.5	232.3	2,058.8	279.9
Bonds	101.4	144.0	245.4	461.6
Convertible bond loan	1,000.0	0.0	1,000.0	1,000.0
Other non-current loans				53.2
Total non-current loans	1,101.4	144.0	1,245.4	1,514.8
Other credit facilities with corresponding restricted cash deposits:				
CIRR NOK facilities	338.7	41.5	380.2	-
Total interest bearing debt	6,690.7	746.1	7,436.8	4,600.4

Interest bearing debt repayment schedule

Year	Credit Facilities	Ship Finance Facilities	Bonds	CIRR Facilities*	Total
2009	341.8	233.0	144.0	58.0	776.8
2010	1,567.7	247.8	-	58.0	1,873.5
2011	451.1	255.2	-	58.0	764.3
2012	490.1	269.5	1,101.4	58.0	1,919.0
2013	367.7	244.5	-	58.0	670.2
2014 onwards	534.0	808.8	-	90.2	1,433.0

*) The “CIRR credit facilities” repayment schedule is included in the table, even if there is corresponding restricted cash recorded under current assets.

Seadrill Credit Facilities

The US$1,500 million term loan agreed in 2007 with a syndicate of banks matures in 2013. A balloon payment of US$600 million is due at maturity. The units West Epsilon, West Navigator, West Alpha and West Venture have been provided as security. The loan bears interest of Libor plus a grid margin of 90-135 basis points based on the Leverage Ratio for Seadrill on a consolidated basis. The grid pricing became applicable in 4Q 2008. Outstanding balance as of December 31, 2008 was US$1,339 million.

The US$185 million term loan has a five year repayment profile and matures in 2010. This facility is secured against the Jack-up rigs West Larissa and West Janus. The loan bears interest of LIBOR plus a margin of 125 basis points. Outstanding balance as of December 31, 2008 was US$72 million.

The US$100 million term loan has a tenor of five years and matures in 2010. Seadrill has pledged the Jack-up rigs West Atlas and West Triton as security. This facility bears interest of LIBOR plus a margin of 70 basis points. Outstanding balance as of December 31, 2008 was US$92 million

The Company has further a US$800 million facility for the rigs West Eminence and West Phoenix. Both rigs are pledged as security for the facility. This is a multi-tranche Term and Revolving credit facility structured as follows:

West Phoenix: Tranche A: US$175 million, Tranche B: US$125 million, Tranche C: up to US$200 million (depending on value of drilling contract).West Eminence: Tranche A: US$150 million, Tranche B: US$150 million.

The Tranches have different tenors ranging from 1 to 3 years depending on the repayment schedule. The repayment schedule vary for each Tranche and includes, repayment with a balloon at final maturity, cash sweep mechanisms and a straight line to zero repayment schedule. The Tranches have a grid pricing and bears interest of LIBOR plus a margin of 115 basis points. Outstanding balance as of December 31, 2008 was US$668 million.

Seadrill has further a US$585 million term loan that matures in 2012. The final balloon payment due at maturity is US$300 million. The tender rigs T4, T7, T8, West Berani, West Pelaut, West Menang, West Alliance, and the shares in the owning company of West Setia, are all pledged as security. The facility bears interest of LIBOR plus a margin of 70-100 basis points depending on the Leverage Ratio. Outstanding balance as of December 31, 2008 was US$486 million.

On April 9, 2008, Seadrill Tender Rig Limited signed a US$100 million term loan. The facility has a tenor of six years and matures in June, 2014. At maturity a balloon payment of US$60 million is due. The tender rig T-11 is provided as security for the facility. The interest has been fixed at 2.13% plus a margin of 90 to 100 basis points. Outstanding balance as of December 31, 2008 was US$97 million.

On May 29, 2008, the Company entered into a two-year bridge loan of US$1,000 million with a consortium of banks. The units West Sirius, West Acquarius and West Capella are pledged as security. The facility bears an interest of LIBOR plus a margin of 165 basis points. Outstanding balance as of December 31, 2008 was US$792 million.

Seawell has a multi-tranche Senior Bank Debt facility of US$214.3 million (NOK1,500 million). Total outstanding as of December 31, 2008, was US$203.6 million (NOK1,425 million). The loan bears interest of NIBOR plus a margin of 135 basis points until the latest of i) listing on a regulated stock market and ii) 12 months after signing of the Second Amendment Agreement (signed January 23, 2009). Thereafter the interest rates are NIBOR plus 95 to 155 basis points depending on the Net Interest Bearing Debt/EBITDA ratio of Seawell Limited.

- Other long term debt/ financial leasing
    - Peak Well Solutions AS US$3.5 million (NOK24.3 million)
    - TecWel AS US$0.9 million (NOK6.6 million)

Ship Finance International Loans
In 2006, Seadrill entered into a sale/leaseback agreement with Rig Finance, a subsidiary of a related party, Ship Finance International Limited ("Ship Finance") for the Jack-up rig West Ceres. Rig Finance is consolidated as a VIE by the Company and include a term loan. Outstanding balance as of December 31, 2008 was US$107 million. The loan has a tenor of six years and bears interest of LIBOR plus a margin of 115 basis points.

In 2007, Seadrill entered into another sale/leaseback agreement with a subsidiary of Ship Finance, Rig Finance II for the rig West Prospero. Rig Finance II is consolidated as a VIE by Seadrill and include a term loan. Outstanding balance as of December 31, 2008 was US$121 million. The loan has a tenor of six years and bears interest of LIBOR plus a margin of 120 basis points.

In May 2008, Seadrill entered into a sale/leaseback agreement for the drillship West Polaris with SFL West Polaris Limited (a Ship Finance subsidiary). SFL West Polaris Limited is consolidated as a Variable Interest Entity (VIE) in Seadrill's accounts. This includes a term loan for US$700 million. This loan has a five year tenor and matures in August 2013. The loan bears interest of LIBOR plus a margin of 125 basis points.

In September 2008, Seadrill agreed with SFL Deepwater Limited (a Ship Finance subsidiary) a sale/leaseback arrangement for the two semi-submersible rigs West Taurus and West Hercules. SFL Deepwater Limited is consolidated as a VIE by the Company. This includes a term loan of US$1,400 million. This loan has a five year tenor and matures in November 2013. The loan carries interest of LIBOR plus a margin of 140 basis points.

Covenants – Credit Facilities
The Company has miscellaneous financial covenants in its credit facilities. The main covenants are:

- Minimum liquidity requirement: to maintain cash & cash equivalents of no less than US$100 million on a consolidated basis for the Group.
- Interest Coverage Ratio: to maintain an EBITDA to interest expense ratio no less than 2:1, increasing in June 2009 to 2.5:1.
- Current ratio: to maintain Current Assets to Current Liabilities ratio of no less than 1:1. Current Assets is defined as book value less minimum liquidity, but including up to 20% of shares in listed companies owned 20% or more. Current Liabilities is defined as book value less short-term portion of interest bearing debt.
- Equity Ratio: to maintain Total Equity to Total Assets ratio of no less than 30%. In this respect both Equity and Total Assets are adjusted for the difference between the book value and the market value of the drilling units.
- Leverage Ratio: to maintain a ratio of Net Debt to EBITDA no greater than 5.5:1 until June 30 2009, 5:1 from July 1 to September 30, 2009, 4.5:1 thereafter. Net Debt is calculated as all interest bearing debt less cash & cash equivalents excluding minimum liquidity requirement.

Bonds
In September 2008 Seadrill raised US$78.6 million (NOK550 million) through a Commercial Paper issue. The proceeds were used to repurchase US$78.6 million (NOK550 million) of the US$ 142.9 million (NOK1,000 million) bond that matured January 23, 2009. The Commercial Paper bears a quarterly interest of NIBOR plus a margin of 250 basis points.

The US$ 142.9 million (NOK1,000 million) bond of which US$64.3 (NOK450 million) was outstanding as of December 31, 2008, matured in January 2009. This bond bore a quarterly interest of NIBOR plus a margin of 125 basis points.

Seadrill has two other bonds outstanding. Firstly, a US$71.4 million (NOK500 million) bond that was issued in 2005. This bond has a tenor of seven years and matures in September 2012. This bond bears a quarterly interest of NIBOR plus a margin of 160 basis points.

Secondly, a US$30 million bond which has a seven year tenor and matures in February 2012. This bond bears a quarterly interest of LIBOR plus a margin of 203 basis points.

	Maturity	Interest
US$79 million (MNOK550) CP	September 30, 2009	3M NIBOR + 2.50 percent
US$71 million (MNOK500)	September 28, 2012	3M NIBOR + 1.60 percent
US$30 million	February 14, 2012	3M LIBOR + 2.03 percent
US$65 million (MNOK450)	January 23, 2009	3M NIBOR + 1.25 percent

The Company's bonds contain the following main covenants:

- To maintain an adjusted shareholders' equity equal to or greater than US$1,500 million.
- To maintain an adjusted shareholders' equity equivalent to minimum 30% - 40% of total liabilities.

The term "adjusted shareholders' equity" means book equity adjusted with the difference between market value and book value of the rigs and offshore vessels.

Convertible Bond Loan
The convertible bond bears a fixed coupon rate of 3.625% per annum, payable semi-annually in arrears and was issued at 100% of par (US$100,000). The bonds can be converted into Seadrill Limited shares by the holders at any time up to 10 banking days prior to November 8, 2012. The conversion price was at the time of issuance US$34.474 per share, reflecting a 45% conversion premium to the share price. Dividend distributions have reduced the conversion price to US$32.33.

Seadrill has a right to redeem the bonds at par plus accrued interest at any time following November 29, 2010, if the Company's share price is greater than 130% of the prevailing exchange price on at least 20 trading days during a period of 30 consecutive days, or, at any time provided that 90% or more of the principal issued has been redeemed or converted to shares. The convertible bonds are tradable, and as of March 24, 2009 it was tradable at 50.63 percent of nominal value. If the bonds were converted into shares it would imply that 30,931,023 new shares would be issued.

The Company's convertible bond loan contains the following main covenants:

- Equity Ratio: to maintain Total Equity to Total Assets ratio of no less than 30%. In this respect both Equity and Total Assets are adjusted for the difference between the book value and the market value of the drilling units.

Commercial Interest Reference Rate (CIRR) Credit Facilities
In April 2008, the Company entered into a CIRR term loan for NOK850 million with Eksportfinans ASA. The loan has a tenor of eight years and matures in 2016. A cash deposit equivalent of the outstanding loan amount is pledged as collateral and has been classified as restricted cash in the balance sheet. Collateral is reduced in accordance with the repayment schedule of the loan. The

loan has no effect on Net Interest Bearing Debt. The facility and cash deposit bears a fixed interest expense of 4.56% per annum.

In June, 2008, the Company entered into a CIRR loan for NOK904 million with Eksportfinans ASA. The loan has a tenor of eight years and matures in 2016. A cash deposit equivalent of the outstanding loan amount is pledged as collateral. Collateral is reduced in accordance with the repayment schedule for the loan. The facility and cash deposit bears a fixed interest rate of 4.15% per annum.

In July, 2008, the Company entered into a CIRR loan for NOK1,011 million with Eksportfinans ASA. The loan has a tenor of twelve years and matures in 2020. A cash deposit equivalent of the outstanding loan amount is pledged as collateral. Collateral is reduced in accordance with the repayment schedule for the loan. The facility and cash deposit bears a fixed interest rate of 4.15% per annum.

As at December 31, 2008, the Company was in compliance with all covenants embedded in the loan agreements.

Weighted average interest rate
The average weighted interest rate for the Company was 5.1 percent and 6.9 percent for the years ended December 31, 2008 and 2007, respectively.

Note 23 – Share capital

The Company was incorporated on May 10, 2005 and 6,000 ordinary shares of par value US$2.00 each were issued. Since incorporation the number of shares issued has increased from 6,000 to 399,133,216 of par value US$2.00 each at December 31, 2008. No shares were issued in 2008.

The Company's authorized share capital as of December 31, 2008 and 2007 was 800,000,000 shares of par value US$2.00 each.

A share repurchase program was approved by the Board in 2007 giving the Company the authorization to buy back shares. Shares bought back under the authorization may be cancelled or held as treasury shares. The treasury shares may be purchased to meet the Company's obligations related to the share incentive program. As of December 31, 2008 the Company has 717,800 treasury shares. Outstanding shares as of December 31, 2008 were 398,415,416.

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

In September 2008, the shareholders in the annual general meeting approved the reduction of the share premium account from US $1,955.4 to nil and the transfer of the balance of US$1,955.4 to the Company's Contributed Surplus

During 2008, the Company paid a total dividend of US$688.1 million, representing US$1.75 per share.

Changes in the number of shares	Number of shares	Share Capital
Balance at May 10, 2005	6,000	0.0
New share issuance in 2005	229,127,216	458.3
Issued shares at December 31, 2005	229,133,216	458.3
New share issuance in 2006	154,000,000	308.0
Issued shares at December 31, 2006	383,133,216	766.3
New share issuance in 2007	16,000,000	32
Issued shares at December 31, 2007	399,133,216	798.3
New share issuance in 2008	-	-
Issued shares at December 31, 2008	**399,133,216**	**798.3**
Treasury shares:		
Balance at May 10, 2005	-	-
Balance at December 31, 2005	-	-
Balance at December 31, 2006	-	-
Treasury shares bought 2007	950,000	1.9
Treasury shares sold 2007	341,300	0.7
Balance at December 31,2007	608,700	1.2
Treasury shares bought 2008	600,000	1.2
Treasury shares sold 2008	490,900	1.0
Balance at December 31,2008	717,800	1.4
Outstanding shares at December 31, 2008	398,415,416	796.8

Note 24 – Share option plans

The Company's board of directors has approved the Seadrill Limited Share Option Scheme (the "Seadrill Scheme"). The Seadrill Scheme permits the board of directors, at its discretion, to grant options to acquire shares in the Company to employees and directors of the Company or its subsidiaries. The options are not transferable. The subscription price is at the discretion of the board of directors provided the subscription price is never reduced below the par value of the share. The subscription price for certain of options granted under the scheme will be reduced by the amount of all dividends declared by the Company in the period from the date of grant until the date the option is exercised. Options granted under the scheme will vest at a date determined by the board at the date of the grant. The options granted under the plan to date vest over a period of one to three and a half years. There is no maximum number of shares authorised for awards of equity share options and authorised, unissued or treasury shares of the Company may be used to satisfy exercised options.

In 2008, the Board of Seadrill has allocated 2,658,000 options to senior management of the Company.

Options issued under the 2006 Programs may be exercised up to May-September 2011; the ones issued under the 2007 Programs may be exercised up to September 2011, while the options issued under the 2008 Program may be exercised up to January 2014. Options issued under the 2006 and 2007 Programs may be exercised by one third each year, first time one year after they were granted. Options issued under the 2008 Program could be exercised first time 18 months after they have been granted. This means that as of December 31, 2008, two thirds of the options granted under the 2006 Programs and one third of the options granted under the 2007 Program were exercisable. Considering the options that have been cancelled or already exercised, the number of options exercisable at 2008 year end was 1 839 133.

The exercise price for options granted in 2006 is in the range of US$2.23 to NOK102 per share, while options issued under the 2007 Programs have an exercise price in the range of NOK98.63 to NOK129.63 per share. The exercise price for options granted in 2008 is between NOK132.12 to NOK163.00 per share.

In addition, Seawell in 2007 introduced an option scheme to senior management and directors of the Company which provide the optionholder with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment. Options issued under the 2007 Program may be exercised up to October 5, 2012. The exercise price is initially NOK13.75 per share increasing by 6 percent per anniversary. Options issued under the 2007 Program may be exercised by one third per year, first time on January 1, 2009.

As at December 31, 2008, the Board of Seawell could grant further 903,000 options under the 2007 authorization, but no option was granted during 2008.

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

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

Accounting for share-based compensation

The fair value of the share options is recognized as personnel expenses. During 2008, US$15.1 million has been expensed in the income statement. There were no effects on taxes in the financial statements. However if the option is exercised a tax benefit will be recorded as the gain is recorded as deductible for tax purposes. If the Company has to expense social security taxes related to the benefit of options exercised such expenses will be recorded at the exercise date.

Share option plans in Seadrill:

	Weighted average exercise price per option	Number of shares
Outstanding at January 1, 2006	-	-
Options granted	12.17	3,956,667
Options forfeited	14.07	(40,000)
Outstanding at December 31, 2006	12.17	3,916,667
Outstanding at January 1, 2007	12.17	3,916,667
Options granted	18.17	700,000
Options forfeited	14.07	(100,000)
Options exercised	11.47	(427,967)
Outstanding at December 31, 2007	13.30	4,088,700
Outstanding at January 1, 2008	12.17	4,088,700
Options granted	25.38	2,658,000
Options forfeited	18.59	(277,700)
Options exercised	14.86	(490,900)
Outstanding at December 31, 2008	18.11	5,978,100

As of December 31, 2008, total unrecognized compensation costs related to all unvested share-based awards totaled US$19.4 million, which is expected to be recognized as expenses in 2009, 2010 and 2011 by US$12.4 million, US$5.2 million and US$1.8 million, respectively.

The Company has used the Black & Scholes pricing model in its fair value estimation. The following table summarizes the information of share options outstanding as of December 31, 2008:

Option program	Granted options in 2008	Aggregated numbers of outstanding options as of December 31, 2008	Aggregated numbers of outstanding options as of December 31, 2007
Number of shares	2,658,000	5,978,100	4,088,700
Weighted average exercise price	25.38	18.11	13.30
Remaining contractual life (months)	60	38	54
Weighted average fair value at grant date	12.59	10.49	7.74
Pricing model assumptions:			
Risk free interest rate (percent)	5.37	4.69	4.18
Expected life (years)	6	5	4
Volatility	38%	35%	33%
Expected retirement of option holders	10 %	5%	2%
Expected dividend	0	0	0

During 2008 the total intrinsic value at the day of exercise amounted to US$ 5.1 million.

Overview of fully vested option as at December 31, 2008:

Outstanding number of fully vested option	Weighted average exercise price	Aggregated intrinsic value	Weighted average remaining term of options
1,839,133	USD per option 11.90	US$ 2.5 million	19 months

Share option plan in Seawell:

	Weighted average exercise price per option	Number of shares
Outstanding at January 1, 2008	2.35	4,097,000
Options granted		0
Outstanding at December 31, 2008	2.35	4,097,000

As of December 31, 2008, total unrecognized compensation costs related to all unvested share-based awards totaled US$0.8 million, which is expected to be recognized as expenses in 2009 and 2010 by US$0.6 million and US$0.2 million, respectively.

Seawell has used the Black & Scholes pricing model in its fair value estimation. The following table summarizes the information of share options outstanding as of December 31, 2008:

Option program	2007 Program
Number of shares	4,097,000
Exercise price	2.35
Remaining contractual life (months)	57
Fair value at grant date	0.77
Pricing model assumptions:	
Risk free interest rate (percent)	5.55
Expected life (years)	5
Volatility	37 %
Expected retirement of option holders	10 %
Expected dividend	0

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

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

Note 25 - Pension benefits

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

Effect of SFAS No. 158 on the consolidated balance sheet

(in US dollar million)	**2008**	**2007**
Non-current liabilities	(1.7)	6.1
Deferred tax	0.5	(1.7)
Shareholders equity	(1.3)	4.4

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

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

Annual pension cost

(in US dollar million)	**2008**	**2007**	**2006**
Benefits earned during the year	19.3	20.4	14.5
Interest cost on prior years' benefit obligation	7.7	6.3	4.7
Gross pension cost for the year	27.0	26.7	19.2
Expected return on plan assets	(6.0)	(4.9)	(3.6)
Administration charges	0.4	0.2	0.2
Net pension cost for the year	21.4	22.0	15.8
Social security cost	3.0	3.1	2.3
Amortization of actuarial gains/losses	(0.7)	(0.1)	(0.1)
Amortization of prior service cost	-	-	-
Amortization of net transition assets	-	0.1	-
Total net pension cost	23.7	25.1	18.0

The funded status of the defined benefit plan

(in US dollar million)	**December 31, 2008**	**December 31, 2007**
Projected benefit obligations	141.8	158.3
Plan assets at market value	(92.9)	(108.1)
Accrued pension liability exclusive social security	48.9	50.2
Social security related to pension obligations	6.9	7.2
Accrued pension liabilities	55.8	57.4

Change in benefit obligations

(in US dollar million)	**2008**	**2007**
Benefit obligations at beginning of year	158.3	124.9
Interest cost	7.7	6.3
Current service cost	19.3	20.4
Benefits paid	(1.2)	(1.1)
Change in unrecognized actuarial gain	(1.9)	(13.5)
Foreign currency translations	(40.4)	21.3
Benefit obligations at end of year	141.8	158.3

Change in pension plan assets

(in US dollar million)	**2008**	**2007**
Fair value of plan assets at beginning of year	108.1	71.1
Estimated return	6.0	4.9
Contribution by employer	10.3	21.3
Administration charges	(0.4)	(0.2)
Benefits paid	(1.0)	(0.9)
Change in unrecognized actuarial loss	(3.3)	-
Foreign currency translations	(26.8)	11.9
Fair value of plan assets at end of year	92.9	108.1

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

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

Assumptions used in calculation of pension obligations	**2008**	**2007**	**2006**
Rate of compensation increase at the end of year	4.50%	4.50%	4.30%
Discount rate at the end of year	5.80%	5.30%	4.70%
Prescribed pension index factor	2.50%	2.75%	2.50%
Expected return on plan assets for the year	6.30%	5.75%	5.80%
Turnover	4.00%	4.00%	4.00%
Expected increases in Social Security Base	4.25%	4.25%	3.50%
Expected annual early retirement from age 60/62:			
Offshore personnel fixed installations	30.0%	30.0%	30.0%
Offshore personnel Mobile units and onshore employees	50.0%	50.0%	50.0%

The weighted-average asset allocation of funds related to the Company's defined benefit plan at December 31, 2008 was as follows:

Pension benefit plan assets	**2008**	**2007**
Equity securities	3.8%	19.4%
Debt securities	58.7%	37.9%
Real estate	16.8%	18.5%
Money market	14.0%	17.3%
Other	6.7%	6.9%
Total	100.0%	100.0%

The investment policies and strategies for the pension benefit plan funds do not use target allocations for the individual asset categories. The investment objectives are to maximize returns subject to specific risk management policies. The Company addresses diversification by the use of domestic and international fixed income securities and domestic and international equity securities. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. The estimated yearly return on pension assets was 2.2 percent in 2008 and 7.3 percent in 2007.

Cash flows - Benefits expected to be paid

The table below shows the Company's expected annual pension plan contributions under defined benefit plans for the years 2009-2018. The expected payments are based on the assumptions used to measure the Company's obligations at December 31, 2008 and include estimated future employee services.

(in US dollar million)	**2008**
2009	16.6
2010	18.0
2011	19.4
2012	20.9
2013	22.4
2014-2018	134.5
Total payments expected during the next 10 years	231.8

Note 26 – Related party transactions

Hemen Holding Limited ("Hemen") and Farahead Holdings Limited ("Farahead") are ultimately controlled by Mr. John Fredriksen, a director and chairman of the Company. At December 31, 2008 Mr. Fredriksen indirectly controlled approximately 33.32% of Seadrill through Hemen and Farahead, excluding total return SWAP agreements.

Ship Finance is indirectly controlled by Mr. John Fredriksen. Seadrill has entered into several sale and lease back contracts with Ship Finance. The rigs will still be consolidated in the financial statement of the Company as it will be recorded as a Variable Interest Entity (VIE) see note 34.

In November 2008, the Company granted Ship Finance an unsecured credit facility of US$115 million with the following repayment schedule:

Date	Amount (in US dollar million)
March 10, 2009	25.0
September 30, 2009	25.0
December 31, 2009	65.0
Total	115.0

The loan is classified as other current assets in the balance sheet. Interest payable has been agreed based upon arm-length principles and is paid monthly. Accumulated interests at year-end amounted to US$2.1 million where as US$0.9 were unpaid as of December 31, 2008.

Frontline Management (Bermuda) Ltd ("Frontline") and Golden Ocean Group Limited ("Golden Ocean") are indirectly controlled by Mr. John Fredriksen, a director and chairman of the Company. Frontline has charged the Company a fee of US$0.2 million and US$0.1 million for providing management support and administrative services for the years 2008 and 2007, respectively.

Aktiv Kapital ASA is ultimately controlled by Mr. John Fredriksen. At year end 2007 the Company had recorded a provision of US$7.3 million payable to Aktiv Kapital ASA. This was settled in the first quarter 2008.

Note 27 – Minority interest

The Company records minority interest which reflects the portion of the earnings of majority-owned entities which are applicable to the minority interest or variable interest entity (VIE) partners.

As at December 31, 2008, most of the minority interest relates to the equity in the Ship Finance subsidiaries that are recognized as VIEs. As described in note 34 the Company has made several sale and leaseback arrangements where the Company has concluded that Seadrill is the primary beneficiary. The equity in the Ship Finance VIE companies is presented as minority interests. The Other Comprehensive Income in the Ship Finance VIE companies is not included in minority interests.

Seadrill has a 73.79 percent holding in Seawell

Summary of changes in minority interests:

(in US dollar million)	Eastern Drilling	Seawell	Ship Finance	Total
December 31, 2006	162.1	-	49.9	212.0
Changes in 2007	(162.1)	1.2	40.5	(120.4)
2007 results	-	1.2	11.8	13.0
December 31, 2007	-	2.4	102.2	104.6
Changes in 2008	-	6.5	440.0	446.5
2008 results	-	5.1	36.6	41.7
December 31, 2008	-	14.0	578.8	592.8

Note 28 – Financial instruments, risk management and insurance coverage

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

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

Notional amounts and credit exposure

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

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

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

Foreign currency risk management

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

The Company's foreign currency risk arises from:

- The measurement of debt and other monetary assets and liabilities denominated in foreign currencies revaluated to US dollar with the resulting gain or loss recorded as Other financial items.
- Foreign currency forward contracts which are recorded as Other financial items.
- The impact of fluctuations in exchange rates on the reported amounts of the Company's revenues and expenses which are contracted in foreign currencies.
- The Company's foreign subsidiaries which is translated to US dollar and where the translation adjustments is recorded as a component to shareholders' equity.

The Company uses foreign currency forward contracts to manage its exposure to foreign currency risk on certain assets, liabilities and future anticipated transactions. Such derivative contracts do not qualify for hedge accounting treatment and are recorded in the balance sheet under receivables if the forward contracts have a net positive fair value, and under other short-term liabilities if the forward contracts have a net negative fair value. As of December 31, 2008, the Company had forward contracts to sell approximately US$474.0 million at exchange rates ranging from NOK/US$5.69 to NOK/US$7.05 between January 23, 2009 and September 28, 2012 and from SGD/US$1.43 to SGD/US$1.47

	December 31, 2008		**December 31, 2007**	
(In millions of US dollar)	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Currency forward contracts				
Receivables / (Short-term liabilities)	474	(21.3)	388	17

Interest rate risk management

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

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

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

	December 31, 2008		December 31, 2007	
(In millions of US dollar)	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Interest rate swap agreements				
Receivables / (Short-term liabilities)	1,784	(146.4)	103	3

The extent of the utilization of financial instruments is determined by reference to the Company's net debt exposure and the Company's views regarding future interest rates. At December 31, 2008, the Company had outstanding interest rate swap agreements representing approximately 28 percent of the Company's US dollar interest bearing debt. This implies that the Company has a fixed interest rate for this portion of the debt. However, these agreements do not qualify for hedge accounting, and accordingly the changes in the fair values of the swap agreements are recorded as Other financial items. The Company has the following interest rate swap agreements as of December 31, 2008:

Notional amount	Receive rate	Pay rate	Length of contract
(In US$ million)			
50	3 month LIBOR	4.6300%	16 May 05 - 15 May 15
34 (NOK 220 mill)	3 month NIBOR+1.2%	3 month LIBOR+1.3%	28 Sep 05 – 28 Sep 12
150	6 month LIBOR	3.8763%	30 Apr 08 – 30 Sep 16
350	3 month LIBOR	4.1030%	03 Jun 08 - 03 Jun 13
300	3 month LIBOR	4.1450%	03 Jun 08 - 03 Jun 13
350	3 month LIBOR	4.4600%	03 Sep 08 - 03 Sep 13
250	3 month LIBOR	3.6400%	03 Dec 08 - 03 Dec 11
300	3 month LIBOR	3.1600%	03 Dec 08 - 03 Dec 18

Interest rate hedge accounting
In connection with loan facilities obtained to finance the drillship West Polaris and the semi-submersible drilling rig West Taurus, subsidiaries of Ship Finance consolidated by Seadrill as VIE's have executed interest rate cash flow hedges in the form of interest rate swaps in order to mitigate the Company's exposure to variability in cash flows for the future interest payments on such borrowings. The Company has designated the LIBOR element of the floating rate interest on the loans as the hedged item. Below is an overview of notional amounts, average fixed interest rate paid and length of contacts.

Notional amount	Receive rate	Pay rate	Length of contract
(In US$ million)			
700 (West Polaris)	1 month LIBOR	3.8945%	11 Jul 08 - 11 Oct 12
700 (West Taurus)	1 month LIBOR	2.1900%	15 Dec 08 - 14 Aug 13

During the year ended December 31, 2008 the Company deferred losses of U$49 million into accumulated other comprehensive loss classified as minority interest for consolidation purposes due to its VIE status and ownership by Ship Finance. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings. We did not recognize any gain or loss due to hedge ineffectiveness in our consolidated financial statements during the years ended December 31, 2008, 2007 and 2006 related to derivative financial instruments.

Concentration of credit risk

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

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

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

Customer	**2008**	**2007**
StatoilHydro	31.9%	33.2%
Shell	6.5%	12.5%
Customer <10%	61.6%	54.3%
Total	100.0%	100.0%

Retained Risk

a) Physical Damage Insurance

Seadrill retains the risk, through self-insurance, for the deductible related to physical damage insurance coverage on the Company's rig fleet. Such self-insured deductible is currently maximized to US$2 million per occurrence, and is only applicable for Hull and Machinery Insurance (marine risks). In the opinion of management, adequate accruals have been made based on known and estimated losses related to such exposures.

b) Loss of Hire Insurance

The Company purchases insurance cover for loss of hire on the rig-fleet following extensive downtime caused by physical damages where the incurred costs are recoverable under the Company's Hull & Machinery insurance coverage.

The Company's self-insured retentions under the loss of hire-insurance are up to 60 days after the occurrence of the physical loss. Thereafter the Company is compensated from the involved underwriters from 100 days and up to 290 days. If the duration of the repair period of any physical damage losses should exceed the total number of days in the loss of hire policy, the exceeding days will be self-insured retentions.

Note 29 – Fair value of financial instruments

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2008 and December 31, 2007 are as follows:

	December 31, 2008		**December 31, 2007**	
(In millions of US dollar)	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Non-Derivatives				
Cash and cash equivalents	376.4	376.4	997.0	997.0
Restricted cash	626.6	626.6	15.9	15.9
Marketable securities	134.7	134.7	240.4	240.4
Current portion of long-term debt	746.1	746.1	484.1	484.1
Long-term floating rate debt	5,267	5,267	3,116.4	3,116.4
Long-term fixed interest rate debt	603.5	1,086	1,000.0	1,000.0
Derivatives				
Interest rate swap agreements	(146.4)	(146.4)	2.7	2.7
Currency forward contracts	(21.3)	(21.3)	17.1	17.1
Total return swap agreements	(1.1)	(1.1)	-	-

The Company has used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of the Company's financial instruments as at December 31, 2008 and December 31, 2007. For certain instruments, including cash and cash equivalents, receivables and accounts payable, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments. Further, the fair value of the current portion of long-term has been set equal to the carrying value, the main reason being that the underlying facilities which are bonds and bank loans are either tradable only at prices very close to the carrying value or not tradable at all. The long-term floating rate debt of the Company consist mainly of bank loans and are as such only tradable between banks acceptable to each syndicate or club of banks, hence this debt is not freely tradable in the market and cannot be purchased by the Company to other prices than the outstanding balance plus accrued interests. Consequently, the fair value of long-term floating interest rate debt has been set equal to the carrying value.

Long-term fixed interest rate debt consists of the US$1,000 million convertible bond due 2012 and the US$100 million T11 loan due 2013. Only the convertible debt is freely tradable, and the fair value is set equal to the price which the bond was traded at on December 31, 2008 (50.63 percent of nominal value). For the US$100 million T11 loan, the fair market value of the fixed interest agreement has been added to the loan balance as per December 31, 2008 (minus US$0.3 million).

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

Marketable securities are measured at fair value on a recurring basis. The fair value of marketable securities is based on the quoted market prices. This falls within the "Level 1" category of FAS 157 being "measurements using quoted prices in active markets for identical assets or liabilities".

Note 30 – Other current liabilities

Other current liabilities are comprised of the following:

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Accounts payable	119.8	167.3
Taxes payable	61.1	25.3
Employee withheld taxes, social sec. and vacation payment	53.3	50.7
Short-term portion of unfavorable contract values	43.0	70.8
Accrued interest expense	33.4	37.1
Liabilities related to investment in shares*	336.5	-
Unrealized loss on forward contracts not classified as derivatives**	157.9	-
Short term portion of deferred mobilization revenues	21.6	-
Derivative financial instruments***	168.8	-
Other current liabilities	316.3	319.4
Total other current liabilities	1,311.7	670.6

*Liabilities related to investment in shares are short-term debt in the Company's share forward contracts.
**Accrual for loss related to forward share contracts where the contracts were not defined as derivative, while the loss was expensed as of December 31, 2008.
***Derivative financial instruments consist of net unrealized loss on interest rate swap agreements, currency forward contracts amounting to US$167.7 million and unrealized loss on total return swap agreements amounting to US$1.1 million.

Note 31 – Other non-current liabilities

Other non-current liabilities are comprised of the following:

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Accrued pension liabilities	55.8	57.4
Long-term portion of unfavorable contract values	62.8	100.3
Long term portion of deferred mobilization revenues	56.2	-
Other non-current liabilities	34.2	40.4
Total other non-current liabilities	209.0	198.1

Note 32 – Total Return SWAP Agreements

In June and July 2008, the Company entered into three Total Return Swap (“TRS”) agreements with a total of 4,500,000 shares in Seadrill Limited as underlying security. The initially agreed reference price under the different agreements was in a range of NOK141.2 to NOK157.8 per share. The agreements expired in December 2008. In November 2008, these contracts were terminated and simultaneously the Company entered into a new TRS contract with 4,500,000 shares in Seadrill Limited as underlying security. The agreed reference price was 56.7 per share and the agreement expired in February 2009. In February 2009, the contract was extended to August 2009 and the reference price was 61.3 per share. During 2008 the total loss expensed related to TRS agreements amounted to US$59.8 million.

Note 33 – Commitments and contingencies

Purchase Commitments

At December 31, 2008, the Company had twelve contracts for the construction of four semi-submersible rigs, four jack-up rigs, a drillship and three tender rigs. Two of the semi-submersible rigs are scheduled for delivery in 2009, while the two remaining are scheduled for delivery in 2010 and 2011. All of the jack-up rigs are scheduled for delivery in 2010. Two tender rigs are scheduled for delivery in 2010 and one in 2011. The drillship is scheduled for delivery in 2010. As of December 31, 2008 the Company has paid US$1,493 million directly to the involved construction yards on the newbuildings, and committed to make further yard installments of US$2,891 million. The amount includes contract variation orders but excludes spares, accrued interest expenses, construction supervision and operation preparation and mobilization.

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

Year	*(In millions of US dollar)*
2009	950
2010	1,626
2011 and thereafter	315
Total	2,891

The Company has options not to take delivery of two of the jack-ups. If these options are exercised, the remaining installments above will be reduced by US$390 million.

Mortgages and pledged assets

As at December 31, 2008 the Company has mortgages amounting to US$7,437 million. The following assets have been pledged as security for the mortgages:

Pledged assets

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Drilling units	4,470	2,451
Newbuildings	2,758	1,184
Accounts receivables	341	221
Total book value of pledged assets	7,569	3,856

Guarantees

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

(In millions of US dollar)	**December 31, 2008**	**December 31, 2007**
Guarantees to customers of the Company's own performance	630	242
Guarantee in favor of banks	45	59
Guarantee in favor of suppliers	1,673	1,193
Guarantee in favor of Variable Interest Entities	2,793	-
Total	5,141	1,494

The guarantees have the following maturities:

Year	*(In millions of US dollar)*
2009	681
2010	971
2011 and thereafter	3,489
Total	5,141

Legal Proceedings:

The Company is a party, as plaintiff or defendant, to several lawsuits in various jurisdictions for demurrage, damages, off-hire and other claims and commercial disputes arising from the operation of its vessels, in the ordinary course of business or in connection with its acquisition activities. The Company believes that the resolution of such claims will not have a material adverse effect on the Company's operations or financial condition. The Company's best estimate of the outcome of the various disputes has been reflected in the financial statements of the Company as of December 31, 2008.

1. FPSO "Crystal Sea" – dispute related to termination of operations in India

The Company has a dispute with Discovery Enterprise Pvt Ltd., India ("Discovery") in connection with the operations of the the FPSO "Crystal Sea" operations in India. Discovery has sued the Company in the Norwegian Courts claiming that Seadrill is responsible for the losses incurred by Discovery. The Oslo District Court and the Court of Appeal have ruled in favor of the Company. Discovery has however appealed this decision to the Supreme Court. See note 36 for subsequent events.

2. Eastern Drilling – dispute related to acquisition of shares

In April 2007 Seadrill made a mandatory offer for all outstanding shares of Eastern Drilling ASA at a price of NOK135 per share. The offer price was determined by a ruling of the Oslo Stock Exchange Appeal Committee following a disagreement between the Oslo Stock Exchange and the Company related to use of Total Return Swap Agreements. The Company subsequently took legal actions against Oslo Stock Exchange and The Norwegian State with a claim of damages up to NOK850 million. By the end of 2007, the Oslo District Court made its ruling in favor of the Oslo Stock Exchange. The Company appealed this decision. See note 36 for subsequent events.

3. J/U "West Larissa" – dispute with Gazprom

The Company has a dispute with Gazprom in connection with the operations of the jack-up rig "West Larissa" (called "Ekha" at that time) in late 2005, early 2006. The dispute is due to be heard in London Courts in May 2009.

Note 34 – Variable Interest Entities (VIE)

As at December 31, 2008, the Group leased a drillship, two jack-up rigs, and two semi-submersible rigs from VIE entities under finance leases. Each of the units has been sold to single purpose subsidiaries of Ship Finance, and simultaneously the Group, through its own 100% owned subsidiaries, has leased the units back on bareboat charter contracts for a term of 15 years. Seadrill has several options to repurchase the units during the charter periods and for three of the assets purchase obligations at the end of the 15 year lease terms.

The Company determined the owning companies are variable interest entities and that Seadrill is the primary beneficiary of the risks and rewards connected to the bareboat charter contracts. Accordingly, the Company consolidated the assets and liabilities of the owning companies. Furthermore, Seadrill did not record any gains from the sale of the units in the accounts as the units continued to be reported as assets in the Company's balance sheet at the time of each transaction. The equity in the VIEs is reported as minority interests in the Company's consolidated accounts. At year end 2008 the units are reported under drilling units in the Company's balance sheet, with the exception of West Taurus which is reported under newbuilds.

The following sale and leaseback arrangements are in effect as per December 31, 2008:

Unit	**Effective from**	**Sales amount million US$**	**First repurchase option (million US$)**	**Exercise month for first repurchase option**	**Last repurchase option* (million US$)**	**Exercise month for last repurchase option***
West Ceres	June 2006	210.0	135.5	June 2009	60.0	June 2021
West Prospero	July 2007	210.0	142.0	June 2010	60.0	June 2022
West Polaris	July 2008	850.0	548.0	Sep. 2012	177.5	June 2023
West Taurus	Nov.2008	850.0	418.0	Feb. 2015	149.0	Nov. 2023
West Hercules	Oct. 2008	850.0	579.5	Aug. 2011	135.0	Aug. 2023

* For the units West Polaris, West Taurus and West Hercules repurchase obligations after 15 years have been agreed upon, which are US$ 75.0, 149.0 and 135.0 millions respectively.

The bareboat charter rates are calculated on the basis of the Base LIBOR Interest Rate for each bareboat charter contract, and thereafter adjusted for differences between the LIBOR fixing each month and the Base LIBOR Interest Rate in each contract. In addition, the owning companies of the units West Ceres and West Prospero will during 2009 receive a four to five percent profit split element of the adjusted operating profit from the rig related operating activities provided certain operating profit milestones have been met.

A summary of the bareboat charter rates per day in US$1,000 for each unit is specified below at contract inceptions. The amounts are based on the Base Libor Interest Rate and reflect average rates per year:

Unit	**Base LIBOR Interest Rate**	**2009**	**2010**	**2011**	**2012**	**2013**
West Ceres	5.60%	82.0	51.5	51.5	51.5	51.5
West Prospero	5.10%	81.5	67.5	53.9	52.6	51.5
West Polaris	2.85%	*	*	*	305.1	217.5
West Taurus	4.25%	*	*	*	*	*
West Hercules	4.25%	404.5	404.5	404.5	395.0	237.1

* Refer separate table below

For a period, the interest rate for West Polaris and West Taurus has been fixed at 3.89% and 2.19% respectively, thus the bareboat charter rate for each of the these two units is fixed regardless of LIBOR interest level movements in these periods. These fixed bareboat charter rates are reflected in the table below (rates per day in US$1,000):

Unit	**2009**	**2010**	**2011**	**2012**	**2013**
West Polaris	348.7	346.6	344.4	-	-
West Taurus	285.0	304.3	307.8	311.8	314.3

Assets and liabilities of the VIEs that have been consolidated (amounts in US dollar millions):

	Rig Finance Ltd. (West Ceres)	Rig Finance II Ltd. (West Prospero)	SFL West Polaris Ltd. (West Polaris)	SFL Deepwater Ltd. (West Taurus) and (West Hercules)
Investment in finance lease	149.2	159.8	833.3	1,680.1
Other assets	24.1	12.0	19.2	31.4
Total assets	173.3	171.8	852.5	1,711.5
Long term debt	106.7	120.8	618.7	1,142.8
Other liabilities	1.4	1.0	118.5	275.7
Total liabilities	108.1	121.8	737.2	1,418.5
Equity	65.2	50.0	115.3	293.0
Book value of rigs in Seadrill's consolidated accounts	158.7	193.7	698.6	1,160.6

Note 35 – Gain on issuance of shares by subsidiary

At December 31, 2008 the Company has a 73.79 percent investment in Seawell. Seawell's business is related to platform drilling, engineering and well intervention services.

During April 2008, Seawell successfully completed a share issuance. A total of 10 million shares were sold for a price of NOK19.50 per share (par value US$2.00) raising a total of NOK195 million. Seadrill participated with two million shares while, at the same time Seadrill sold 831,400 shares. As a result Seadrill's shareholding has been reduced from 80 percent to 73.79 percent. A gain of US$25.2 million was recorded in the income statement as a result of these events.

During October 2007, Seawell successfully completed a share issuance. A total of 20 million shares were sold for a price of NOK13.75 per share (par value US$2.00) raising a total of NOK275 million. The Company did not participate in this share issuance and as a result, its holding was reduced from 100 percent to 80 percent. A gain of US$50 million was recorded in the income statement as a result of the share issuance by Seawell.

Note 36 – Subsequent Events

The Company had a dispute with the Oslo Stock Exchange related to acquisition of shares in Eastern Drilling. The Court of Appeal's decision was announced on 9th March 2009 – again in favour of Oslo Stock Exchange. The Court of Appeal also ruled that the Company had to cover all legal costs incurred by Oslo Stock Exchange. See also note 33.

On January 16, the Company took delivery of the ultra-deepwater semi-submersible rig West Aquarius.

On March 5, the Company participated in the Scorpion Offshore Limited private placement and was allocated 10,810,811 shares at NOK16.00 per share, representing an investment of US$24.4 million. The Company directly and indirectly controls 39.6 percent of the outstanding shares subsequent to the private placement.

On March 12, 2009 the Company took delivery of the ultra-deepwater semi-submersible rig West Eminence.

On March 27, 2009 the Company acquired NOK1,603 million equal to an 80.2 percent interest in the Petromena NOK2,000 million bond loan (ISIN NO 001031608.6). The bond loan is secured in two new deepwater rigs that have scheduled deliveries from the Jurong shipyard in April and September this year. The Company has invested NOK1,100 million in the bond loan.

On April 2, 2009, the Appeal Committee of the Supreme Court refused the appeal of Discovery (see note 33 legal proceedings).

The Company is in the final stages of refinancing part of the bridge loan financing due in May 2010. The Company has received board approval from a finance institution guaranteeing US$420 million of a new US$600 million credit facility. The facility will have participation from export credit agencies as well as commercial banks and will be secured in the drillship West Capella and the jack-up drilling rig West Ariel. The completion of such facility will provide US$ 267 million in additional financing after reducing the bridge loan from US$1 billion to US$ 667 million.

Directors' report for Seadrill Limited for the year ended December 31, 2008

Introduction

Seadrill has developed a strong position in the market for mobile offshore drilling units targeted especially towards the ultra-deepwater segment that has seen significant growth in the last few years. Seadrill is a Bermuda registered company, and has established a global presence in an exciting industry with one of the most modern offshore drilling fleets and a solid customer base operationally as well as in terms of credit quality. This together with a current order backlog totalling some US$12 billion have paved the way for competitive funding of the Company's extensive newbuilding program of which the majority was delivered through 2008 and the first quarter of this year.

Seadrill is a global offshore drilling contractor with a leading position in ultra-deepwater as well as in harsh environment and the tender rig market segment. In addition, the Company has a modern fleet of benign environment jack-ups and a majority interest in the well services company Seawell Limited. Furthermore, Seadrill has ownership interest of 9.5% in the US offshore drilling contractor Pride International Inc., 24.6 percent in the Malaysian oil services company SapuraCrest Bhd., 39.6 percent in the Bermuda registered jack-up company Scorpion Offshore Limited and 49 percent in the Malaysia registered company Varia Perdana Sdn. Bhd.

At the start of 2008, Seadrill had 23 units in operations, 3 floaters, 7 jack-ups and 13 tender rigs. In 2008, 1 jack-up was sold and within mid-March 2009, 8 deepwater floaters, 2 jack-ups and 1 tender rig newbuilds had been delivered increasing the fleet to 33 units with 10 more units under construction for delivery in 2010 and 2011. As a result the EBITDA contribution from the fleet increased from US$672 million in 2007 to US$882 million in 2008, the best performance in the Company's short history following its incorporation in 2005.

Income statement

The Company's consolidated revenues for 2008 reached US$2,106 million increasing by US$554 million compared to 2007. The growth reflects a larger offshore drilling fleet, high rig utilization as well as improved average dayrates. For the same period the consolidated operating profit reached US$649 million, up from US$489 million in 2007 including gains on sale of assets amounting to US$80 million and US$124 million for the 2008 and 2007, respectively.

Following the US$615 million impairment charge related to financial investment in shares and forward contracts in Pride International Inc., Scorpion Offshore Limited and SapuraCrest Bhd. total financial items amounted to a loss of US$748 million in 2008. This was an increase of US$646 million compared to 2007. The loss was offset by a US$151 million gain on the sale of the shares in PT Apexindo Pratama Duta Tbk. Total financial items were also adversely impacted by a US$353 million loss on mark-to-market valuation of interest rate and foreign exchange derivatives.

For 2008 taxes amounted to US$48 million compared to a tax benefit of US$78 million in 2007.

The Company's net loss was US$164 million equivalent to a loss per share of US$0.41.

Balance sheet

In 2008, the Company's total assets increased from US$9.3 billion at the start of the year to US$12.3 billion. Total current assets were largely unchanged at US$1.7 billion whereas non-current assets increased by approximately US$3.0 billion. The increase in non-current assets was mainly related to several of the Company's newbuilds under construction being delivered through the year.

For the same period the current liabilities increased by approximately US$1 billion to US$2.1 billion and total non-current liabilities increased by US$2.6 billion to US$7 billion. The increase in non-current liabilities was mainly related to several new loans organized through sale and leaseback arrangements with Ship Finance International Limited for three deepwater newbuilds. Net interest bearing debt was at year end 2008 US$6.4 billion, compared to US$3.6 billion the preceding year.

Over the course of the year, minority interests increased by US$488 million to US$593 million. The increase related to sale and lease arrangements with consolidation of the lessor's accounts with the lessor's equity presented as minority interests.

The Company's total shareholders' equity decreased from US$3.6 billion to US$2.6 billion reflecting the net loss for the year as well as US$688 million distributed as cash dividend.

Cash flow

Seadrill had as of December 31, 2008, cash and cash equivalent position totalling US$376 million, a decrease of US$621 million compared to the preceding year. For the year the net cash provided by operating activities amounted to US$469 million compared to US$625 million in 2007. Net cash used in investing activities amounted to US$3.8 billion of which US$2.6 billion related to the newbuildings. Net cash provided by financing activities was US$2.8 billion.

Based on the strong order backlog and superior assets base, Seadrill considers itself to be in a sound position in today's troubled financial debt markets. As such, pursuant to Section 3-3a of the Norwegian Accounting Act, the Board confirms that the going-concern assumption applies and that the annual accounts have been prepared on the basis of this assumption. For a description of subsequent events after the balance sheet date please see note 36 to the consolidated accounts.

Operations

Mobile units

Seadrill had 14 mobile rigs in operation in 2008. In Norway, the semi-submersible rigs West Alpha and West Venture continued drilling operations for StatoilHydro, while the ultra-deepwater drillship West Navigator worked for Shell on the Ormen Lange field. The ultra-large jack-up West Epsilon continued operations for StatoilHydro. In the Gulf of Mexico, the newbuild deepwater semi-submersible rig West Sirius worked for ATP and Devon Energy following its arrival in June. In Brazil the new deepwater drillship, West Polaris commenced operations for Exxon in October. In China, the newbuild deepwater semi-submersible rig West Hercules started operations for Husky early November. In Africa, the jack-up West Ceres performed drilling operations for Total and Tullow. West Ceres completed its drilling assignments in early December and is currently warm stacked in Ghana. In Malaysia, the jack-up West Janus worked for Petronas and West Prospero worked for Exxon and Talisman. West Prospero completed its assignments in December and has until recently been laid up in Singapore. In Vietnam the jack-up West Larissa drilled for VietsoPetro (VSP). The newbuild jack-up West Ariel that was delivered from the yard in May completed its operation from PTT early November and was subsequently moved to Vietnam to commence an assignment for VSP. In Australia, the jack-up West Atlas continued the operations for Coogee while West Triton carried out operations under the Apache-contract. West Triton completed its contract in Australia early February and is currently warm stacked in Singapore.

Tender rigs
Seadrill's self-erecting tender rigs were all in operation in 2008. In Southeast Asia, the tender rig barges T4, T7 and T11 worked for Chevron in Thailand. In Malaysia, the semi-tender West Alliance continued its operations for Shell and the semi-tender West Setia was on contract with Murphy. The semi-tender West Berani worked for Newfield and Nippon in Malaysia until December when the unit was moved to Indonesia to commence a contract with ConocoPhillips. In Brunei, the semi-tender West Pelaut continued operations for Shell. In West Africa, the tender barge T8 and the semi-tender West Menang worked for Total in Congo.

Well services (Seawell Limited - 74% ownership)
Seawell is a company providing drilling and well services with its core business being platform drilling, drilling facility engineering, modular rig, well intervention and oilfield technologies. Seawell currently operates on nearly 50 installations in the North Sea and has offices in Stavanger, Bergen, Aberdeen, Newcastle, Houston, Esbjerg and joint ventures in Abu Dhabi and Kuala Lumpur. The overall activity level was strong in 2008 posting a growth in EBITDA contribution of some US$21 million. For more information on Seawell see separate annual report published on www.seawellcorp.com in connection with Seawell's Norwegian OTC listing.

Strategic investments
An important part in Seadrill corporate history has been to grow the Company through taking strategic positions in other drilling companies where good value proposition has been identified. As part of this strategy Seadrill has acquired companies like Smedvig ASA, Mosvold Drilling Limited, Odfjell Invest Limited and Eastern Drilling ASA. In addition, Seadrill has realized profits from buying and later disposing shareholdings in Ocean Rig ASA, PT Apexindo Pratama Duta Tbk and Aker Drilling ASA.

Seadrill currently hold similar investments in Pride International Inc, Scorpion Offshore Limited, SapuraCrest Bhd and Varia Perdana Sdn. Bhd. that are considered strategic investments. The share prices for these companies have since the ownership positions were acquired dropped significantly. Seadrill has therefore recognized a US$615 million impairment charge in the income statement for 2008. However, the accounting treatment has no impact on the strategic nature of these holdings. Seadrill continues to see the investments in these companies as attractive long-term strategic investments. All three companies have a good composition of assets which matches the asset profile of Seadrill. All companies are in addition trading at a significant discount to the underlying value of their assets.

Health, safety and the environment (HSE)
Health, safety and the environment is one of the core values and a critical success factors for Seadrill. In 2008, Seadrill had 54 incidents that required medical treatment. 18 of the incidents were classified as Lost Time Injuries (LTIs). LTI frequency increased from 2007 to 2008 from 3.0 to 3.1 in 2008. For the same period the total recordable injury frequency increased from 4.4 in 2007 to 4.8 in 2008. Seadrill has a zero accident philosophy which implies that no accidents or serious incidents are acceptable.

Seadrill had 10 minor accidental discharges to the natural environment in 2008. None of these emissions caused any damage to the environment. The Company's units use diesel engines for power generation. These engines cause emissions to the environment. Seadrill is measuring emissions of CO_2, CO, NOx, SO_2, CH_4 and VOC based on the reported fuel consumption. These emissions are included in the statistics reported to and presented by our customers the oil companies.

Human resources and diversity
Seadrill has currently some 7,000 employees reflecting 31 different nationalities onshore and 38 offshore. Females constituted 6.5 percent of the workforce and at April 30, 2009 constituted 40 percent of the Board of Directors . The attrition rate for 2008 was 12 percent.

The Company has an ambition to create a good working environment, and focuses on offering challenging and motivating work tasks and equal development opportunities to all employees, regardless of gender, nationality, culture or religion. Seadrill's policy is to promote equality of opportunity to females and males based on hiring, promotion, training and remuneration on qualifications such as education, experience and achievements.

Organization and remuneration to the Board of Directors, Chief Executive Officer and other key personnel
In second quarter 2008, the Chief Executive Officer (CEO) of Seadrill Management AS, Kjell E. Jacobsen, informed the Board that for private reasons he wanted to step down as CEO. Effective from June 1, 2008, the Chief Operating Officer Alf C. Thorkildsen was appointed as new Chief Executive Officer. Kjell E. Jacobsen has subsequently been appointed to the Company's Board of Directors.

Remuneration 2008

	Salaries, bonus payments and other taxable benefits	Income from exercised options
Board of Directors	0.070	
Chief Executive Officer (CEO) and President in Seadrill Management AS *	1.884	1.962**
Key personnel ***	6.883	1.468

* The remuneration is related to the former CEO, Kjell E. Jacobsen, for the period from January until May 27, 2008. For the remaining period the remuneration is related to the new CEO Alf C. Thorkildsen.

** Relates to options exercised by Kjell E. Jacobsen after his retirement as CEO in Seadrill Management AS.
*** Key personnel consists of Executive Vice President and Chief Operating Officer (COO) - Seadrill Management AS, Senior Vice President and Chief Financial Officer (CFO) - Seadrill Management AS, Executive Vice President Tender Rigs, Vice President Eastern Hemisphere, Executive Vice President International Deepwater, Vice President Deepwater Projects, Senior Vice Price President Asia-Pacific Jack-ups, Senior Vice President Europe, and Chief Executive Officer (CEO) - Seawell Management AS

The Chief Executive Officer has a bonus arrangement based on achieving specific targets. Other key personnel have similar arrangements with various limits.

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

Shares and options owned by the Board, CEO and Key Personnel at December 31, 2008

	Shares in Seadrill	Out-standing options in Seadrill	Shares in Seawell	Out-standing options in Seawell
John Fredriksen, Director and Chairman*	132,747,583	350,000	7,207,000	0
Jan Tore Strømme, Director**	0	50,000	0	0
Kate Blankenship, Director	11,000	50,000	0	50,000
Kathrine Fredriksen, Director	0	0	0	0
Kjell E. Jacobsen, Director	0	275,000	100,000	50,000
Tor Olav Trøim, Director*	350,000	475,000	200,000	50,000
Alf C. Thorkildsen, President and CEO, Seadrill Management AS	20,000	600,000	0	50,000
Trond Brandsrud, Senior Vice President and CFO, Seadrill Management AS	12,500	210,000	70,000	0
Ståle Rød, Executive Vice President – Tender Rigs	0	90,000	0	0
Tim Juran, Executive Vice President – International Deepwater	0	290,000	0	0
Ian Shearer, Senior Vice President- Asia Pasific Jack-ups	0	190,000	0	0
Sveinung Lofthus, Senior Vice President – Europe	3,000	140,000	30,000	0
Alex Monsen, Vice President – Deepwater Projects	0	80,000	0	0
Svend A. Maier, Vice President – Eastern Hemisphere	0	90,000	0	0
Alf Ragnar Løvdal, CEO – Seawell Management AS	0	100,000	70,000	725,000

*As of December 31, 2008, John Fredriksen and Tor Olav Trøim, in addition to the shares listed above, have acquired total return SWAP agreements with exposure of further 4,100,000 and 400,000 shares in Seadrill, respectively.
More information about option programs are described in note 24 to the annual report.
** Mr Stromme resigned as a director in March 2009 for personal reasons

Corporate governance
In connection with the Company's listing on the Oslo Stock Exchange there is a comply or explain requirement in relation to the Norwegian Code of Practice for Corporate Governance of December 4, 2007. For further information on the Code of Practice see separate attachment.

Risk
In the day-to-day management of the Company, emphasis is put on managing risk of strategic, operational, financial and insurance nature. The Board and senior officers manage these risk factors through continuous reporting, board meetings, periodic reviews of the business and tenders, rolling strategy and budget processes as well as discussions and exchange of views with the Company's management.

Capital management
Seadrill's objective is to ensure a sound financial position at all times. Management continuously monitor the capital structure in order to sustain future development of the Company and maintain a strong standing in the capital markets. Management continuously evaluates cash-flow from operations, investments opportunity and financing capabilities in order to identify additional financing needs. At year-end, Seadrill is in compliance with all loan covenants and has a comfortable liquidity situation.

Market risks
The Company is exposed to market volatility in the financial markets, including but not limited to interest rate risk, currency risk, credit risk, insurance and the oil price. For a part of the Company’s operations financial instruments are entered into to limit the effects of in particular fluctuation in interest rates and foreign currency rates.

Oil price
Fluctuations in the oil price over time normally influence the level of the rig dayrate and employment rated for the Company’s fleet in both the short term and long-term picture.

Credit risk
The majority of Seadrill's customer base is concentrated on a few large and strong oil companies with investment grade ratings. Nevertheless management continuously monitor the credit risk associated with the Company’s existing backlog of drilling contracts as well as in connection with tender activities for new assignments

Foreign currency risk
The Company's functional currency is US dollars. The majority of the Company’s revenues and costs, including capital expenses are in US dollars. As a global drilling contractor Seadrill is exposed to fluctuations in the currency exchange rates of various currencies against US dollars including but not limited to NOK, THB, SGD, GBP and MYR. In addition, the Company also has a small part of its debt denominated in NOK and some yard instalments for newbuilds denominated in SGD. In order to limit the currency exposure revenue from drilling contracts in some instances is partly in local currency.

Interest rate risk
Seadrill is in the main exposed to interest rate fluctuations in US dollars and NOK as the majority of the Company’s debt is denominated in these currencies and part of these loans carry floating interest rate.

Insurance risk
Seadrill's objective is to maintain a balanced insurance strategy protecting its assets, income, liability and personnel.

Shareholders
Seadrill is listed on the Oslo Stock Exchange. The largest shareholder is John Fredriksen who through various companies directly and indirectly controls some 33 percent. In the shareholder register as of December 31, 2008 no other shareholder owns or controls more than 10 per cent of the Company’s shares. In total the ten largest shareholders controls some 61.5 percent of the shares, with the remaining held by more than 12,600 investors. The

number of shares in Seadrill is 399,133,216. The Company's holding of own treasury shares is 717,800.

Outlook

Seadrill has over the last years built the most modern quality drilling fleet in the world with an average age almost 20 years younger than its peer group. Simultaneously, a strong order backlog securing long-term employment for the majority of the rigs has been put in place. The Company's counterparties are in the main quality investment grade rated companies. The board is of the opinion that this provides a sound foundation for delivering a solid long-term return to Seadrill shareholders through a combination of share price performance and dividend in the years to come.

Seadrill is through the commencement of operations for its newbuilds entering a new era where the operational cash flow is expected to significantly exceed the Company's capital expenditure program. In 2009, four additional deepwater units have commenced operations and one unit will start up at the end of the second quarter. Furthermore, several of the existing units will commence new contracts at higher dayrates than in previous quarters. As such the earnings from 2009 are expected to show significant growth.

In 2008, Seadrill distributed US$688 million in dividend. The dividend distribution has been halted by the financial turmoil. The Board is of the opinion that when two deepwater newbuilds, West Orion and West Gemini, have been delivered in 2010, Seadrill will be in a very strong financial position. At that time, the Company's cash flow from operation of already secured contracts will outpace capital expenditures, interest and debt repayment, which will provide the basis for a strong dividend distribution. However, the capacity to pay dividend prior to this will depend on the Company's ability to generate additional liquidity from financing assets which are unencumbered or have a low leverage. The Board is working with a target of restating the dividend as soon as possible, but this will largely be dependent on improvement in the financing markets and acceptance from the existing banks. The increased number of attractive business opportunities particularly in the corporate market might also lead to a slightly reduced focus on short-term dividend, however, in the medium to long term a high dividend is a key part of Seadrill's business strategy.

The Board is convinced that offshore drilling market will be strong in the longer term, in particular for the ultra-deepwater segment. The oil companies' remaining reserve-life for oil and gas has for the last 10 years been reduced significantly. At the same time, the depletion rate for the existing fields has reached unprecedented levels. The result is simply that more reserves have to be discovered to meet future energy demand. This is a serious challenge and in order to bridge this gap more drilling will be needed. The huge finds made offshore Brazil is the confirmation that the discoveries that will make a difference to reserve replacement rates to a large extent are made in deep and ultra-deep waters. This is providing an encouraging match with Seadrill's investments and rig fleet. In spite of the recent dramatic drop in oil and gas prices, prices are still at favourable levels.

Nevertheless, any reductions in capital expenditures from the oil companies as a function of the drop in oil and gas prices is likely to reduce the future available oil production and tighten the forward supply demand balance in the near term. While such a development could influence the drilling companies adversely short term, it might, combined with reduced investments create a better long-term situation for the offshore drillers. Seadrill is with an order backlog of some US$12 billion and an average contract length of the deepwater fleet of some four years, well positioned to meet and benefit from this situation.

The Company expects that it will be able to meet future financing requirements based on existing credit facilities and expected future cash flows from operations. A US$1 billion bridge facility that matures in May 2010 is in the process of being refinanced to add financial flexibility.

The Board is confident in the outlook for the Company's businesses.

Hamilton, April 30, 2009

Board of Directors
Seadrill Limited

Stavanger, April 30, 2009

Alf C. Thorkildsen
CEO Seadrill Management AS

Responsibility Statement

We confirm, to the best of our knowledge, that the financial statement for the period 1 January to 31 December 2008 has been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and loss of the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties facing the group.

April 30, 2009

The boards of Director	Alf C. Thorkildsen
Seadrill Limited	CEO Seadrill Management AS
Hamilton, Bermuda	Stavanger, Norway

Seadrill Limited – Corporate Governance Statement 2008
Norwegian Code of Practice for Corporate governance

Seadrill Limited is a private limited company incorporated under the laws of Bermuda. The Company's shares are listed on the Oslo Stock Exchange. As a consequence, Seadrill Limited is required to publish an annual statement on the Company's principles for corporate governance in accordance with the Norwegian Code of Practice for Corporate Governance (the "Code"). The standard is published on the website of the Oslo Stock Exchange – www.ose.no. The Code is a non-binding recommendation which all companies listed on the Oslo Stock Exchange are required to relate to on a "comply or explain" basis.

Seadrill Limited is committed to ensuring that its principles of corporate governance meet the highest standards and generally supports the principles set forth in the Code. Being subject to two different sets of corporate governance regulations (Norway and Bermuda) means, however, that Seadrill Limited will have some exceptions from the individual sets of rules.

Seadrill Limited's corporate government policies and procedures are explained below in relation to the Code.

Section 1 Implementation and reporting on corporate governance
Section 1 in the Code requires that the Board ensure that the Company implements sound corporate governance and that the annual report includes a report on corporate governance with explanations on any deviations as mentioned above. In addition, the Board is urged to define the Company's basic corporate values and ethical guidelines in accordance with these values.

The Board of Seadrill Limited recognizes the importance of sound corporate governance. The Board believes that the principles it has implemented and maintained in this respect meet this standard.

Section 2 Business
Section 2 in the Code requires that the Company's business should be clearly defined in its bye-laws, that the Company has clear objectives and strategy for its business within the scope of the definition in the bye-laws and that its is included in the annual report.

The business of Seadrill Limited, and its subsidiaries, is to own and operate offshore and onshore drilling rigs. The Company's annual report includes a more specific description of the group's business, including the overall objectives and current strategy of the Company. The Company's annual report can be accessed at the Company's website: www.seadrill.com

Section 3 Equity and dividend
Section 3 in the Code emphasis that the Company should have an equity capital at a level appropriate to its objective, strategy and risk profile, that the Board should establish a clear and predictable dividend policy for its dividend suggestions to the general meeting and that the dividend policy should be disclosed. Furthermore the Code urges that authorizations given to the Board to increase the share capital (or repurchases own shares) should be restricted to defined purposes and limited in time to the next general meeting.

As at December 31, 2008 the equity capital of Seadrill Limited was US$2.6 billion. The Board is of the opinion that the equity capital is appropriate, considering the Company's objectives, strategy and risk profile.

The Company's bye-laws 118 to 124 (inclusive) deals with dividends and other payments to shareholders and provides that the Board can declare cash dividends or distributions, and may also pay a fixed cash dividend half yearly or on other dates. At present, the Board of Seadrill Limited is authorized by the general meeting to increase the number of shares from 399,133,216 to 800,000,000. There is, in accordance with Bermuda corporate law, no time limit on this authorization resolved by the general meeting on December 1, 2006. The authorization has to be viewed in the light of the Company's growth ambition and recent history. Bermuda corporate law allows the Company to repurchase its own shares. The Company has been given such approval, and the Company has used Treasury Shares in relation to the Company's Employee Share Ownership Plan. The Company's holding of own shares as of December 31, 2008 was 717,800.

Section 4 Equal treatment of shareholders and transactions with close associates
Section 4 request that the Company should only have one class of shares, that any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in the share capital should be justified and that transactions carried out either through the stock exchange or at prevailing stock exchange prices if carried out in any other way. In the event of limited liquidity in the shares, the Company should consider other ways to ensure equal treatment of all shareholders. Seadrill Limited has only one class of shares. Under Bermuda corporate law shareholders in a Bermuda company do not have any preferred right to subscribe for further shares when such are issued. Seadrill Limited will, if acquiring its own shares, always do this through purchases on the Oslo Stock Exchange at the prevailing stock exchange price. The Company's policy is to enter into related party transactions solely on terms that are at least as favorable to the Company as those that can be obtained when contracting with an unrelated third party.

It follows from the Bermuda Companies Act 1981, as amended, that an officer or director of the Company shall, at the first available opportunity, notify the board of his interest in any material contract or any person that is a party to a material contract of the Company. Further the Company's bye-laws contain (in bye-law 95) specific provisions addressing director's interests.

Section 5 Freely negotiated shares
Section 5 requires that all shares in listed companies in principle should be freely negotiable and the bye-laws as such should not include any form of restriction in that matter.

Subject to (i) Bermuda company law, (ii) the terms of the Company's bye-law 38 and 39 (transfer of shares) and (iii) the terms of any applicable United States securities laws (including the United States Securities Act 1933), Seadrill Limited's shares are freely transferable.

The Company's bye-law 39 (ii) gives the Board an option to decline to register the transfer of any shares if the registration of such transfer would be likely to result in 50% or more of the aggregate issued share capital of the Company being held or owned directly or indirectly by a person or persons resident for tax purposes in a jurisdiction which applies a controlled foreign company tax legislation or a similar tax regime which, in the Board's opinion, will have the effect that shareholders are taxed individually for a proportion of the Company's profit.

Under the Company's bye-law 39 (ix) where a person or entity becomes the owner of more than 30% of the issued shares, the Board can decline to register the interest in excess of 30% unless the acquirer makes an offer to purchaser the remaining shares of the Company or agrees to sell part of the shares acquired to reduce the interest to below 30%.

Section 6 General meetings

Section 6 requires that the Board should take steps to ensure that as many shareholders as possible may exercise their rights by participating in general meetings of the Company, and that general meetings are organized in order to be an effective forum for the views of shareholders and the board. Such steps should include sending shareholders the supporting information on the resolutions to be considered at the general meeting no later than two weeks prior to the date of the general meeting, ensuring that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting, setting any deadline for shareholders to give notice of their intention to attend the meeting as close to the date of the meeting as possible, ensuring that shareholders who cannot attend the meeting in person can vote by proxy, ensuring that the members of the board of directors and the nomination committee and the auditor are present at the general meeting, making arrangements to ensure an independent chairman for the general meeting.

Seadrill Limited holds its general meeting on an annual basis in accordance with the Bermuda Companies Act. The notice period is, under Bermuda corporate law, no less than 7 days' notice which shall be provided in writing. Shareholders who cannot attend the meeting in person can vote by proxy. In addition the Company's bye-laws 82 to 88 (inclusive) specifically address proxies and corporate representatives. Bye-law 87 permits the Board, subject to the Bermuda Companies Act 1981, as amended, to waive any of the provisions of the bye-laws related to proxies or authorizations and, in particular, the Board may accept verbal or other assurances as it thinks fit as to the right of any person to attend and vote on behalf of any shareholder at general meetings.

Section 7 Nomination committee

Section 7 suggests that the Company should have nomination committee elected by the general meeting.

Seadrill Limited has currently not appointed any nomination committee for the composition of the Board.

Section 8 Corporate assembly and board of directors

Section 8 suggests that the composition of the corporate assembly should be determined with a view to ensure that it represents a broad cross-section of the Company's shareholders. The composition of the Board should ensure that the Board can attend to the common interests of all shareholders and meets the Company's need for expertise, capacity and diversity. Attention should be paid to ensuring that the Board can function effectively as a collegiate body. The composition of the Board should ensure that it can operate independently of any special interests. At least half of the shareholder-elected members of the board should be independent of the Company's executive management and material business contacts. At least two of the members of the board elected by shareholders should be independent of the

Company's main shareholder(s). The Board should not include representatives of the Company's executive management. The Chairman of the Board should be elected by the general meeting as long as the Norwegian Public Companies Act does not require that the chairman shall be appointed either by the corporate assembly or by the board of directors as a consequence of an agreement that the Company shall not have a corporate assembly. The term of office for members of the Board should not be longer than two years at a time. The annual report should provide information to illustrate the expertise and capacity of the members of the Board and identify which members are considered to be independent. Members of the Board should be encouraged to own shares in the Company.

Seadrill Limited does not have a corporate assembly or other non executive supervisory board. This is not required under Bermuda company law.

The Board of Seadrill Limited currently consists of five directors. Three of the directors, John Fredriksen, Kathrine Fredriksen and Tor Olav Trøim are not independent from Seadrill Limited's main shareholder, Hemen Holding Limited. One director, Kate Blankenship, is not independent according to the rules of the Oslo Stock Exchange. Following Jan Tore Strømme's resignation as Board member in March 2009, Seadrill Limited recognizes that the composition of the Board for the time being does not satisfy the recommendation of the Code for two independent directors.

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

Section 9 Work of board of directors
Section 9 suggests that the board of directors should produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation as well as issue instructions for its own work and for the executive management with particular emphasis on clear internal allocation of responsibilities and duties. A deputy Chairman should be elected for chairing the Board in the event that the Chairman cannot or should not lead the work of the board. The Board should consider appointing board committees in order to help ensure thorough and independent preparation of matters relating to financial reporting and compensation paid to the members of the executive management. Membership of such committees should be restricted to members of the Board who are independent of the Company's executive management. The Board should provide details in the annual report of any board committees appointed. The Board should evaluate its performance and expertise annually.

Seadrill Limited has currently not appointed any board committees, but the Board can delegate its powers to committees under bye-law 103.

Section 10 Risk management and internal control
Section 10 suggests that the Board must ensure that the Company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Company's activities. Internal control and the systems should also encompass the Company's corporate values and ethical guidelines. The Board should carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements. The Board should provide an account in the annual report of the main features of the Company's internal control and risk management systems as they relate to the Company's financial reporting.

The Board of Seadrill Limited believes that it has put in place satisfactory internal control systems for addressing risk management. The Company's own ethical code supplements these systems.

Relevant risk factors to the Company's activities are continuously reviewed by the Board.

The annual report does not include comments on the internal control and risk management systems.

Section 11 Remuneration of the Board
Section 11 suggests that remuneration to Board should reflect responsibility, time commitment and complexity of the Company's activities but independent of the Company's performance and as such not grant share options to the Board. Member of the Board should not take special assignments for the Company in addition to their appointment as board member. If however board member take on such assignment this should be disclosed to the full board that should approve the remuneration for such duties. Seadrill Limited has no compensation committee. Bye-law 94 deals with directors' fees and additional remuneration and expenses. Directors' fees are determined by the Company in general meeting and the Board determines the compensation of individual directors. Seadrill Limited has awarded share options to the Board as it is of the opinion that it is in the best interest of all shareholders. The options are governed by the Rules of the Company's Share Option

Plan and further details of the options granted and applicable terms are outlined in the Company's annual report.

Section 12 Remuneration of executive management
Section 12 suggests that the Board should establish guidelines for the remuneration to executive management and these guidelines should be communicated to the general meeting for information annually together with information share option and share award arrangements to employees. The share option proposals should include details of the allocation criteria, actual value of the share option schemes, accounting consequences for the Company and potential share dilution. The annual report should provide information on the guidelines for the remuneration of executive management as well as apply information on all element the remuneration. The salary for the Chief Executive should be decided by the Board.

This annual report those not include information on the guidelines for the remuneration of the executive management of Seadrill.

Seadrill Limited has not, at present, established any written guidelines for the remuneration of the members of its executive management. The day-today management of the Company is undertaken by Seadrill Management AS (a Norwegian company in the Seadrill group), under a management agreement.

Section 13 Information and communication
Section 13 requires that the Board establish guidelines for the financial reporting and other information based on openness taking into account equal treatment of all participants in the securities market, that the Company publish an overview of major events including general meetings, interim reporting etc, that all information distributed to shareholders are available at the corporate web-site simultaneously and that the Board establishes guidelines for contact with shareholders.

Seadrill Limited publishes annual and quarterly reports at its website. The Company acknowledges the importance of providing shareholders in particular and the equity market in general with correct and relevant information about the Company and its activities.

Section 14 Take-overs

Section 14 suggests that the Board establish a set of guiding principles for how it will act in the event of a take-over bid. The Board is encouraged during such a process to act with an independent responsibility to ensure that all shareholders are treated equal, that the Company's business is not disrupted unnecessarily, and that all shareholders are given sufficient information and time to review a potential offer. Further, the Board should not seek to hinder or obstruct take-over bids without particular reasons for doing so unless approved by a general meeting following announcement of a bid. Any transaction that in effect is a disposal of the Company's activities should be decided by the general meeting.

If a take-over bid were made for Seadrill Limited's shares it is the opinion of the Board that the shareholders of the Company should be treated equally and provided with sufficient information and time to consider the offer.

Section 15 Auditors

Section 15 covers the relationship to the auditor. The auditor should submit the main features of the audit plan of the Company to the Board annually, should participate at the meetings that deal with the annual accounts and in such meeting review material changes in the accounting principles, comment on material estimated accounting figures and report all material matters on which there has been disagreement with executive management and have a separate session with Board without executive management present. Furthermore, the auditor should at least once a year present to the Board a review of the Company's internal procedures. The Board is urged to establish guidelines on the use of the auditor for services other than the audit and receive annual written confirmation from the auditor that the auditor satisfies the requirements for independence and include the remuneration paid to the auditor at the general meeting in detail. In addition, the auditor should provide the Board with a summary of all services undertaken for the Company in addition to regular audit work.

The Company's independent auditor, appointed by its general meeting, is PricewaterhouseCoopers.

For more information on the Company see the corporate web-site www.seadrill.com.