Seadrill Limited

Consolidated Financial Statements

For the Periods ended December 31, 2007, 2006 and 2005

Contents

Index to Consolidated Financial Statements of Seadrill Ltd

Report of Independent Auditors………………………………………………………... F-1

Consolidated Statements of Operations for the years ended December 31, 2007 and 2006 and for the period from May 10, 2005 (inception) to December 31, 2005…………………………………………………………………….F-2

Consolidated Balance Sheets as of December 31, 2007 and as of December 31, 2006……... F-3

Consolidated Statements of Cash Flows for the years ended to December 31, 2007 and 2006 and for the period from May 10, 2005 (inception) to December 31, 2005..F-4

Consolidated Statements of Comprehensive Income for the years ended December 31, 2007 and 2006 and for the period May 10, 2005 (inception) to December 31, 2005…………………………………………………………………….F-6

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2007 and 2006 and for the period from May 10, 2005 (inception) to December 31, 2005……………………………………………………...... F-7

Notes to Consolidated Financial Statements…………………………………………………F-8

Report of Independent Auditors
To the Board of Directors and Shareholders of Seadrill Limited

We have audited the accompanying consolidated balance sheets of Seadrill Limited and its subsidiaries (the Company) as of December 31, 2007 and December 31, 2006 and the related consolidated statement of operations, comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2007 and December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Company as of December 31, 2005 and for the period from May 10, 2005 (inception) to December 31, 2005 was audited by other auditors whose report dated May 29, 2006 expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seadrill Limited and subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers AS

Stavanger, Norway
July 4, 2008

Seadrill Limited

Consolidated Statement of Operations for the years ended December 31, 2007 and 2006 and for the period from May 10, 2005 (inception) to December 31, 2005

(In millions of US dollar, except per share data)

	Year ended December 31, 2007	**Year ended December 31, 2006**	**Period from May 10, 2005 (inception) to December 31, 2005**
Operating revenues			
Contract revenues	1,318.5	942.3	26.6
Reimbursables	146.6	109.0	1.7
Other revenues	211.2	103.3	-
Total operating revenues	1,676.3	1,154.6	28.3
Operating expenses			
Vessel and rig operating expenses	755.4	587.8	23.3
Reimbursable expenses	139.4	103.4	1.7
Depreciation and amortization	182.9	167.6	12.9
General and administrative expenses	109.8	69.7	5.8
Total operating expenses	1,187.5	928.5	43.7
Operating income (loss)	488.8	226.1	(15.4)
Financial items			
Interest income	23.6	14.0	1.7
Interest expenses	(112.7)	(79.8)	(0.9)
Share in results from associated companies	23.2	26.6	2.7
Other financial items	(36.2)	80.0	6.0
Total financial items	(102.1)	40.8	9.5
Income (loss) before income taxes and minority interest	386.7	266.9	(5.9)
Income taxes	78.3	(22.4)	(1.6)
Minority interest in net income of subsidiaries	(13.0)	(30.4)	(0.1)
Gain on issuance of shares in associate	50.0	0.0	0.0
Net income (loss)	502.0	214.1	(7.6)
Basic earnings (loss) per share (US dollar)	1.28	0.61	(0.04)
Diluted earnings (loss) per share (US dollar)	1.20	0.61	(0.04)

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

Seadrill Limited

Consolidated Balance Sheet as of December 31, 2007 and
as of December 31, 2006

(In millions of US dollar)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	1,012.9	210.4
Marketable securities	240.4	105.9
Accounts receivables, net	220.5	194.1
Other current assets	223.1	246.2
Total current assets	1,696.9	756.6
Non-current assets		
Investment in associated companies	176.1	238.1
Newbuildings	3,339.8	2.025.4
Drilling units	2,451.9	2,293.3
Goodwill	1,509.6	1,256.5
Deferred tax assets	3.7	109.7
Other non-current assets	115.1	63.1
Total non-current assets	7,596.2	5,986.1
Total assets	9,293.1	6,742.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term interest bearing debt	484.1	255.4
Other current liabilities	670.6	477.2
Total current liabilities	1,154.7	732.6
Non-current liabilities		
Long-term interest bearing debt	4,116.4	2,559.3
Deferred taxes	96.1	324.8
Other non-current liabilities	198.1	199.0
Total non current liabilities	4,410.6	3,083.1
Commitments and contingencies	–	–
Minority interest	104.6	212.0
Shareholders' equity		
Paid-in capital	2,778.5	2,449.8
Accumulated other comprehensive income	152.0	49.1
Accumulated earnings	692.7	206.5
Other	0.0	9.6
Total shareholders' equity	3,623.2	2,715.0
Total liabilities and shareholders' equity	9,293.1	6,742,7

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

Seadrill Limited

Consolidated Statement of Cash Flows for the years ended December 31, 2007 and 2006 and for the period from May 10, 2005 (inception) to December 31, 2005

(In millions of US dollar)

	Year ended December 31, 2007	Year ended December 31, 2006	Period from May 10 (inception) to December 31, 2005
Cash Flows from Operating Activities			
Net income (loss)	502.0	214.1	(7.6)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	182.9	167.6	12.9
Amortization of deferred loan charges	14.0	6.3	0.1
Share of results from associated companies	(23.2)	(26.6)	(2.7)
Share-based compensation expense	15.1	9.6	-
Fair value of equity share swap	-	-	(5.3)
Income attributable to minority interest	13.0	30.4	0.1
Gain on disposal of fixed assets	(124.2)	-	-
Gain on issuance of shares in associate	(50.0)	-	-
Gain on disposal of other investments	(9.8)	(83.6)	(0.8)
Deferred income taxes	(134.6)	22.4	-
Changes in working capital items:			
Trade accounts receivable and other short-term Receivables	(33.8)	(283.0)	(9.1)
Trade accounts payable and other short-term liabilities	226.0	142.5	8.9
Accrued expenses/deferred revenue	72.1	(13.2)	13.9
Net cash provided by operating activities	649.5	174.2	11.2

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

Seadrill Limited

Consolidated Statement of Cash Flows for the years ended December 31, 2007 and 2006 and for the period from May 10, 2005 (inception) to December 31, 2005

(In millions of US dollar)

	Year ended December 31, 2007	**Year ended December 31, 2006**	**Period from May 10 (inception) to December 31, 2005**
Cash Flows from Investing Activities			
Additions to newbuildings	(1.568.0)	(1,159.7)	(247.5)
Additions to rigs and equipment	(170.7)	(36.1)	(21.3)
Sale of rigs and equipment	170.0	7.6	-
Investment of subsidiaries	(216.5)	(2,595.8)	(19.1)
Cash assumed in purchase of the subsidiaries	-	412.8	18.8
Investment in associated companies	-	(4.9)	(31.3)
Gain on issuance of shares in associate	50.0	-	-
Purchase of marketable securities	(141.4)	(126.8)	(2.1)
Dividend received from associated company	5.4	-	-
Disposal of associated company	83.3	-	-
Sale of marketable securities	49.3	322.6	48.7
Net cash used in investing activities	(1,738.6)	(3,180.3)	(253.8)
Cash Flows from Financing Activities			
Proceeds from long term debt	3,854.6	1,979.8	210.0
Proceeds from short term debt	92.8	98.2	46.7
Repayments of short term capital lease obligations	(0.1)	(11.3)	(4.8)
Repayments of short term debt	(196.2)	(48.8)	-
Repayments of long term debt	(2,015.6)	(593.9)	(164.3)
Conversion of debt to equity	50.0	-	-
Debt fees paid	(21.1)	(31.9)	(1.1)
Purchase of minority interests	(218.2)	-	-
Contribution by minority interests	40.0	45.0	-
Purchase of treasury shares	(21.2)	-	-
Sale of treasury shares	21.4	-	-
Proceeds from issuance of equity	308.6	1,741.8	206.3
Issuance costs in connection with issuance of equity	(4.6)	(17.3)	(1.6)
Net cash provided by financing activities	1,890.4	3,161.6	294.4
Effect of exchange rate changes on cash and cash equivalents	1.2	3.1	-
Net increase in cash and cash equivalents	802.5	158.6	51.8
Cash and cash equivalents at beginning of the period	210.4	51.8	-
Cash and cash equivalents at the end of the period	1.012.9	210.4	51.8
Interest paid	(247.0)	(108.1)	(3.4)
Taxes paid	(13.5)	(11.6)	(1.4)

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, 2007 and 2006 and for the period from May 10, 2005 (inception) to December 31, 2005

(In millions of US dollar)

	Year ended December 31, 2007	**Year ended December 31, 2006**	**Period from May 10, 2005(inception) to December 31, 2005**
Net income (loss)	502.0	214.1	(7.6)
Change in unrealized gain/loss on marketable securities	61.9	(82.4)	82.4
Change in unrealized foreign exchange differences	33.9	51.8	--
Change in actuarial loss/ gain related to pension	7.1	-	-
Comprehensive Income	605.0	183.5	74.9

	December 31, 2007	**December 31, 2006**	**December 31, 2005**
Comprehensive Income items beginning of period	49.1	82.4	-
Unrealized gain/loss on marketable securities	61.9	(82.4)	82.4
Implementation of FASB Statement No. 158	7.1	(2.7)	-
Change in unrealized foreign exchange differences	33.9	51.8	-
Comprehensive Income items end of period	152.0	49.1	82.4

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, 2007 and 2006 and for the period from May 10, 2005 (inception) to December 31, 2005

(In millions of US dollar)

	Share capital	**Addit. paid in capital**	**Options Issued**	**Accum. other compre-hensive income**	**Retained earnings**	**Total share-holders' equity**
Balance at May 10, 2005	–	–	–	–	(16.2)	(16.2)
Issued shares, net of issuance costs	458.3	440.8	–	–	–	899.1
Effect of acquisition from shareholder	–	(173.7)	–	–	16.2	(157.5)
Unrealized gain/loss on marketable securities	–	–	–	82.4	–	82.4
Net loss	–	–	–	–	(7.6)	(7.6)
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
Compensation expense for share options	–	–	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/loss on marketable securities	–	–	–	61.9	–	61.9
Compensation expense for share options	–	–	15.1	–	–	15.1
Net purchase/sale Treasury shares	(1.2)	1.4	–	–	–	0.2
Conversion of Loan	–	–	–	–	(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	**797.1**	**1,956.8**	**24.7**	**152.0**	**692.6**	**3,623.2**

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

Seadrill Limited - Notes to Consolidated Financial Statements

General information

Seadrill Limited ("Seadrill" or the "Company") is an international offshore drilling contractor providing services within drilling and well services registered under the laws of Bermuda. As of December 31, 2007 the Company, together with partners, had an interest in 37 offshore drilling units including 14 units were under construction. The Company has a versatile fleet of drillships, jack-ups, semi-submersibles 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 company Seawell Limited. Seadrill is listed in Norway on the Oslo Stock Exchange.

Significant transactions in 2006:

In the beginning of 2006, Seadrill acquired all of the outstanding shares of Smedvig. Smedvig was engaged in drilling activities in the North Sea through 4 drilling units, in addition to having a strong market position in the tender rig fleet operated from Singapore.

In the same period, Seadrill purchased all the outstanding shares of Mosvold Drilling, which had two drillships under construction. The shares were purchase through a series of step acquisitions.

On September 8, 2006 the Company after further acquisitions of shares reached an ownership of 20,299,811 shares in Eastern Drilling ASA which represented 60.43 percent of the shares and votes in Eastern Drilling ASA.

The main events in 2007 were as follows:

On January 12, 2007, Seadrill and Ship Finance International Limited entered into a sale and leaseback arrangement where Seadrill sold the jack-up rig West Prospero for a consideration of US$210 million and simultaneously lease the unit for a term of 15 years.

On February 5, 2007, Seadrill sold the FPSO vessel to Sea Production Ltd. The total consideration for Crystal Ocean was US$90 million.

On February 22, 2007, the FPSO vessel Crystal Sea was sold to the Oslo Stock Exchange listed company BW Offshore. The total consideration for the FPSO vessel was US$80 million of which US$60 million in cash and US$20 million in BW Offshore shares.

On April 17, 2007, Seadrill completed a private placement of a total of 9 million new shares for a subscription price of NOK101.00 per share. Gross proceeds from the equity issue amounted to NOK909 million (equivalent to approximately US$150 million).

During April and May 2007, Seadrill acquired 100% of the outstanding shares of Eastern Drilling ASA through step acquisitions.

On May 2, 2007, Seadrill entered into a turnkey contract to build another ultra-deepwater semi-submersible drilling rig at the Jurong Shipyard in Singapore. The turnkey contract has a net total project value of US$531.5 million with scheduled delivery of the unit in April 2010. The net total project value indicated total costs excluding spares, accrued interest expense, construction supervision and operations preparations.

On June 25, 2007, Seadrill entered into an agreement with Keppel O&M in Singapore to build a new semi-submersible self-erecting tender rig (semi-tender). Total capital expenditure for the semi-tender is estimated at US$195 million. The new rig is scheduled for delivery in the first quarter 2010.

On July 11, 2007, Seadrill completed a private placement of a total of 7 million new shares for a subscription price of NOK127.00 per share. Gross proceeds from the equity issue amounted to NOK889 million (equivalent to approximately US$153 million).

On July 12, 2007, Seadrill ordered its third ultra-deepwater newbuild drillship from Samsung Shipyard based on a turnkey contract. The turnkey contract has a total project value of US$598 million with scheduled delivery of the unit in June 2010.

On July 25, 2007, Seadrill announced that it would sell the 1981 built jack-up West Titania for US$146.5 million to the Nigerian drilling contractor SeaWolf Oil Services Limited. The transaction was concluded in May 2008 for total consideration of US$133.4 million.

On September 24, 2007, Seadrill established Seawell as an independent well services company based on its existing well services activities with the ambition to create a large international well services company. In order to set up Seawell Limited on a stand-alone basis, new equity was raised through a private placement of 20 million shares of Seawell Limited for US$50 that was completed in the beginning of October 2007.

On October 26, 2007, Seadrill launched a US$1,000 million convertible bond that matures in November 2012.

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

Seadrill Limited - Notes to Consolidated Financial Statements

Basis of presentation

The accompanying consolidated financial statements present the financial position of Seadrill Limited, the consolidated subsidiaries and the group's interest in associated entities.

The financial statements are prepared on a historical cost basis, except that the following assets and liabilities were assessed at their fair value at the acquisition date. The step-up acquisition of Eastern Drilling ASA in 2007, the acquisition of Smedvig ASA, Mosvold Drilling ltd and Eastern Drilling ASA in 2006 as well as Seadrill Invest in 2005 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.

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

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, except for the adoption of FAS 158, 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 per cent and 50 per cent of an ownership interest, and over which the Company exercises significant influence, but does not consolidate, are accounted for using the equity method. The Company records its investments in equity method investees on the consolidated balance sheets as "Investments in associated companies" and its share of the investees' earnings or losses in the consolidated statements of operations as "Share in results from associated companies". The excess, if any, of purchase price over book value of the Company's investments in equity method investees is included in the accompanying consolidated balance sheets in "Investment in associated companies".

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.

All material 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.

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.

Revenue recognition

Contract revenue:

The 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 during which the services are rendered, and at the rates established in the contracts. Under some contracts, the Company is entitled to additional payments for exceeding performance targets. As there is uncertainty as to such bonus payments until the drilling program is completed, such additional payments are recognized after completion of the drilling program, or at such time as the uncertainty is resolved.

In connection with drilling contracts, the Company may receive lump sum fees for the mobilization of equipment and personnel or for capital upgrades prior to commencement of drilling services. Mobilization fees received and costs incurred to mobilize a drilling unit are recognized over the primary contract term of the related drilling contract.

Demobilization costs are those costs incurred to return a vessel or drilling rig to safe harbor or geographic area. Demobilization costs are expensed as incurred. Lump sum fees received from the customer under a drilling contract for demobilization that is probable of realization is recognized over the primary contract term.

Costs of relocating drilling units without drilling contracts to other markets areas are expensed as incurred.

Fees received from customers under drilling contracts for capital upgrades are deferred and recognized over the primary contract term.

Reimbursables:

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

Accounting policies (cont'd)

Other revenues:

In a purchase price allocation there may exist unfavorable drilling contracts. An unfavorable drilling contract has a lower dayrate than the prevailing dayrate in an ongoing rig market. If there exist such unfavorable contracts the net present value are amortized over the fixed drilling period.

In addition gain from sale of assets is classified as other revenue.

Repairs, maintenance and period 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 periodic overhauls. Amortization costs for capitalized repair, maintenance and periodic overhauls are included in Depreciation and amortization.

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’s functional currency is U.S. Dollar as the majority of revenues are received in U.S. Dollars and a majority of the Company’s expenditures are made in U.S. Dollars. The Company’s reporting currency is U.S. Dollars. Most of the Company’s subsidiaries have a functional currency of 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 month and the assets and liabilities are translated using the year end exchange rate. Foreign currency translation gains or losses in consolidation are recorded as a separate component of other comprehensive income in shareholders’ equity.

Transactions in foreign currencies during the year are translated into U.S. Dollars at the rates of exchange in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency non-monetary assets and liabilities are translated using historical rates of exchange. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

Current and non-current classification

Receivables and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Receivables and liabilities not maturing within one year are classified as long-term assets and long-term liabilities respectively.

Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with original maturities of three months or less. Restricted cash consists of bank deposits which have been pledged as collateral for certain guarantees issued by a bank or minimum deposits which must be maintained in accordance with contractual arrangements.

Accounting policies (cont'd)

Marketable securities

Marketable equity securities held by the Company are considered to be available-for-sale securities and, as such, are carried at fair value with resulting unrealized gains and losses.recorded as a separate component of other comprehensive income in shareholders' equity.

The basis for the cost of a security sold is determined by specific identification.

Receivables

Receivables, including accounts receivables, are recorded in the balance sheet at their full amount less allowance for doubtful receivables. The Company establishes reserves for doubtful receivables 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 changes in the financial position of the customer as well as disputes with the customer regarding the application of contract provision to the drilling operations. Uncollectible trade accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance.

Other equipment

Other equipment is recorded at historical cost less accumulated depreciation and is depreciated over its estimated remaining useful life, which approximates 3-5 years. Other equipment is classified as Other non current assets.

Newbuildings

The carrying value of the rigs under construction ("Newbuildings") represents the accumulated costs to the balance sheet date which the Company has had to pay by way of purchase installments and other capital expenditures together with capitalized loan interest and associated finance costs. Including in the carrying value is yard installment, variation orders, riser allocations, spare parts, accrued interests expenses, constructions supervision and commissioning. No charge for depreciation is made until commissioning of the rig has been completed and ready for its intended use.

Rig purchase options are capitalized at the time when option contracts are acquired or entered into. The Company reviews expected future cash flows, which would result from the exercise of each option contract on a contract by contract basis to determine whether the carrying value of the option is recoverable.

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.

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.

Accounting policies (cont'd)

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 lives of the Company’s mobile units and tender rigs are 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.

The Company charters certain vessels under agreements that are classified as capital leases. Depreciation of vessels under capital lease is included within depreciation expense in the statement of operations. Vessels under capital lease are depreciated on a straight-line basis over the shorter of the lease term and the vessels' remaining economic useful life.

Assets are classified as held for sale when the Company has a plan for disposal and those assets meet the held for sale criteria of the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") 144, Accounting for Impairment or Disposal of Long-Lived Assets. 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.

Goodwill

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, 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. Management has determined that our reporting units are the same as our operating segments for the purpose of allocating goodwill and the subsequent testing of goodwill for impairment.

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 future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

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.

Accounting policies (cont'd)

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 income statement when the net cumulative unrecognized actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10% 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 not recognized in the income statement. On December 31, 2006, Seadrill adopted the recognition and disclosures provisions of SFAS No. 158, Employer’s Accounting for Defined Benefit Pension and other Retirement Plans, an amendment of FASB Statements No. 87, 88 and 123R, which requires the recognition of the funded status of the plan in the balance sheet with a corresponding adjustment to accumulated other comprehensive income. The adjustment to other comprehensive income represents the net unrecognized actuarial losses and unrecognized prior service costs, all of which were previously netted against the plans’ funded status on the balance sheet. These amounts will continue to be 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.

Treasury shares

The treasury shares are purchased primarily to meet the Company’s obligations towards the share incentive program.

The Company purchased the shares at fair market value in the market. The Company’s share capital is reduced by the nominal value of the acquired treasury shares. The market value paid less the nominal value reduces additional paid in capital.

Derivatives Instruments and Hedging Activities

The Company applies SFAS 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended. SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and measure these instruments at fair value. Changes in the fair value of derivative instruments are recorded in the income statement periodically as they do not qualify for hedge accounting.

In order to qualify for hedge accounting under SFAS 133, certain criteria and detailed documentation requirements must be met.

Accounting policies (cont'd)

The Company's interest-rate swap agreements, foreign currency options and forward exchange contracts are recorded at fair value and 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.

Income taxes

Seadrill is a Bermuda company. Under current Bermuda law. Seadrill is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until year 2016. Certain of its subsidiaries operate in other jurisdictions where taxes are imposed. Consequently income taxes have been provided in respect of taxes in such jurisdictions.

Significant 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 estimates of whether additional taxes will 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 probable 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.

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.

Deferred charges

Loan related costs, including debt arrangement fees, are capitalized and amortized over the term of the related loan. Amortization of loan related costs is included in interest expense. Capitalization of loan related costs commences when the activities to prepare the asset for its intended use are in progress and the expenditures and loan related costs are being incurred. Loan related costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Accounting policies (cont'd)

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.

Comprehensive income

The Company reports and displays comprehensive income in accordance with SFAS No. 130, Reporting Comprehensive Income ("SFAS 130"), which establishes standards for reporting and displaying comprehensive income and its components. Components of comprehensive income are net income and all changes in equity during the period except those resulting from transactions with owners. SFAS 130 requires enterprises to display comprehensive income and its components in the enterprise's financial statements, to classify items of comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income in shareholders' equity separately from retained earnings and additional paid-in capital.

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

A segment is a distinguishable component of the Company that is engaged either in providing products or services (industry segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Accounting policies (cont'd)

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 other paid in capital.

Subsidiaries and investments included in the consolidated financial statements

Name of company	Jurisdiction of incorporation	Principal activities	Percent owned
Seadrill Norge Holding AS	Norway	Holding company	100
Seadrill Management AS	Norway	Management company	100
Seadrill Norge AS	Norway	Holding company	100
Seadrill Offshore AS	Norway	Drilling services contractor	100
Seadrill Rig AS	Norway	Owner of West Alpha, West Epsilon, West Venture and West Navigator	100
Seadrill Services AS	Norway		100
Seadrill X AS	Norway	Owner of newbuild West Phoenix	100
Eastern Drilling AS	Norway		100
Seadrill Eminence Ltd	Bermuda	Owner of newbuild West Eminence	100
Seadrill Americas Inc	USA	Management company	100
Seadrill Insurance Ltd	Bermuda	Captive	100
Seadrill Tender Rig Ltd	Bermuda	Owner of 6 tender rigs	100
Seadrill Tender Rigs Pte Ltd	Singapore	Owner of West Setia	100
Seadrill Asia Ltd	Hong Kong	Holding company	100
Seadrill Offshore Singapore Ltd	Singapore	Management company	100
Petrodril Holdings Inc	Panama		100
Seadrill Sdn. Bhd.	Brunei		50
PT Nordrill Indonesia	Indonesia		100
Seawell Limited	Bermuda	Holding company	80
Seawell Management AS	Norway	Management company	80
Seadrill Services Ltd	Hong Kong	Management company	80
Seawell Holding UK Ltd	UK	Holding Company	80
Seawell Norge AS	Norway	Management company	80
Seawell AS	Norway	Drilling services contractor	80
Seawell Engineering AS	Norway	Drilling services contractor	80
Wellbore Solutions AS	Norway	Drilling services contractor	40.3
Seawell Limited (UK)	UK	Drilling services contractor	80
Seawell Management Services Limited	UK	Management company	80
Seawell Offshore Danmark AS	Denmark	Drilling services contractor	80
Atlas Drilling (S) Pte Ltd	Singapore	Owner of West Atlas	100
Seadrill Titania Limited	Cyprus	Owner of West Titania	100
Seadrill Larissa Limited	Cyprus	Owner of West Larissa	100
Seadrill Janus Limited	Cyprus	Owner of West Janus	100

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

Seadrill Invest I Ltd	Bermuda	Charterer of West Ceres	99.99
Seadrill Invest II Ltd	Bermuda	Charterer of West Prospero	99.99
Caleb Maritime S.A.	Liberia	Owner of newbuild West Triton	100
Subsea Drilling Inc	Liberia	Owner of newbuild West Sirius	100
Subsea Drilling II Inc	Liberia	Owner of newbuild West Taurus	100
Subsea Drilling III Ltd	Cyprus	Owner of newbuild West Hercules	100
Subsea Drilling IV Ltd	Cyprus	Owner of newbuild West Aquarius	100
Subsea Drilling V Inc	Liberia	Owner of newbuild West Gemini	100
Seadrill Deepwater Drillship Ltd	Cayman Islands	Owner of newbuilds West Polaris, West Capella and West Orion	100
Seadrill Invest III Ltd	Liberia	Owner of newbuild West Ariel	100
Seadrill Labuan Leasing Limited	Labuan		100
Seadrill Invest Ltd	Bermuda	Holding company	99.99
Seadrill Mobile Units Ltd	Nigeria	Management company	99.99
Seadrill Management (S) Pte Ltd	Singapore	Management company	100
Guildford Management Ltd	British Virgin Islands	Management company	100
Seadrill Deepwater Units (S) Pte Ltd	Singapore	Management company	100
Seadrill Deepwaters Management Ltd	Bermuda	Management company	100
Golden Wisdom Shipping Company Limited	Cyprus		100
Golden Dream Shipping Company Limited	Cyprus		100
Stella Shipping International Inc	Liberia		100
Crystal Sea Marine Ltd	Liberia		100

Associated Companies

PT Apexindo Pratama Duta Tbk	Indonesia	Off- and onshore drilling contractor	32.33
Varia Perdana Sdn. Bhd.	Malaysia	Drilling services contractor	49
Tioman Drilling Co Sdn	Malaysia	Drilling services contractor	49
Crest Tender Rigs	Malaysia	Owner of 4 tender rigs	49

Recently issued 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. The Company is currently evaluating the impact the adoption of FAS No. 157 will have on its 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 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 Company does not expect the adoption of FAS 159 to have a material impact on its financial statements. F-13

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. The Company does not expect the adoption of FAS 141R to have a material impact on its financial statements.

In December 2007 the SEC issued Staff Accounting Bulletin No. 110 ("SAB 110"), relating to share-based payment. SAB 110 expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB 107, in developing an estimate of expected term of "plain vanilla" share options in accordance with FAS 123 (revised 2004) "Share-Based Payment". In particular, the staff indicated in SAB 107 that it will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, the staff believed that more detailed external information about employee exercise behavior (e.g. employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The Company continues to use the simplified method for making estimates of expected term, as allowed by SAB 110.

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 an effect on the Company's financial statement.

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.

Note 1 – 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, 2007, 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 from external customers

(In millions of US dollar)	**2007**	**2006**	**2005**
Mobile Units	961.6	638.1	28.3
Tender Rigs	265.7	179.0	-
Well Services	449.1	337.5	-
Total	1,676.3	1,154.6	28.3

Depreciation and amortization

(In millions of US dollar)	**2007**	**2006**	**2005**
Mobile Units	135.1	127.3	12.9
Tender Rigs	38.6	33.7	-
Well Services	9.2	6.6	-
Total	182.9	167.6	12.9

Seadrill Limited - Notes to Consolidated Financial Statements

Operating income (loss) - net income (loss)

(In millions of US dollar)	**2007**	**2006**	**2005**
Mobile Units	348.6	138.6	(15.4)
Tender Rigs	97.0	56.7	-
Well Services	43.3	30.8	-
Operating income (loss)	488.8	226.1	(15.4)
Unallocated items:			
Net financial items	(102.1)	40.8	9.5
Income taxes	78.3	(22.4)	(1.6)
Minority interest	(13.0)	(30.4)	(0.1)
Gain on issuance of shares by subsidiary	50.0	-	-
Net income (loss)	502.0	214.1	(7.6)

Total assets

(In millions of US dollar)	**2007**	**2006**
Mobile Units	8,059.2	5,455.9
Tender Rigs	939.6	953.8
Well Services	294.3	333.0
Total	9,293.1	6,742.7

Total liabilities

(In millions of US dollar)	**2007**	**2006**
Mobile Units	4,645.7	2,876.2
Tender Rigs	640.8	800.8
Well Services	278.8	138.7
Total	5,565.3	3,815.7

Capital expenditures – fixed assets

(In millions of US dollar)	**2007**	**2006**	**2005**
Mobile Units	1,654.7	3,302.5	268.8
Tender Rigs	66.0	580.4	-
Well Services	18.0	36.8	-
Total	1,738.7	3,919.7	268.8

GEOGRAPHIC SEGMENT DATA

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

Revenues from external customers

(In millions of US dollar)	**2007**	**2006**	**2005**
North Sea	933.0	769.1	-
Asia	310.0	224.1	22.8
Africa	163.6	152.9	-
Australia	269.7	8.5	5.5
Total	1,676.3	1,154.6	28.3

Fixed assets – operating drilling units [1)]

(In millions of US dollar)	**2007**	**2006**
North Sea	1,342.3	1,402.7
Asia	694.9	546.4
Africa	262.5	329.7
Australia	152.2	14.4
USA	-	-
Total	2,451.9	2,293.2

[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 2 – Taxes

The income taxes consist of the follows:

(In millions of US dollar)	**2007**	**2006**	**2005**
Current tax expense:			
Bermuda	–	–	–
Foreign	56.3	13.1	1.6
Deferred tax expense:			
Bermuda	–	–	–
Foreign	(134.6)	9.3	–
Total provision	(78.3)	22.4	1.6

The Company has introduced US dollars as functional currency for all subsidiaries qualifying, with corresponding adjustments to comparable numbers for 2006. Current tax payable for the period ended December 31, 2007 is to a large extend offset by group contribution.

The income taxes for the period ended December 31, 2007 differed from the amount computed by applying the statutory income tax rate of 0% as follows:

(In millions of US dollar)	**2007**	**2006**	**2005**
Income taxes at statutory rate	–	–	–
Foreign income and revenues taxed at higher rates	(78.3)	22.4	1.6
Total	(78.3)	22.4	1.6

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, 2007**	**December 31, 2006**
Pension	16.0	15.5
Tax loss carry forward	12.2	30.3
Unfavorable contracts	26.4	63.9
Other	5.6	0.2
Gross deferred tax asset	60.2	109.9

Deferred Tax Liability:

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

Deferred taxes are classified as follows:

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

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

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 has 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. Upon receipt of the 2007 tax assessments the Company expects to be in a position to assess if there is a need to reverse any of such tax benefit.

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 to reduce 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. The Company has 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. Upon receipt of the 2007 tax assessments the Company expects to be in a position to reassess if any such provision is required.

Note 3 – 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 and net income are shown below. The components of the denominator for the calculation of basic EPS and diluted EPS are as follows:

	Net income adjusted for minority interest	Weighted average shares outstanding	Earnings per share
2005			
Earnings per share	(7.6)	190,917,701	(0.04)
Effect of dilution:			
Options		0	
Diluted earnings per share		190,917,701	(0.04)
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

Note 4 – Other revenues

Other revenues included amortization of unfavorable contract values of US$87.0 million. 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 being amortized and recognized as other revenues over the terms of the contracts of two to five years.

In addition, other revenues include gains from the sale of the FPSOs Crystal Ocean and Crystal Sea amounting to US$124.2 million for the year ended December 31, 2007. Approximately US$69.5 million and US$54.7 million were related to the sale of Crystal Ocean and Crystal Sea, respectively.

In 2006, other revenues consist of amortization of unfavorable contract values of US$100.2 million and gain on sale of equipment of US$3.1 million.

Note 5 – Restricted cash

Restricted cash as at December 31, 2007, including cash collateral of performance guarantees issued by a bank against the charter of subsidiary's units amounted to US$74.1 million. The Company also had bank deposits from advanced tax withholding of US$15.9 million, totalling US$90.1 million. Comparable numbers for 2006 was US$19.6 million and US$12.2 million, respectively.

Included in the Company's loan agreements are covenant requirements related to cash and cash equivalents. The Company shall on a consolidated basis at any time maintain free cash representing a minimum of US$100 million until April 2, 2008, thereafter the Company shall at any time maintain free cash of US$75 million. The Company also has covenants related to loans requiring a minimum of cash and cash equivalents of US$50 million.

Note 6 – 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, 2007**	**December 31, 2006**
Cost	197.6	106.6
Gross unrealized holding gain / (loss)	42.8	(0.8)
Fair value	240.4	105.8

Other information regarding the Marketable securities:

(In millions of US dollar)	**2007**	**2006**
Purchase	141.4	126.8
Proceeds from sale	49.3	322.6
Proceeds from redemption	-	-
Realized gain)	9.8	83.6

Note 7 – Other financial items

In 2007, the Company recorded a loss of US$36.2 million related to other financial items. The loss is related to foreign exchange differences and primarily due to the strengthening of Norwegian kroner compared to U.S. Dollar. The loss is partly offset by gain from forward contracts amounting to US$2.1 million, gain from interest SWAP agreements amounting to US$4.8 million and gain from sale of shares amounting to US$7.6 million.

In 2006, a gain of US$80.0 million related to the sale of the shares in Ocean Rig was recorded under other financial items. In addition, sales of other available-for-sale securities resulted in a gain of USD 0.5 million. Total proceeds from available-for-sale securities amounted to USD 319.2 million. In addition, the Company has minor losses related to forward exchange contracts which are offset by gains related to interest rate swap agreements.

Note 8 – Accounts receivable, net

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

(In millions of US dollar)	**December 31, 2007**	**December 31, 2006**
Accounts receivables gross	242.5	216.3
Allowance for doubtful receivables	(22.0)	(22.2)
Accounts receivables, net	220.5	194.1

Note 9 – Other current assets

Other current assets include:

(In millions of US dollar)	**December 31, 2007**	**December 31, 2006**
Unbilled revenue	48.3	66.5
Prepaid expenses/accrued revenue	64.6	72.9
Debt arrangement fees – short term portion	7.1	9.7
Payment related to shares sold at financial institution	-	65.8
Assets held for sale *	51.3	-
Other	46.2	31.1
Short-term deferred tax assets	5.6	0.2
Allowance for doubtful debt	-	-
Total other current assets	223.1	246.2

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

Note 10 – Newbuildings

(In millions of US dollar)	**December 31, 2007**	**December 31, 2006**
Newbuildings	3,339.8	2,025.4
Total	3,339.8	2,025.4

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

Note 11 – Drilling units

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

(In millions of US dollar)	**December 31, 2007**	**December 31, 2006**
Cost	2,667.0	2,480.3
Accumulated depreciation and amortization	(215.1)	(190.3)
Currency exchange fluctuations	-	3.3
Net book value	2,451.9	2,293.3
Depreciation and amortization for the period	169.8	158.2

Note 12 – 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, 2007**	**December 31, 2006**
Equipment:		
Cost - Office equipment, furniture and fittings	120.9	45.6
Accumulated depreciation	(59.5)	(7.1)
Net book value	61.4	38.5
Depreciation and amortization for the period	13.1	9.4
Other non-current assets consists of:		
Equipment	61.4	38.5
Long-term part of loan arrangement fees	30.6	19.9
Non-current receivables	23.1	4.7
Total non-current assets	115.1	63.1

Note 13 – Acquisition

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 ASA 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 ASA 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 Companies Act and resulted in Eastern Drilling becoming a wholly owned subsidiary of Seadrill. Eastern Drilling ASA 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 30.

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 7 tender rigs, in addition to a newbuild tender rig scheduled for delivery 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 outstanding share capital of Mosvold, and owns 100% of the shares at December 31, 2006.

Through the acquisition of Mosvold, Seadrill acquired two drillship-newbuilds for delivery 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 unwinded and resulted in a financial loss of NOK 60.7 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 for delivery in December 2007 and September 2008.

The step–up acquisition of Eastern Drilling in 2007, and the acquisitions of Smedvig, Mosvold Drilling 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 are included in the Company's consolidated financial statements beginning on the date of achieving control, January 20, February 27 and September 30, 2006, respectively.

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 Drilling and Eastern Drilling has been allocated as follows:

Acquisition in 2007 *(in US dollar million)*	Wellbore Solutions AS*	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

* Seadrill has a controlling interest in Wellbore Solutions AS through a Shareholder Agreement.

Acquisitions in 2006 *(in US dollar million)*	**Smedvig**	**Mosvold Drilling**	**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**

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

Pro forma financial figures

The pro forma figures has been prepared for illustrative purposes only, and because of their nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results.

The pro forma figures for 2005 shown below are a set of financial figures prepared in order to understand the operations of Seadrill, inclusive of Smedvig, Mosvold and Eastern Drilling. The pro forma statements for 2005 include Seadrill’s current activities and the full effect of the acquisitions of Smedvig, Mosvold and Eastern Drilling, as if the acquisitions were made at the start of the period on January 1, 2005. Amortization of excess values identified in the purchase price allocation has been recognized in the 2005 pro forma income statement as if the acquisitions were made at the start of the period, without reducing the recorded fair values of acquired assets/liabilities in the pro forma balance sheet as of December 31, 2005. The income taxes in 2005 are affected by a reversal of previous provision of deferred taxes related to the Norwegian tonnage tax system. Included in the revenues for 2006 is a non-recurring amount of US$10 million, which Eastern Drilling received due to a cancellation of a Letter of Intent from an oil company.

	Pro forma Consolidated Year ended December 31, 2006	Pro forma Consolidated Year ended December 31, 2005
Operating revenues		
Contract revenues	968.5	658.1
Reimbursables	111.7	54.1
Other revenues	126.6	122.1
Total operating revenues	1,206.8	834.3
Net income	256.0	75.7
Earnings per share (US dollar)	0.72	0.40

Note 14 - Goodwill

Goodwill 2007

Following the step-up acquisition mainly in April and May 2007 as discussed in note 13, 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 a goodwill of US$2.9 million. The goodwill is related to human capital and future increase in marked conditions 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.

Goodwill 2006

During the year the Company acquired Mosvold, Smedvig and Eastern Drilling. All of the entities have been consolidated into our financial statements since their respective acquisition dates. The acquired entities assets and liabilities were fairly valued and taken into the consolidated accounts at the current market valuation. 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 and future increase in marked conditions among others. Except for the acquisition of Smedvig, the purchase price could be allocated to identifiable assets. The total goodwill of US$1,256.5 million arising from the acquisition of Smedvig was assigned to the Company's operating segments as follows: US$957.2 million to Mobile Units, US$149.3 million to Tender Rigs and US$150.0 million to Well Services.

We perform our annual test of goodwill impairment as of December 31. As a result of the test for impairment, we had no impairment of goodwill for the years ended December 31, 2007 and 2006, respectively.

.

Our goodwill balance and changes in the carrying amount of goodwill are as follows (in millions):

(In millions of US dollar)	**December 31, 2007**	**December 31, 2006**
Net book balance at January 1	1,256.5	-
Goodwill acquired during the year	216.5	1,256.5
Impairment losses	-	-
Currency adjustments	36.5	-
Net book balance at December 31	1,509.5	1,256.5
Goodwill included in disposals during the period	-	-

Note 15 – Operational leases

The Company has signed operating leases for certain premises. The largest lease agreements are related to offices in Stavanger, Singapore, Houston and Aberdeen. Rental expenses amounted to US$8.4 million for 2007 and US$4.4 million for 2006. Estimated future minimum rental payments are as follows:

Year	Amount in USD million
2008	9.2
2009	9.1
2010	10.2
2011	10.4
2012	9.5
thereafter	60.0
Total	108.4

Note 16 – Investment in associated companies

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

	December 31, 2007	**December 31, 2006**	**December 31, 2005**
PT Apexindo Pratama Duta Tbk (Apexindo)	32.33%	32.33%	33.04%
Varia Perdana Sdn. Bhd.	49%	49%	-
Tioman Drilling Co	49%	49%	-
Crest Tender Rigs	49%	49%	-
Lisme AS	-	44%	-
Mosvold Drilling Ltd	-	-	40.1%

The ownership in Varia Perdana, Tioman Drilling, Crest Tender Rigs and Lisme were acquired through the acquisition of Smedvig in January 2006.

At year-end 2005, Mosvold Drilling Ltd was considered an associated company, as Seadrill held 40.1% of the shares. In 2006, the Company increased its ownership in Mosvold Drilling, which resulted in consolidation of the investment in the Group accounts from February 27, 2006.

Eastern Drilling ASA was considered an associated company for the period January to September 2006, using the equity method for the 39.4% share. From September 30, 2006 Eastern Drilling has been consolidated in the Group, with an ownership of 60.4%. The ownership increased to 100% in June 2007.

The shares in PT Apexindo Pratama Duta Tbk were sold in first quarter 2008, resulting in a gain of approximately US$150 million

At year-end the book value of the Company's equity method investees are as follows:

(In millions of US dollar)	**December 31, 2007**	**December 31, 2006**	**December 31, 2005**
PT Apexindo Pratama Duta Tbk	70.5	67.2	55.2
Mosvold Drilling Ltd	-	-	97.6
Varia Perdana Sdn. Bhd. (incl. Tioman and Crest Tender Rigs)	105.6	91.6	-
Lisme AS	-	79.3	-
Total	176.1	238.1	152.8

The quoted market price of the Company's total shares in PT Apexindo Pratama Duta Tbk is US$186.8 million as of December 31, 2007. There are no quoted market values of Varia Perdana Sdn Bhd or Lisme AS. Lisme AS, which previously was a holding company, was liquidated in March 2007.

Summarized balance sheet information of the Company's equity method investees at year-end is as follows:

(In millions of US dollar)	**December 31, 2007**	**December 31, 2006**	**December 31, 2005**
Current assets	225.1	482.6	122.2
Non current assets	536.6	464.3	113.1
Current liabilities	(66.0)	(157.7)	(15.1)
Non current liabilities	(308.3)	(269.5)	(77.3)

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

(In millions of US dollar)	**2007**	**2006**	**2005**
Net operating revenues	308.4	426.5	10.7
Net operating expenses	(167.0)	(226.4)	(8.0)
Net income	67.0	168.6	2.7

As at December 31, 2005, Seadrill owned 33.04% of shares in Apexindo. In 2006, Seadrill sold 0.6% in Apexindo, resulting in a gain of US$2.3 million.

Note 17 – 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, 2007**	**December 31, 2006**
Debt arrangement fees	42.8	33.0
Accumulated amortization	(4.0)	(6.3)
Total book value	38.8	26.7
Less: Short-term portion	(8.1)	(6.8)
Long-term portion	30.6	19.9
Amortization for the period	14.0	6.3

In 2007 the amortization also included the write down of the remaining part of previous arrangement fees as the loan was refinanzed this 2007.

Note 18 – Long-term interest bearing debt and interest expenses

The Company has the following debt as at December 31, 2007:

Seadrill Rig AS entered into a Secured Credit Facilities Agreement of US$1,500 million which refinanced US$500 million and US$250 million facilities in addition to the Company bridge facility of US$1,200 million. The Secured Credit Facilities Agreement matures in 2013, 28 period repayment profile and a balloon of US$600 million. At December 31, 2007 the loan balance was US$1,468 million. The margins are LIBOR plus 90 basis points which gave actual interest rate ranging from 5.78% to 6.26% in 2007. The margin increased to 110 basis points in May 2008.

The Company also has two other loan agreements. The first is a Term Loan Facility Agreement of US$185 million which has a 5 year repayment profile. At December 31, 2007, the loan balance was US$98 million. The margin, LIBOR plus 175 basis points, was reduced to 125 basis points from April 24, 2007, hence the actual interest rate is ranging from 6.1% to 6.6% in 2007. The second loan agreement is a pre- and post delivery loan facility of US$100 million with a 5 year maturity and a 12 year repayment profile, hence there will be a balloon payment at maturity. At December 31, 2007, the loan balance was US$100 million. The margin was LIBOR plus 55 basis points and increased to 70 basis points in September 2007, which gave an actual interest rate ranging from 5.8% to 5.9% in 2007.

Further, the Company has a Senior Secured Credit facility of US$585 million with six years maturity, quarterly repayments with a final balloon payment of US$300 million. The margin is LIBOR plus 70 basis points until 4th quarter 2008. Thereafter a grid pricing apply which ranges from 70-100 basis points p.a. depending on the Net Debt to EBITDA ratio. Actual interest rate on this facility was ranging from 5.95% to 6.05% in 2007.

In 2006, the Company entered into a sale/leaseback agreement with Rig Finance for the rig West Ceres. Rig Finance is consolidated as a VIE (FIN 46) by the Company and include a loan with an outstanding balance at December 31, 2007 of US$130.3 million with 73 months maturity. The margin is LIBOR plus 115 basis points, hence the actual interest rate ranged from 5.86% to 6.49% in 2007.

In April 2007, Seadrill entered into a Multicurrency Loan Acquisition and Guarantee Facility Agreement of NOK2,435 million. The purpose of this facility was to secure the mandatory offer and acquisition of Eastern Drilling ASA. The loan was repaid in full in November 2007. Lime Rock Partners III, L.P. and Tsakos Energy Navigation converted its entire outstanding loan of US$45 million and US$5 million, respectively including interest. This implied 4,104,150 and 456,050 new shares were issued in Eastern Drilling, respectively.

Further, the Company entered into a sale/leaseback agreement with Rig Finance for the rig West Prospero. Rig Finance is consolidated as a VIE (FIN 46) by the Company and include a loan with an outstanding balance at December 31, 2007 of US$149.6 million with 72 months maturity. The margin is LIBOR plus 120 basis points, hence the actual interest rate ranged from 5.99% to 6.54% in 2007.

Seawell Limited has the following debt as at December 31, 2007:

- A credit facility where total amounts drawn equals NOK750 million.
- A subordinated shareholder loan of NOK543.9 million.

The Company has an agreement with Fokus Bank, Norwegian branch of Danske Bank AS, as agent for a multi-tranche Senior Bank Debt Facility of NOK1,100 million.

The facility is divided into two tranches;
Tranche A: NOK750 million and Tranche B: NOK350 million. The A Tranche has a 5 years repayment profile starting at 31 October 2008. The B Tranche has 5 years repayment profile starting at 31 October 2009. The interest rate of Tranche A and B is 3 months NIBOR and an interest margin of 115 basis points. Commitment fees regarding the above facility are 40 percent of the applicable margins. As at December 31, 2007, NOK750million of the facility has been drawn.

The subordinated loan has an interest of 6 months NIBOR and an interest margin of 250 basis points.

The Company has an agreement with DnB NOR Bank ASA as agent for a multi-tranche secured Term and Revolving Credit Facility of up to US$800 million. The facility is divided in several tranches;

West Phoenix: Tranche A: US$175 million, Tranche B: US$125 million and Tranche C up to US$200 million (based on value of drilling contract) and West Eminence: Tranche A of US$150 mill. and Tranche B of US$150 mill. The A Tranches have a 15 years repayment profile from delivery of each rig and an interest rate margin of 200-215 basis points pre-delivery and 115-195 basis points post-delivery whereby applicable margin is based on charter values. The B Tranches have cash sweep mechanisms and may be refinanced or added to the A Tranches. The interest rate margin is 107.5 basis points (Eminence Tranche B 200 basis points) pre-delivery and 115-300 basis points post-delivery also dependent on charter values. Tranche C has a tenor over the period of the drilling contract(s) qualifying Seadrill X AS to make drawdown under the facility. The interest margin is 100 basis points. Commitment fees regarding the above facilities are 50% of the applicable margins. As at December 31, 2007, US$465 million of the facility was utilized.

The Company was not allowed to pay any dividend to its shareholders without prior consent from the majority lenders. In March 2008, when the Company paid the first dividend, a waiver was received from the lenders. Approval for a permanent wavier related to the dividend restriction was received in May 2008.

Summary of the facilities at 31 December 2007 (amounts in millions of US dollar):

Facility	Long-term part, 31 December 2007	Short-term part, 31 December 2007	Amount outstanding, 31 December 2007	Amount outstanding, 31 December 2006
US$1,500 credit facility	1,340	128	1,468	528
US$185 facility	71	27	98	152
US$100 facility	92	8	100	69
US$585 facility	486	50	536	585
US$165 facility	106	24	130	155
US$170 facility	121	28	149	0
US$800 facility	465	0	465	125
US$223 facility (Seawell)	125	14	139	
Total facilities loans	2,806	279	3,085	1,614
Bonds	310	60	462	241
Convertible bond loan	1,000		1,000	
Other non-current loans	-	145	53	960
Total non-current loans	4,116	484	4,600	2,815

Bonds

In 2006, the Company raised NOK225 million and NOK100 million with maturity in 2008. The bonds were issued in the Norwegian market at a premium which gives an actual interest rate, after the debtor change from Seadrill Norge AS to Seadrill limited, of NIBOR plus 2.95 percent for the NOK225 million and 7.7 percent (fixed) for the NOK 100 million bond.

The Company has also raised NOK500 million and US$30 million through bond issue in the Norwegian market and both bonds have a seven year maturity. The bonds were issued at a premium which gives an actual interest rate, after the debtor change on December 1, 2006, from Seadrill Norge AS to Seadrill Limited, at NIBOR plus 1.60 percent for the NOK Bond and LIBOR plus 2.03 percent for the US dollar bond.

In January 2007 the company raised NOK500 million as commercial paper and NOK1,000 million as a 2 year bond where the margins are 0.75 and 1.25 percentage points p.a.

Seadrill Deepwater Drillship ltd (formerly Mosvold Drilling ltd) has fully repaid its US$80 million bond in 2007.

At December 31, 2007, the Company had the following bonds outstanding:

(In millions)	Maturity	Interest
US$42 (NOK225)	November 19, 2008	NIBOR+2.95 percent
US$19 (NOK100)	November 19, 2008	Fixed 7.7 percent
US$186 (NOK1,000)	January 23, 2009	NIBOR + 1.25 percent
US$93 (NOK500) CP	January 23, 2008	NIBOR + 0.75 percent
US$93 (NOK500)	September 29, 2012	NIBOR + 1.60 percent
US$30	February 14, 2012	LIBOR + 2.03 percent

Convertible bond loan

At November 8, 2007 The Company raised US$1,000 million in an unsecured convertible bond with maturity November 8 2012. The bonds were issued in the European market and the issue price was set at 100% of par (US$100,000). The coupon is firm at 3,625 p.a., payable semi-annually in arrears on May 8 and November 8 of each year. The reference share price at the time of issue was US$23.7752 per share and the initial conversion price was US$34.4740 per share (45.0% conversion premium). The bond holders are entitled to convert bonds into shares at the conversion price at any time ending on the 10th banking day prior to redemption of the bonds. The Company may on or after the date falling three years and twenty one days after settlement date, with a twenty banking days notice period, call the remaining parts of the loan at its par value plus accrued interests, provided that the parity value on each of the last twenty trading days within a period of thirty consecutive trading days have exceeded US$130,000. The convertible bonds are tradable, and as at December 31, 2007 the convertible bond was recorded at US$ 1,026 million. If the bonds are converted into shares it implies that 29,007,367 new shares will be issued.

Long-term interest bearing debt at December 31, 2007, is payable as follows:

Year	Amount in US$ million
2008	0
2009	475
2010	306
2011	332
2012	443
2013 and thereafter	2,559
Total	4,115

The Company has miscellaneous covenants in its loan agreements. The facilities contain the following main covenants:

- To maintain minimum cash no less than US$100 million. From April 1, 2008, minimum cash should be no less than US$75 million.
- Interest cover ratio shall not be less than 1.75:1. Increases in April 2008 to > 2:1 and again in June 2009 to > 2.5:1
- Current ratio must not be less than 1:1
- Equity ratio shall not be less than 30%.

The Company's bonds contain the following main covenants, based on financial statements, which require:

- To maintain an adjusted shareholders' equity equal to or greater than US$300 million.
- To maintain an adjusted shareholders' equity equivalent to a minimum of 40% of total liabilities. For these purposes, the term "adjusted shareholders' equity" means the adjusted value of total consolidated assets less total consolidated liabilities with the addition or subtraction of the difference between market value and book value of the rigs and offshore vessels.

Interest costs incurred for the consolidated accounts were US$246.7, of which US$134.0 was capitalized, and US$143.2 million, of which US$63.4 million was capitalized, for the year ended December 31, 2007 and 2006, respectively.

The accounting effects of the Company's interest swap agreements are included in Other Financial items and amounted to a gain of US$5 million in 2007 compared to a gain of US$9 million in 2006.

The weighted average interest rate for loans were 6.94 % in 2007 and 5.68% in 2006.

Waivers – Amendments to loan agreements

As described above, Seadrill has several covenants related to the loan agreements. Seadrill is continuously monitoring the loan agreements and the terms of the agreements as a part of the overall financing strategy. As part of this process, Seadrill from time to time file waiver and/or amendment request with the banks. At the date for issuing the accounts, Seadrill has been granted waivers for not filing the annual financial statements within the time frame in the loan agreements, and has also approved waivers with amendment requests for three of the minor loan agreements. Management is of the opinion that Seadrill will meet the normal conditions for the loans when the waiver period expires.

Note 19 – Share capital

The Company was incorporated on May 10, 2005 and 6,000 ordinary shares of US$2.00 each were issued. In 2005, there were several share issuances and at the end of December 2005 a total of 229,133,216 shares were issued. In 2006, the share capital was increased four times. Total increase in number of shares was 154,000,000 resulting in a total of 383,133,216 shares issued and outstanding as of December 31, 2006. In 2007, the share capital was increased two times. The total increase in number of shares was 16,000,000 resulting in a total of 399,133,216 shares issued as of December 31, 2007.

The Company's authorized share capital increased to 800,000,000 after the Annual General Meeting held at December 1, 2006, the increase was 400,000,000.

A share repurchase program was introduced in 2007 where the Board was given the authorization to buy back shares. The treasury shares may be purchased to meet the Company's obligations related to the share incentive program. As of December 31, 2007 the Company has 608,700 treasury shares. Outstanding shares as of December 31, 2007 were 398,524,516.

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

Total paid in capital	Consolidated December 31, 2007	Consolidated December 31, 2006
Issued share capital	798.3	766.3
Additional paid in capital	1,955.6	1,683.5
Total	2,753.9	2,449.8

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	32.0
Issued shares at December 31, 2007	399,133,216	798.3

Note 20 – Share option plans

In 2007 and 2006, Seadrill has granted options to senior management and directors of the Company under the 2005 authorization. The agreement provides the optionholder with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment. The subscription price under the options is fixed at the date of grant.

Options issued under the 2006 Programs may be exercised up to May-September 2011, while options issued under the 2007 Programs may be exercised up to September 2011. The exercise price for the Program 1 to Program 4, from 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. Options issued under the Programs may be exercised by one third per year, first time one year after they were granted. As at December 31, 2007, one third of the options granted under the 2006 Programs are exercisable.

As of December 31, 2007 the Board could grant further 343,333 options under the 2005 authorization.

In addition, Seawell has 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 NOK 13.75 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, 2007, none of the granted options are exerciseable.

As at December 31, 2007, the Board could grant further 903,000 options under the 2007 authorization.

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 2007, US$16.3 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 would be recorded as the gain are recorded as deductable for tax purposes. If the option will be declared social security related to the benefit from the option being exercised will be expensed at the declaration 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

As of December 31, 2007, total unrecognized compensation costs related to all unvested share-based awards totaled US$9.7 million, which is expected to be recognized as expenses in 2008, 2009 and 2010 by US$7.3 million US$2.3 million and US$0.1 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, 2006:

Option program	Granted options in 2007	Aggregated numbers of outstanding options as of December 31, 2007	Aggregated numbers of outstanding options as of December 31, 2006
Number of shares	700,000	4,088,700	3,916,667
Weighted average exercise price	18.76	13.30	12.17
Remaining contractual life (months)	52	54	55
Weighted average fair value at grant date	6.70	7.74	7.86
Pricing model assumptions:			
Risk free interest rate (percent)	5.12	4.18	3.98
Expected life (years)	4	4	5
Volatility	34 %	33%	33 %
Expected retirement of option holders	10 %	2%	0 %
Expected dividend	0	0	0

During 2007 the total intrinsic value at the day of exercise amounted to US$3.7 million.

Overview of fully vested option as at December 31, 2007:

Outstanding number of fully vested option	Weighted average exercise price	Aggregated intrinsic value	Weighted average remaining term of options
922,033	USD per option 11.75	US$11.2 million	42 months

In January 2008, the Board of Seadrill has allocated further 2,157,000 options to senior management of the Company.

Share option plan in Seawell:

	Weighted average exercise price per option	Number of shares
Outstanding at January 1, 2007	-	-
Options granted	2.35	4,097,000
Outstanding at December 31, 2007	-	4,097,000

As of December 31, 2007, total unrecognized compensation costs related to all unvested share-based awards totaled US$2.7 million, which is expected to be recognized as expenses in 2008, 2009 and 2010 by US$1.7 million, US$0.7 million and US$0.3 million, respectively.

Seawell Limited 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, 2007:

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.

Under the terms of the plans, the exercise price set on the grant of share options could not be less than the average of the fair market value of the underlying shares for the three dealing days before the date of grant. Nevertheless, the Company was incorporated in May 2005 while the option scheme was approved in May 2006. During that period the market price of the Company's shares increased significantly (the Company's shares were listed at the Oslo Stock Exchange in November 2005). At the date of grant the Board decided to offer an exercise price for the share options equivalent to the assumed market value of the Company's shares at the date the holders of the share options were employed by the Company. Hence some of the share options have been offered at an exercise price below the prevailing market price of the Company's shares at the date of grant.

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

Note 21 - 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.

The effect on the consolidated balance sheet as of December 31, 2007 is a decrease in Other non-current liabilities of US$6.1 million (a change from December 31, 2006 of US$9.8 million), an increase in Deferred tax of US$1.7 million (change from last year of (US$2.7) million) and an increase of Shareholders equity of US$4.4 million (change from last year of US$7.1 million).

The Company has a defined benefit pension plan covering substantially all Norwegian employees as of December 31, 2007. 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)	**2007**	**2006**	**2005**
Benefits earned during the year	20.4	14.5	-
Interest cost on prior years' benefit obligation	6.3	4.7	-
Gross pension cost for the year	26.7	19.2	-
Expected return on plan assets	(4.9)	(3.6)	-
Administration charges	0.2	0.2	-
Net pension cost for the year	22.0	15.8	-
Social security cost	3.1	2.3	-
Amortization of actuarial gains/losses	(0.1)	(0.1)	-
Amortization of prior service cost	0	0	-
Amortization of net transition assets	0.1	0	-
Total net pension cost	25.1	18.0	-

The funded status of the defined benefit plan

(in US dollar million)	**December 31, 2007**	**December 31, 2006**
Projected benefit obligations	158.3	121.3
Plan assets at market value	(108.1)	(72.2)
Accrued pension liability exclusive social security	50.2	49.1
Social security related to pension obligations	7.2	7.0
Accrued pension liabilities	57.4	56.1

Change in benefit obligations

(in US dollar million)	**2007**	**2006**
Benefit obligations at beginning of year	124.9	94.9
Interest cost	6.3	4.7
Current service cost	20.4	14.5
Benefits paid	(1.1)	(0.8)
Change in unrecognized actuarial gain	(13.5)	-
Foreign currency translations	21.3	7.9
Benefit obligations at end of year	158.3	121.2

Change in pension plan assets

(in US dollar million)	**2007**	**2006**
Fair value of plan assets at beginning of year	71.1	55.7
Estimated return	4.9	3.6
Contribution by employer	21.3	9.2
Administration charges	(0.2)	(0.2)
Benefits paid	(0.9)	(0.6)
Foreign currency translations	11.9	4.5
Fair value of plan assets at end of year	108.1	72.2

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

The weighted-average asset allocation of funds related to the Company's defined benefit plan at December 31, 2007 was as follows:

Pension benefit plan assets	**2007**	**2006**
Equity securities	19.4%	29.7%
Debt securities	37.9%	50.6%
Real estate	18.5%	12.2%
Money market	17.3%	4,5%
Other	6.9%	3.0%
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 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 2008-2017. The expected payments are based on the assumptions used to measure the Company's obligations at December 31, 2007 and include estimated future employee services.

(in US dollar million)	**2007**
2008	12.9
2009	16.6
2010	18.0
2011	19.4
2012	20.9
2013-2017	118.3
Total payments expected during the next 10 years	206.1

Note 22 – Related party transactions

Hemen, Greenwich and Seatankers are all ultimately controlled by Mr. John Fredriksen, a director and chairman of the Company. At December 31, 2007 Mr. Fredriksen indirectly controlled approximately 33.26% of Seadrill, excluding total return SWAP agreements.

In 2005, the Company bought five Cyprus companies and newbuilding contracts from Greenwich and Seatankers, respectively. These transfers represented entities and assets under common control. As a result, the transfers were recorded in Seadrill at Geenwich's and Seatankers' historical carrying values.

Ship Finance International Limited ("Ship Finance") is indirectly controlled by Mr. John Fredriksen. In the beginning of January, 2007, Seadrill has entered into a sale and lease back contract with Ship Finance, in which Seadrill sells the jack-up rig West Prospero for a total consideration of US$210 million. West Prospero has been leased back to Seadrill for a 15 year period. Seadrill has in addition a right to repurchase the rig after three years or on five uneven anniversaries thereafter. The annual lease payment for the first three years will be US$41.1 million. West Prospero will still be consolidated in the financial statement of the Company as it will be recorded as a Variable Interest Entity (VIE) see note 31.

In 2006, the Company entered into a similar sale and lease back arrangement with Ship Finance related to the jack-up rig West Ceres.

The company has paid a total of US$70.5 million in bareboat to Ship Finance in 2007 for the rental of West Ceres and West Prospero. As at December 31, 2007 the Company owed US$3.6 million to Ship Finance.

Until the sale of Crystal Ocean and Crystal Sea, Seatankers managed the operations of the two vessels for a fee of US$0.0 million for 2007 and US$0.3 million for 2006. As at December 31, 2007 the Company owed US$0.1 million to Seatankers as compared to US$0.01 million as at December 31, 2006.

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 as compared to US$0.2 million in 2006 for providing management support and administrative services in 2007.

Aktiv Kapital ASA is controlled by Mr. John Fredriksen, a director and chairman of the Company. Aktiv Kapital ASA is entitled to a 5% share of the profit from the sales of both Crystal Sea and Crystal Ocean. The Company has recorded a provision of US$7.3 million as payable to Aktiv Kapital ASA at year end. The profit margin to Aktiv Kapital ASA was settled in the first quarter 2008. The margin was somewhat lower than the provision.

Note 23 – Minority interest

As at December 31, 2007 the minority interest related to the equity in the two companies recorded as VIE (Variable interest entity). As described in note 31 the Company has made two sale and leaseback arrangements where the Company has concluded that Seadrill is the primary beneficiary. The equity in the VIE is presented as minority interest. US$3.9 million has been reclassified from Equity to Minority interest due to correction of error.

As Seadrill has 80 percent holdings in Seawell Limited there is a minority interest in that company. (Amounts in millons of US dollar):

	Opening balance	Changes	Results	Outgoing balance
Rig Finance ltd	49.9	0.5	7.7	58.1
Rig Finance II ltd		40.0	4.1	44.1
Seawell limited		1.2	1,2	2.4
Eastern Drilling ASA	162.1	(162.1)		
Total	212.0	(162.1)	13.0	104.6

Note 24 – 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 Nordic banks as counter parts. 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 translation of NOK denominated debt and other monetary assets and liabilities to US dollar with the resulting gain or loss recorded as shareholders' equity.
- Foreign currency forward contracts and foreign currency options 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 (primarily the Norwegian kroner).
- Its net investment in certain foreign subsidiaries which is recorded as a cumulative translation adjustment in share holders' 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, 2007, the Company had forward contracts to receive approximately US$388.0 million at exchange rates ranging from NOK/US$5.40 to NOK/US$6.40 between January 23, 2008 and September 28, 2012.

	December 31, 2007		**December 31, 2006**	
(In millions of US dollar)	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Currency forward contracts				
Receivables	388	17	103	5

Interest rate risk management

Seadrills 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 favourable 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, 2007		**December 31, 2006**	
(In millions of US dollar)	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Interest rate swap agreements				
Receivables	103	3	200	4

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, 2007, the Company had outstanding interest rate swap agreements representing approximately 8 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, 2007:

Notional amount	**Receive rate**	**Pay rate**	**Length of contract**
(In millions of US dollar)			
50	3 month LIBOR	4.63%	05/16/05-05/15/15
16 (NOK 100 mill)	7.50% fixed	3 month NIBOR	11/19/03-11/19/08
34 (NOK 220 mill)	3 month NIBOR+1.2%	3 month LIBOR+1.3%	09/28/05-09/28/12

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 total revenues (revenues in excess of 10 percent for the period):

Customer	**2007**	**2006**
StatoilHydro	33.2%	35.2%
Shell	12.5%	23.0%
Customer <10%	54.3%	41.8%
Total	100.0%	100.0%

Insurance coverage

The Company has entered into insurance programmes for the whole rig fleet for risks related to physical damage, loss of hire and various kind of liability protection. These insurances are on terms aligned with industry practice with first class underwriters in the international energy insurance market. The level of deductible exposure is considered to be low, however, some of the loss of hire insurance policies only kicks in after 60 days down-time.

The Company has one dynamically positioned (DP) semi-submersible drilling unit (West Sirius) which will operate in the US-Gulf from the summer of 2008. The risks related to windstorms in this area have been evaluated and adequate evacuation procedures have been implemented. The Company is of the opinion that the insurance market does not adequately differentiate between DP-operated drilling units and other more traditional drilling units. Against this background the Company has decided not to purchase insurance coverage in the commercial market against physical damages caused by windstorms in the US-Gulf. Hence the Company will be self-insured for these risks via adequate internal risk management programmes.

Note 25 – Fair value of financial instruments

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2007 and December 31, 2006 are as follows:

	December 31, 2007		**December 31, 2006**	
(In millions of US dollar)	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Non-Derivatives				
Cash and cash equivalents	1,012.9	1,012.9	210.4	210.4
Restricted cash	72.3	72.3	31.8	31.8
Marketable securities	240.4	240.4	105.8	105.8
Current portion of long term floating rate debt	484.1	484.1	255.4	255.4
Long term floating rate debt	4,116.4	4,116.4	2,559.3	2,559.3
Derivatives				
Interest rate swap agreements	2.7	2.7	3.6	3.6
Currency forward contracts	17.1	17.1	5.5	5.5

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, 2007 and December 31, 2006. 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.

Quoted market prices or dealer quotes for the same or similar financial instruments were used to estimate the fair value of the marketable securities, 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.

Note 26 - Liquidity

As of December 31, 2007 the Company has entered into newbuilding-contracts for the construction of 3 drillships, 7 semi-submersible drilling units, 2 jack-ups and 2 tender rigs. The timing of payment installments to the shipyards varies from contract to contract.

Seadrill believes that available cash and short term investments, available take-out financing and other available loan facilities will be sufficient to settle all commitments related to the newbuilding contracts in the short term. However, the Company will need to raise additional financing to be able to finalize the newbuilding projects.

Note 27 – Other current liabilities

Other current liabilities are comprised of the followings:

(In millions of US dollar)	December 31, 2007	December 31, 2006
Accounts payable	167.3	105.7
Taxes payable	25.3	3.7
Short-term deferred tax liabilities	0.1	11.9
Employee withheld taxes, social sec. and vacation payment	50.7	41.4
Short-term part of unfavorable contract values [1]	70.8	87.0
Accrued interest expenses	37.1	39.4
Receipt in advance	45.7	-
Other current liabilities	273.6	188.1
Total other current liabilities	670.6	477.2

Note 28 – Other non-current liabilities

Other non-current liabilities are comprised of the followings:

(In millions of US dollar)	December 31, 2007	December 31, 2006
Accrued pension and early retirement obligation	57.4	56.1
Long-term part of unfavorable contract values[1]	100.3	141.1
Other non-current liabilities	39.6	1.8
Total other non-current liabilities	197.3	199.0

[1] The unfavourable contract values arise 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 unfavourable contract values are to be amortised over the terms of the contracts.

Note 29 – Commitments and contingencies

Purchase Commitments

At December 31, 2007, the Company had fourteen contracts for the construction of seven semi-submersible rigs, two jack-up rigs, three drillships and two tender rigs. Eight of the semi-submersible rigs are scheduled for delivery in 2008, while the two remaining are scheduled for delivery in 2010. Both of the jack-up rigs are scheduled for delivery in 2008. One tender rig is scheduled for delivery in 2008 and one in 2010. As of December 31, 2007 the Company has paid US$2,692 million directly to the involved construction yards on the newbuildings, and committed to make further yard installments of US$3,066 million. The amount includes 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)*
2008	2,326
2009	303
2010 and thereafter	437
Total	3,066

Mortgages and pledged assets

As at December 31, 2007 the Company has mortgages amounting to US$3,086 million. The following assets have been pledged as security for the mortgages:

Pledged assets

(In millions of US dollar)	**December 31, 2007**	**December 31, 2006**
Drilling units	2,451	2,293
Newbuildings	1,184	936
Accounts receivables	221	129
Total book value of pledged assets	3,856	3,358

In 2006, the Company had issued a mortgage of US$863 million where all the shares in Seadrill Norge AS, which was recorded at a value of US$2,380 million in Seadrill Norge Holding AS, were pledged as security for the underlying debt.

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, 2007**	**December 31, 2006**
Guarantees to customers of the Company's own performance	242	190
Guarantee in favor of banks	59	252
Guarantee in favor of suppliers	1,193	2
Total	1,494	444

The guarantees have the following maturities:

Year	*(In millions of US dollar)*
2008	792
2009	69
20010 and thereafter	633
Total	1,494

In addition, the Company has issued two unlimited performance guarantees related to a drilling contracts.

Legal Proceedings

Dual Drilling Patents

In September 2005, the Company received a writ from Transocean Offshore Deepwater Drilling Inc. claiming compensation for alleged infringement of patents related to multiactivity offshore drilling apparatus and methods, and insisting that the Company should be prohibited from applying simultaneous operations in offshore drilling activities in Norway. Transocean offered a possibility for a licence agreement which the Company has rejected. Legal proceedings took place in the autumn 2007. The Oslo District Court ruling February 7, 2008 granted Seadrill full support in Transocean's patent lawsuit against the Company. The court invalidated Transocean's patents on both multiactivity offshore drilling apparatus as well as for applying simultaneous operations in offshore drilling activities. All claims against Seadrill were found invalid. The court ruled that Transocean shall cover all litigation costs.

Transocean has later appealed the decision by the Oslo District Court. Legal proceedings for the Court of Appeal are under preparation.

No amounts have been provided in the accounts as of December 31, 2007 because the Company is of the opinion that the claim is not justified.

Crystal Sea – Termination of operation in India

The FPSO Crystal Sea commenced operations in India under a five-year contract with Discovery Enterprise in June 2006. However, subsequent to commencement, riser related problems occurred resulting in permanent disruption of the operations. The owners and the customer (Discovery Enterprise Pte Ltd) tried to solve these problems together, however in the Company's view, it was concluded that operations would not be resumed within the time schedule outlined by the customer. As a result the FPSO departed India in January 2007. A dispute between the Company and

Discovery Enterprise has subsequently arisen. The Company's best estimate of the outcome of the matter has been reflected in the financial statements of the Company as of December 31, 2007.

Consideration related to sales of Crystal Sea and Crystal Ocean sold in 2007

The FPSOs Crystal Sea and Crystal Ocean were sold in 2007. They were both purchased in October 2006 from the Aktiv Kapital Group. There has been discussion whether the Aktiv Kapital Group is entitled to a smaller consideration related to the sale. The discussion between Aktiv Kapital Group and the Company was settled in April 2008.

Eastern Drilling

In April 2007 Seadrill made a mandatory offer for the outstanding shares of Eastern Drilling ASA at a price of NOK 135 per share. The offer price was determined by a ruling of Oslo Stock Exchange Appeals Committee following a disagreement between Oslo Stock Exchange and Seadrill related to use of Total Return Swap Agreements. Seadrill subsequently took legal actions against Oslo Stock Exchange and The Norwegian State with a claim of damages up to NOK850 million. In the end of 2007, the Court made its ruling in favor of the Oslo Stock Exchange. The Company has decided to appeal the decision.

Retained Risk

Seadrill retain the risk, through self-insurance, for the deductible portion of insurance coverage. Insurance deductible is a maximum US$2 million per occurrence for hull and machinery. In the opinion of management, adequate accruals have been made based on known and estimated losses related to such exposures.

Tax exposure

For tax exposure, refer to note 2.

Note 30 – Variable Interest Entity (VIE)

As at December 31, 2007, the Group leased two jack-up rigs under VIE. Seadrill and Rig Finance Limited entered into a sale and leaseback arrangement in June 2006 where Seadrill sold the jack-up rig West Ceres to Rig Finance Ltd. In January 2007, the jack-up rig West Prospero was sold to Rig Finance II Limited. Each of the unit was sold for a consideration of US$210 million to a subsidiaries of Ship Finance International Limited, and simultaneously Seadrill leased the units for a term of 15 years. Each of the two owning companies is single purpose entity with the purpose to own a jack-up rig. The jack-up rig is bareboated to the Company on a long term contract. The book value of each of the jack-up rigs in the consolidated accounts amounted to US$165.5 million for West Ceres and US$197.0 million for West Prospero, respectively.

Seadrill has under the agreements several options to repurchase the units during the charter period. The first repurchase option will be after three years at US$135.5 million for West Ceres and US$142.0 million for West Prospero and the last repurchase option is after 15 years at US$60 million for each of the units. The aggregate lease payment for the first three years totals approximately US$123 million for West Ceres and US$120 million for West Prospero. For the subsequent four-year period, the aggregated lease payment totals approximately US$75 million for West Ceres and US$77 million for West Prospero. For the remaining eight-years of the lease period, the agreed aggregated lease payment is approximately US$119 million for West Ceres and US$109 million for West Prospero. In addition, the owning companies from each of the two lease contracts will during, 2009 receive a four to five percent profit split element of the adjusted operating profit given that the operating profit has reached certain threshold levels.

The Company determined the owning companies are variable interest entities and that Seadrill was the primary beneficiary of the risks and rewards. Accordingly the Company consolidated the assets and liabilities of owning companies effective from the sales date.. Furthermore, Seadrill did not record any gain from the sale of West Ceres and West Prospero in the accounts, as the jack-ups continued to be reported as a newbuild assets in the Company's balance sheet at the time of the transaction. The rigs were delivered from the yard in May 2006 and July 2007, respectively and are reported under drilling units in the Company’s balance sheet at year end.

Note 31 – Remuneration to the Board of Directors, Chief Executive Officer and other key personnel

Remuneration in 2007:	Salaries and bonus payments	Income from exercised options
Board of Directors	0.089	
Chief Executive Officer (CEO) and President in Seadrill Management AS *	0.663	0
Key personnel **	5.550	2.108

*The remuneration for 2007 is related to the former CEO, Kjell E. Jacobsen. On May 27, 2008, it was announced that Kjell E. Jacobsen has informed the Board that the wants to step down as CEO. At the same time the Company’s Chief Operating Officer Alf C. Thorkildsen was appointed as new CEO.

**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, Senior Vice President Africa, Senior Vice Price President America, Senior Vice President Asia and Middle East, Senior Vice President Europe and Senior Vice President Projects Deepwater Units

The Chief Executive Officer has a bonus arrangement based on achieving specific targets. Other key personnel have similar arrangements with various limits. The Chief Executive Officer has an early pension agreement whereby he can retire at an age of 65. Other key personnel have similar agreements.

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, 2007

	Shares in Seadrill	Out-standing options in Seadrill	Shares in Seawell	Out-standing options in Seawell
John Fredriksen, Chairman*	132,747,583	350,000	2,497,000	0
Kate Blankenship, Director	8,000	30,000	30,000	50,000
Jan Tore Strømme, Director	0	0	0	0
Tor Olav Trøim, Director*	250,000	275,000	200,000	50,000
Kjell E. Jacobsen, President and CEO, Seadrill Management AS	0	350,000	100,000	50,000
Alf C. Thorkildsen, Executive Vice President and COO, Seadrill Management AS	0	275,000	100,000	50,000
Trond Brandsrud, Senior Vice President and CFO, Seadrill Management AS	0	150,000	70,000	0
Ståle Rød, Executive Vice President – Tender Rigs	0	100,000	0	0
Stein Diesen, Senior Vice President – Projects	0	150,000	0	0
Tim Juran, Senior Vice President – Americas	0	150,000	0	0
Sveinung Lofthus, Senior Vice President – Europe	0	100,000	30,000	0
Alf Ragnar Løvdal, CEO – Seawell Management AS	0	100,000	70,000	725,000
Svend A. Maier, Senior Vice President – Africa	0	50,000	0	0
Ian Shearer, Senior Vice President – Asia and Middle East	0	150,000	0	0

More information about option programs are described in note 20.

*As of December 31, 2007, John Fredriksen and Tor Olav Trøim, in addition to the shares listed above, have acquired total return SWAP agreements with exposure of further 3,850,000 and 400,000 shares in Seadrill, respectively

Note 32 – Gain on issuance of shares by subsidiary

The Company has at December 31, 2007 a 80 percent investment in Seawell Limited. Seawell's business is related to platform drilling, engineering and well intervention services.

Effective beginning of October 2007, Seawell successfully concluded a share issue. A total of 20 million shares were sold for a price of NOK 13.75 per share (par value USD 2.00) raising a total of NOK275 million. The Company did not participate in this share issue and as a result, its holding changed from 100 percent to 80 percent. A gain of US$50 million was recorded in the income statement as a result of these share issues by Seawell.

Note 33 – Subsequent Events

The deepwater drilling rigs West Phoenix and West Sirius leave the shipyards

On March 31, the deepwater drilling rigs West Phoenix and West Sirius left from the Samsung Shipyard in South Korea and Jurong Shipyard in Singapore, respectively. The units will proceed for mobilization, and estimated time of arrival for West Phoenix in the North Sea is in the beginning of the third quarter 2008, and estimated time of arrival for West Sirius in the Gulf of Mexico at the end of the second quarter 2008.

New contracts with Petrobras for the three newbuilds West Eminence, West Taurus and West Orion.

On April 14, 2008, Seadrill announced that the company had secured an unconditional Letter of Award for contract with a total revenue potential of approximately US$4.1 billion over 18 rig years for three newbuild deepwater units with Petroleo Brasileiro S.A – Petrobras, in its capacity as operator of consortia of concession areas in Brazil.

The three separate drilling rig contracts' terms and potential revenues are:

West Eminence
The sixth generation, deepwater semi-submersible drilling rig is under construction at Samsung shipyard in South Korea. The rig will be delivered during the fourth quarter 2008 and start-up of operations offshore Brazil is scheduled for the first quarter 2009. Contract duration is six years.

West Taurus
The sixth generation, deepwater semi-submersible drilling rig is under construction at the Jurong shipyard in Singapore. The rig is scheduled to be delivered during the fourth quarter 2008, and start-up of operations offshore Brazil is scheduled for the first quarter 2009. Contract duration is six years.

West Orion
The sixth generation, deepwater semi-submersible drilling rig is under construction at the Jurong shipyard in Singapore. The rig is scheduled to be delivered during the second quarter 2010, and start-up of operations offshore Brazil is scheduled for the third quarter 2010. Contract duration is six years.

The contracts are subject to final contract wording.

Operations halt on West Navigator

On January 28, 2008, Seadrill announced that during a planned disconnection from the well due to deteriorating weather, the drillship West Navigator suffered damages to the BOP (Blow Out Preventor) and the sub sea equipment. As a result, the drilling on West Navigator was temporarily halted but has returned to operation late May.

West Navigator is contracted to Shell for a drilling assignment on the Ormen Lange field on the Norwegian continental shelf.

Order of new self-erecting tender rig

On February 27, 2008, Seadrill announced that the Company has ordered a new self-erecting tender rig, to be named T12, with an option for one more tender rig, in addition to the two tender rigs already under construction. The estimated total capital expenditure for the tender barge is US$121 million with delivery scheduled in the first quarter of 2010.

Share incentive program 2008

On January 7, 2008, the Board of Seadrill Limited approved a share incentive program allocating 2,157,000 options to senior management in the Company to acquire shares in Seadrill Limited. The share options have a strike price of NOK 132.1180 per share and a term of six years. The options generally vest 1/3 after 18, 30 and 42 months respectively. 330,000 of these options were granted to primary insiders.

Court ruling in the patent lawsuit

See comments under Commitments and contingencies – note 29

Sale of shares in Aker Drilling ASA

During January 2008, Seadrill sold its entire holdings in Aker Drilling ASA of 23,219,730 shares, representing 24.97 % of the company. The proceeds amounted to US$164.9 million, and a gain of approximately US$8.8 million was recognized.

Sale of shares in Odfjell Invest ASA

On March 27, 2008, Seadrill announced that the Company had sold its 10.01% of the shares in Odfjell Invest ASA at NOK 20.00. After the sale, Seadrill has no ownership interests in Odfjell Invest ASA. The net profit from the sale was approximately USD 6 million.

Sale of shares in PT Apexindo Pratma Duta Tbk

In February 2008, the final agreement to dispose of the Company's shareholding in PT Apexindo Pratma Duta Tbk was finalized. The sale resulted in a gain of approximately US$150 million.

Disclosure regarding Pride International Inc

On April 23, 2008, Seadrill acquired 200,000 Pride International Inc. common shares and has entered into forward contracts to acquire 16,300,000 Pride International Inc. common shares.

Share purchase and notice of mandatory offer in Scorpion Offshore Ltd

On April 28, 2008, Seadrill decided to offer to purchase 15.8 million of the outstanding shares in Scorpion Offshore Ltd. at a price of NOK80 per share based on an all or nothing order. Based on forward contracts and shares Seadrill's holding was 19,494,700 shares corresponding to 36.0 percent of the outstanding shares. After the completion of the mandatory offer for all the shares of the company on June 23, 2008, Seadrill's holding was 22,168,692 forward contracts and shares corresponding to 37,2 percent.

Equity Issue.Seawell Ltd.

On April 10, 2008, the partly owned subsidiary Seawell Limited, increased its equity base through a private placement of 10 million shares to a share price of NOK19.50 per share. The proceeds from the offering were approximately NOK195million.

Seawell – purchase of Noble's platform drilling division in the UK

On April 1, 2008, the partly owned subsidiary Seawell Limited acquired all of the outstanding shares of Noble Corporation North Sea Platform division, by acquiring all the shares in Noble Drilling UK Limited. The purchase price was US$55 million.

Seawell – purchase of Peak Well Solutions

On March 25, 2008, the partly owned subsidiary Seawell Ltd announced the purchase of Peak Well Solutions AS. The purchase price is NOK410 million.

West Titania

On May 12, 2008, the Company completed the sale of West Titania. The sale was announced on July 25, 2007 and has been delayed. The Company expect to record a gain in second quarter 2008 related to the sale of approximately US$80 million.

Sale/leaseback of West Polaris

On May 19, 2008, Seadrill and Ship Finance International Limited agreed a sale and leaseback arrangement where Seadrill sold the ultra-deepwater drillship West Polaris for a consideration of US$850 million and simultaneously leased the unit for a term of 15 years. Seadrill has under the arrangement several options to repurchase the unit during the charter period. As Seadrill determined that the rig housing entity, Rig Finance, was a variable interest entity and that Seadrill was the primary beneficiary of the risks and rewards, Seadrill did not record any gain from the sale of West Polaris in the accounts and Seadrill continue to consolidate West Polaris.

Two-year US$1,000 million bridge loan facility

On May 19, 2008, Seadrill entered into a two-year US$1,000 million bridge loan facility to ensure the short-term financing of the newbuilding program.

Order of four jack-up newbuilds for delivery in 2010

On June 5, 2008, Seadrill announced that the Company has entered into agreements with KFELS and PPL Shipyard in Singapore for the construction of in total four jack-up newbuilds with delivery in 2010. The total contract price for the two units to be built by KFELS is approximately US$420 million. The two units to be built at PPL Shipyard have a total contract price of US$430 million.

Order of semi-submersible self-erecting tender rig for delivery in 2011

On June 9, 2008, Seadrill announced that the Company has entered into agreements with Keppel O&M in Singapore to build a new semi-submersible self-erecting tender rig for delivery in the first quarter 2011.

Total return swap agreement – Seadrill Ltd.

On June 26 and July 1, 2008, Seadrill entered into total return swap agreements with a total of 4,000,000 shares in Seadrill Limited as underlying security. The agreed initial reference price under the swap is NOK157.8067 per share for the first 2,000,000 shares and NOK154,5750 per share for the remaining 2,000,000 shares. The swap agreements expire on December 19, 2008.

In addition the Company has a current holding of own treasury shares of 856,100.

Waivers – Amendments to loan agreements

See last paragraph of note 18.

Appendix 1:

Seadrill Limited – Corporate Governance Statement 2007

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, 2007 the equity capital of Seadrill Limited was US$ 3.6 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, 2007 was 608,700

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 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, 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 ensuring 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 so 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 four directors. Two of the directors, John 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. Although Seadrill Limited recognizes that the composition of the Board does not satisfy the recommendation of the Code for two independent directors at present, it is not intended to propose any further increase in the number of directors in the short term.

Seadrill Limited is currently going through a phase of rapid expansion, and it is therefore important to have a small and focused board of directors with a close working knowledge of Seadrill Limited's strategy and operations, and an ability to react quickly when the situation so requires. The current composition of the Board satisfies these needs. Seadrill Limited thus believes that these considerations, for the time being, justify the non-compliance with the Code's recommendation for two independent directors and the need for a nomination committee.

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 taker 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 given 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.