Seadrill Limited (SDRL) - Fourth quarter and preliminary 2009 results

Highlights

- Seadrill generates fourth quarter 2009 EBITDA*) of US$486 million
- Seadrill reports fourth quarter 2009 net income of US$401 million and earnings per share of US$0.95
- Seadrill books US$58 million gain on disposal of jack-up rig West Atlas
- Seadrill is awarded new contracts amounting to US$90 million for tender and jack-up rigs
- Seadrill is awarded a US$345 million two-year contract for the ultra-deepwater drillship West Gemini under construction
- Seadrill declares US$0.55 per share in cash dividends

*) EBITDA defined as earnings before interest, depreciation and amortization equal to operating profit plus depreciation and amortization including gain on sale of assets

Condensed consolidated income statements

Fourth quarter results

Consolidated revenues for the fourth quarter of 2009 amounted to US$879 million as compared to US$863 million in the third quarter of 2009. Operating profit for the quarter was US$382 million, down from US$394 million in the previous quarter. The fourth quarter operating profit for Mobile Units was US$338 million as compared to US$342 million in the preceding quarter. The decrease was mainly due to a lower utilization for some units related to equipment downtime as well as yard-stays and associated repair and maintenance work offset by a US$50 million net gain on sale of assets. The operating profit contribution from the Tender Rigs was US$29 million, a decrease of US$8 million from the preceding quarter. The decrease is mainly related to a disputed contract commencement date in the third quarter, which has been adjusted for this quarter. Operating profit from Well Services amounted to US$15 million, unchanged from the preceding quarter.

Net financial items for the quarter was a gain of US$20 million as compared to a loss of US$1 million in the previous quarter. Interest income was US$17 million down US$23 million compared to the third quarter, which was impacted by an early redemption premium related to the Petromena NOK2,000 million bond. Interest expense was US$63 million in line with the third quarter. The contribution from associated companies was US$30 million, up from US$27 million in the previous quarter. Other financial items was US$37 million as a result of gain on our interest swap agreements, forward currency contracts and total return swap agreements in own treasury stocks.

Income taxes for the fourth quarter were US$0.1 million due to change in estimates from prior periods. In previous quarter, the tax expense amounted to US$48 million.

Net income for the quarter was US$401 million corresponding to basic earnings per share of US$0.95.

Preliminary results 2009
Revenues for 2009, totaled US$3,254 million up from US$2,106 million in 2008. Operating profit for the same period was US$1,372 million, an increase of US$723 million compared to the same period last year. The significant increase in operating profit is a function of a larger fleet of ultra-deepwater units following completed construction and higher average dayrates for the rig fleet. Net financial items amounted to an income of US$101 million compared to a loss of US$748 million in the previous year. The 2008 accounts were impacted by a US$615 million impairment charge on marketable securities and investment in associated companies. Income taxes increased from US$48 million in 2008 to US$120 million in 2009. Net income in 2009 was US$1,353 million compared to a loss of US$123 million in the preceding year.

Balance sheet
Total assets increased from US$12,305 million at year-end 2008 to US$13,831 million as of December 31, 2009.

Total current assets increased from US$1,664 million to US$2,261 million over the course of the year. This is primarily related to higher cash and cash equivalents, marketable securities and accounts receivables. The increase in marketable securities reflects the investment in the Petromena NOK2,000 million bond as well as the inclusion of the total 9.5 percent share forward position in Pride International Inc. of which 4.7 percentage points was off balance sheet at year-end 2008. Marketable securities were also positively impacted by a significantly higher Pride International Inc share price underlying the share forward contracts.

Total non-current assets increased from US$10,641 million to US$11,570 million. The increase was related to investments in new drilling units offset by the disposal of the two jack-up rigs West Atlas and West Ceres.

Total current liabilities decreased from US$2,058 million to US$2,034 million. Long-term interest bearing debt was reduced from US$6,691 million at the start of the year to US$6,622 million at the end of 2009. The decrease was in the main related to debt repayments offset by various new loans including the new US$1,500 credit facility, US$500 million convertible bond and NOK800 million bond. Net interest bearing debt was US$6,423 million compared to US$6,434 million at December 31, 2008. In the fourth quarter, US$796 million was paid in regular principal installments on debt facilities and US$2,491 paid for the full year.

Total shareholders' equity increased from US$3,222 million to US$4,813 million at December 31, 2009. The improvement relates to net income earned during the year as well as higher market value for marketable securities amounting to US$317 million, which is recognized in the statement of shareholders equity. In addition, US$100 million of the US$500 million convertible bond is recorded as equity and amortized as interest expenses over the duration of the bond.

Cash flow
As of December 31, 2009, cash and cash equivalents amounted to US$460 million, which corresponds to an increase of US$84 million as compared to year-end 2008. Net cash from operating activities for the period was US$1,452 million whereas net cash used in investing activities amounted to US$924 million. As such, net cash from financing activities was minus US$454 million.

Convertible bonds
Seadrill has two convertible bonds outstanding, US$1 billion that matures in October 2012 and US$500 million that matures in September 2014. The US$1 billion convertible bond has an annual coupon of 3.625 percent payable semi-annually and a conversion price of US$31.58 per share. The US$500 million convertible bond has an annual coupon of 4.875

percent payable semi-annually and a conversion price of US$24.59. The conversion prices do not reflect the resolved dividend announced in connection with this quarterly report.

Outstanding shares
As of December 31, 2009, issued shares in Seadrill Limited totaled 399,133,216. Our holding of treasury shares at the same time was 110,200 and approximately 6.2 million options were outstanding under the management share incentive program out of which approximately 2.7 million are vested and exercisable.

Total Return Swaps (TRS)
At present, we are exposed to a TRS agreement with 3,500,000 Seadrill Limited common shares as underlying security. The reference price for the TRS is NOK131.179 per share and expires on February 2, 2011. The current agreement replaced a TRS agreement with initial reference price of NOK100.4 per share that matured on February 12, 2010. The number of shares underlying the TRS agreement was reduced by 1,000,000 shares to 3,500,000 shares with a corresponding increase in our holding of treasury shares.

In the fourth quarter results, we have taken US$23 million to income related to the total return swap agreements under other financial items based on a share price of NOK148.0. At close of business on February 24, 2010, our share price was NOK129.0 that represent an unrealized loss on the TRS agreement of some US$8 million.

Operations
Mobile units
We had during the quarter 16 mobile units in operation and 1 jack-up rig preparing for a new contract.

In Norway, the semi-submersible rig West Venture and the ultra-large jack-up West Epsilon continued drilling operations for Statoil. The ultra-deepwater drillship West Navigator works for Shell whereas the deepwater semi-submersible rig West Phoenix worked for Total. In November, West Navigator started a mandatory 10-year survey that took four-week of downtime. The semi-submersible rig West Alpha completed a 25-year survey in October that included significant upgrade activities. During the yard stay, repair and maintenance work amounting to US$15 million were completed and expensed. The unit subsequently resumed operations for BG in the North Sea.

In the Gulf of Mexico, the ultra-deepwater semi-submersible rig West Sirius continued its operations for Devon Energy. In Brazil, the ultra-deepwater drillship West Polaris worked under a sublet from Exxon to Petrobras, which also employed the ultra-deepwater semi-submersible rigs West Taurus and West Eminence. In China, the ultra-deepwater semi-submersible rig West Hercules continued drilling operations for Husky whereas the ultra-deepwater semi-submersible rig West Aquarius continued operations for Exxon in the Philippines. In Nigeria, the ultra-deepwater drillship West Capella performed drilling operations under its five-year charter with Total.

In Southeast Asia, the benign environment jack-up rig West Prospero was at yard undertaking preparation-work for its assignment in the Red Sea. In Vietnam, the jack-up rigs West Larissa and West Ariel continued their activities for VietsoPetro (VSP). The jack-up rig West Janus performed drilling operations for Petronas in Malaysia.

In Australia, the jack-up rig West Triton was drilling a relief well for PTTEP Australasia on the Montara platform. The relief well was required due to a hydrocarbon leak that developed mid August on an adjacent well on the Montara platform where West Atlas was working that necessitated an evacuation of personnel of the jack-up unit. On November 1, a fire broke out on the Montara wellhead platform and subsequently engulfed the drilling tower of West Atlas cantilevered over the wellhead platform. The fire continued for more than two days and caused such severe damages to West Atlas that the rig in November was classified a constructive total loss. The insurance payment of US$200 million was received in December. Following completion of drilling the relief well, West Triton returned to Singapore late December.

Tender rigs
We had seven tender rigs in operations and two in lay-up during the quarter. In Southeast Asia, the tender rig barges T4, T7 and T11 worked for Chevron in Thailand whereas the semi-tender West Alliance worked for Petronas Carigali in Malaysia on an assignment from Shell until November, when the rig returned to Shell. The semi-tender West Berani continued its work for ConocoPhillips in Indonesia and the semi-tender West Pelaut performed operations for Shell in Brunei. In West Africa, West Setia worked for Chevron in Angola. In Namibia, the self-erecting tender rigs T8 and West Menang remained stacked in Walvis Bay following completion of operations for Total in the second quarter this year. T8 was in January 2010 put on a dry-tow vessel and arrived Malaysia earlier this month.

Well services (Seawell Limited - 74% ownership)
Our majority owned subsidiary Seawell provides offshore drilling and well services. Its core business consists of platform drilling, drilling facility engineering, modular rig, well intervention and oilfield technologies. Seawell currently operates on nearly 50 installations in the North Sea and has offices in Stavanger and Bergen in Norway, Aberdeen and Newcastle in the United Kingdom, Houston in the United States, Esbjerg in Denmark, Rio de Janeiro in Brazil and Kuala Lumpur in Malaysia. The overall activity level in the fourth quarter was sound with an EBITDA of US$21 million in line with the previous quarter. For more information on Seawell, see separate quarterly report published on www.seawellcorp.com in connection with Seawell's separate Norwegian OTC listing.

Newbuild project status
In November 2009, PPL shipyard exercised their right to acquire the building contract for the jack-up West Elara from us. Ultimo December 2009 and February 2010, the construction of the two tender rigs West Vencedor and T12 respectively was completed from the yard. As such, the remaining construction program at yards in Singapore and Korea totals three jack-ups, one tender rig and three ultra-deepwater units. This year we will take delivery of, the ultra-deepwater units West Orion and West Gemini in April and July respectively whereas the remaining jack-up rigs West Callisto and West Leda is expected to be delivered in July and West Juno is expected in October. In 2011, we expect delivery of the tender rig West Berani III in the first quarter and the ultra-deepwater semi-submersible rig West Capricorn in the fourth quarter. We are pleased to inform that the construction of the newbuilds is developing according to plan and in line with budgets.

Operations in associated companies
Varia Perdana Bhd.
Varia Perdana Bhd., in which we have a 49 percent ownership, owns five self-erecting tender rigs that were all in operation during the quarter. The tender barge T3 worked for PTT in Thailand and T10 worked for Petronas Carigali on an assignment for CarigaliHess. The tender barges T6 and Teknik Berkat worked for Petronas Carigali while T9 worked for Exxon. Varia Perdana continues to deliver sound operational performance.

SapuraCrest Bhd.
We currently own 301,132,020 shares in the Malaysian oil service provider SapuraCrest Bhd. that corresponds to an ownership interest of 23.6 percent. SapuraCrest has established itself as a leading deepwater construction company in the Pacific region. The company owns among other things 51 percent of Varia Perdana Bhd. Based on the closing price on February 24, 2010 on the Malaysian Stock Exchange, our holding in SapuraCrest has a gross value of some US$209 million compared to a book value of US$86 million at year-end

2009. SapuraCrest continues to deliver sound performance supported by a strong contract backlog.

Scorpion Offshore Limited.
Scorpion is a Bermuda registered company listed on the Oslo Stock Exchange that owns and operates six jack-ups and has one jack-up under construction. We directly control 38.6 percent of the outstanding shares equal to 34,638,903 shares as the previous share forward contracts matured on January 21, 2010. Based on closing share price of NOK27.90 on February 24, 2010, our exposure has a gross value of some US$163 million compared to a book value of US$104 million at year-end 2009. Scorpion has lately succeeded in securing work for the one jack-up under construction and has at present work lined up for their entire fleet.

Other investments in offshore drilling companies
Pride International Inc.
We directly and indirectly control 9.5 percent in the NYSE listed offshore drilling company Pride International Inc. through forward contracts for 16,300,000 shares and direct ownership in 200,000 shares. The current average strike price per share on the forward contracts is US$25.80. Based on closing share price of US$28.14 on February 24, 2010, our exposure has a gross value of some US$464 million as compared to a book value of US$527 million at year-end 2009.

Seahawk Inc.
As a result of the spin-off of Pride's mat-supported jack-ups on August 24, 2009, we also hold a 9.5 percent ownership in Seahawk Drilling Inc. amounting to US$24 million based on closing share price US$21.97 on February 24, 2010 compared to a book value of US$25 million at year-end 2009.

New contracts and dayrates
In January 2010, Statoil exercised their right to extend the contract for the harsh environment semi-submersible rig West Venture by one year to August 2011 at a predetermined dayrate of US$267,000.

In February, a contract where secured for the jack-up rig West Triton with the operator Twinza for 60 days work at dayrate US$116,000 in Southeast Asia with start-up ultimo March. We are also in the final negotiations stages for a 120 day contract for West Triton regarding at dayrate US$140,000 in direct continuation of the Twinza contact. Furthermore, a letter of intent has also been secured for the jack-up rig under construction West Callisto, which is schedule to be delivered in July this year. The contract is for eight wells estimated to take some 260 days and dayrate is US$119,000. The operator has an option for five additional wells at mutually agreed rates.

For the tender rig T12 that recently completed construction, a letter of intend for one-year contract has been secured with PTTEP in Thailand. The agreed dayrate is US$91,000 including mobilization fee and commencement is expected in late March this year. The operator has an option to extend the contract by one year at a mutually agreed dayrate.

Seadrill has also been awarded, by an international E&P company, a two-year contract for the ultra-deepwater drillship West Gemini under construction. The drillship is expected to be delivered in July this year and will subsequently relocate to start operations in West Africa. The dayrate is US$445,000 for the two-year period. The operator has a right to extend the contract by one year at a similar rate. There are further two one-year options for extension at dayrates to be mutually agreed.

For more detailed information regarding dayrates and contract durations including escalation, currency adjustment or other minor changes to dayrate and duration profiles, see fleet status report or news releases on the Company's web site www.seadrill.com.

Market development

The oil price has since May 2009 traded between US$60 and US$80 per bbl. This has gradually removed uncertainty and reinstating oil companies' confidence in higher and more stable oil prices near term. The development has significantly improved tender activities in most rigs segments. Over the last months, we have in particular seen growth in activity in the high specification jack-up rig segment, a development that is positive for the tender rig market as well. In the ultra-deepwater market, the activity has been slower but it is promising to see that demand is picking up in other regions than Brazil, which recently has been the main driver for demand in this market segment.

Ultra-deepwater Floaters (>7,500 ft water)

There have been few fixtures in the ultra-deepwater market over the last 12 months. This is a consequence of limited supply available near term as well as oil companies postponing activities in response to the drop and increased volatility in oil and gas prices in late 2008. The more favorable oil price development and improved cash flow situation for operators are slowly but surely translating into increased demand for high specification deepwater capacity. Whereas the majority of the tender activities for a long period were focused on Brazil and the significant subsalt discoveries and development plans for those finds, other regions such as West Africa have lately seen increase in demand for ultra-deepwater rigs. The near term challenge for dayrates is approximately 29 units under construction scheduled for delivery the next three years that have not been contracted yet. Although these newbuilds are concentrated on few hands, the majority of their owners have limited or no operating experience in deeper waters. Furthermore, some are also constrained by lack of financing for remaining yard installments. As a result, the availability of these newbuilds is putting downward pressure on the market dayrate for deepwater newbuilds near term. We believe that several of these rigs presently are under specific contract discussions and will be tied up to contractors during the next months. This situation will clearly influence the market positively.

A stable or growing world economy and oil price environment would be expected to increase oil companies' focus on reserve replacement again, which will drive demand for ultra-deepwater capacity as exploration and development drilling activities continues to move into deeper water. The key regions will be Brazil, West Africa and US Gulf with incremental demand from the Asian region. Current well production tests on the sub-salt reserves in Brazil shows high productivity, which implies a more robust financial case for these fields than earlier anticipated.

Premium Jack-up rigs (>300 ft water)

The market for jack-up rigs has a more short-term nature as the majority of assignments have duration from three to 12 months and wells often are tiebacks to existing infrastructure. The demand side is also much more fragmented with a higher average break-even oil price for the marginal projects as well as more use of debt to finance the projects. As a result, the drop in oil and gas prices late 2008 and more distressed financial markets led to a significant drop in demand for jack-up rigs that extended into the latter part of 2009. As a consequence, a significant number of units were therefore cold-stacked by some of the largest jack-up rigs owners that effectively reduced marketed supply. After a quiet period the first six to nine months in 2009, the number of enquiries has risen significantly on the back of the more favorable and less volatile development in oil and gas prices. Independent oil companies have again been given access to the capital market, which is an important source for funding of jack up based drilling operations. We have recently seen a strong uptick in demand for new and modern high capability jack-up rigs in particular and are expecting the utilization for modern high specification jack-up rigs to exceed 90 percent. Although there still is a large number of new jack-ups being delivered from yards without secured employment and rigs coming off existing contracts, the pattern seems to be that the operators are replacing older equipment with new equipment with higher specification and more water depth capacities. We believe that this trend will continue and are optimistic on the outlook for premium jack-up rigs, as new, modern and more efficient rigs are needed to efficiently drill wells that are technically more challenging and demanding with respect to rig equipment. Furthermore, the large capital expenditures, which have to be invested to maintain and reactivate old units, further strengthen the case for modern jack ups.

Tender rigs
The tender rig market has historically been more resilient to oil and gas price fluctuations than jack-up rigs. This has been due to tender rigs primarily undertaking development drilling under term contracts as part of field developments. The sudden and immediate deterioration of overall market conditions late 2008 and early 2009 adversely affected the tender rig market as lower oil and gas prices led to postponement of drilling programs especially in shallow water. As such, the number of enquiries from oil and gas operators in the latter part of 2009 was very limited. Over the last three months, there has been a significant improvement in demand in parallel with the additional demand we have seen for high capability jack-up rigs. We are anticipating a continued improvement in demand for tender rigs and expect the market to offer attractive opportunities also in new areas such as Trinidad, Brazil and Australia. In addition to traditional shallow water demand, we also expect increased use of semi-tenders in connection with TLPs, SPARs or similar installations for development of deepwater fields.

Next quarter operational events
There are various risks inherent in the day-to-day operations of our rigs. Early this quarter, the ultra-deepwater drillship West Navigator experienced approximately 30 days downtime due to adjustment of various surveyed equipment related to the yard-stay in the fourth quarter 2009. In February, the harsh environment semi-submersible rig West Venture completed a short yard-stay for installation of third party equipment in connection with its operation on the Troll field in Norway. The rig has been on dayrate during the yard-stay and has no adverse impact on the income statement for the quarter. The jack-up rig West Prospero returned to operations in early January after being stacked since December 2008. The jack-up West Triton will be between contracts for the entire quarter until start-up of operation for Twinza early April this year. The tender rig T8 has been relocated from West Africa to Malaysia and will not have any income in the quarter. There are at present no other known downtime periods of significance, which is expected to influence the utilization of our fleet in the first quarter 2010.

Corporate strategy and outlook
Seadrill is today one of the leading offshore drilling companies with the second largest ultra deepwater fleet in the industry and presence in all important offshore oil and gas regions. We have a worldwide operation supported by a strong and dynamic organization of more than 7,500 people with main operational support centers in Norway, USA and Singapore. Based on the combination of modern assets and experienced employees, we have secured one of the best contract backlogs in the industry focused on quality operators like Chevron, Exxon, Petrobras, Shell and Total, operators that have the skills and resources to support, challenge and help us in our drive for quality operations.

We continue to be optimistic about the outlook for our business. In response to this market optimism, we have a clear ambition to develop our Company further. The main cornerstones in such a development are; focus on operational excellence, adding contract backlog, replacing and raising additional debt, pay quarterly dividend and pursue growth opportunities within our market space.

Operational excellence
A critical part of our continued development is optimization of the operational performance and economic utilization of our rigs. Our long-term goal is for Seadrill to be the oil companies' preferred drilling contractor. This shall be achieved based on a combination of the best equipment available and a dynamic and highly professional organization. The combination should give the oil companies an assurance for a strong health, safety and environmental performance as well as the best value for money when it comes to drilling performance.

We are in general pleased with the commencement of the 18 new building units, which have commencements contracts during the last four years. This is further underpinned by the increasingly positive formal client feedback received for most of the units. However, there is still room for improvements in the efficiency, and we are working closely with our customers to maximize the drilling efficiency. We believe that not only uptime but also drilling efficiency for our clients will be important in order to create a competitive edge in the industry in the future.

In the fourth quarter, the economic utilization rate for our new ultra-deepwater units was 93 percent in line with the previous quarter but up from 90 percent in the second quarter of 2009. The downtime in the fourth quarter were mainly related to the repair work on the ultra-deepwater semi-submersible rig West Hercules following an unexpected typhoon in the South China Sea that put the rig out of work for most of October and approximately 18 days of downtime related to BOP challenges on the ultra-deepwater semi-submersible rig West Sirius. These incidents prevented us from reaching our goal of more than 95 percent utilization rate. The underlying trend, however, is a continued improved performance. In the first quarter this year, the utilization rate for the new ultra-deepwater units to date has been above 97 percent. We maintain our focus on systematic improvement of work processes and stress adherence to procedures and awareness of potential dangers and hazards through transfer of experience in order to reduce downtime risk. It is realistic to deliver utilization rates in line with our targets within the next twelve months.

In the aftermath of the run-in phase of operations in Brazil, Nigeria, China and US GoM we are also targeting reductions in our daily operational expenses through more efficient logistics and improved uptime. Higher utilization rates normally mean less time spent on repair of equipment and consequently should contribute to lower operating expenses. In the fourth quarter, the operational downtime related to West Hercules and West Sirius adversely affected our operational expenses through more use of vendor personnel, spare parts, etc. than what we ideally would have liked to see. We also had some on-off cost related to the ultra-deepwater drillship in Brazil. Furthermore, there were higher expenses related to the surveyed West Alpha and West Navigator in the quarter due to repair and maintenance work carried out in connection with yard-stays. Going into 2010, we believe that as the regularity for the ultra-deepwater units has improved significantly, the trend for daily operating expenses for these units should be downward on an annual basis. However, it is essential that such cost reductions are not adversely influencing the service to our customers and instead are realized as efficiency improvements, through increased purchasing power and improved logistics as a function of the growth of our operations and rig portfolio. Significant effort will in 2010 be put into controlling and reducing costs through active monitoring of best practice as well as using the benefits of Seadrill and affiliated companies' strong purchasing power.
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Contract backlog

We have the last few weeks added several new contracts to our contract backlog that currently totals US$10.8 billion.

For our semi-submersible and drillship capacity, the average contract length is some 38 months. This includes the recent contract for the drillship West Gemini that secured employment for all our floaters until late 2011. Although the dayrate on the Gemini contract was below our expectations, it gives us an opportunity to take a new drillship straight from the yard and onto operation in West Africa and thereby avoid any downtime. Seadrill first available deepwater capacity is now coming up in end of 2011. Such a position is likely to give us sufficient time to wait out the current weakness created by a temporarily mismatch of supply and demand. We are however already in specific discussion for this capacity.

For our shallow water capacity, the average contract length is 29 months for our tender rigs and 8 months for our jack-up rigs. Our tender rigs are all, following the recent contract signing for the newbuild T12, contracted until 2011 with the exception the T8. We are currently entertaining several contract discussions for this rig and are confident that employment will be secured shortly. Based on the recent market development we also see strong contract opportunities for units that are available from 2011 and onwards.

We have recently been able to secure short-term work for our stacked jack-up rigs as well as one of the three newbuilds we have under construction. The market has improved since November last year and there is definitely a positive momentum in the market segment for high specification jack-up rigs. As the majority of our jack-up rig fleet is on contracts that expire later this year, we expect to benefit from this favorable development with increased contract backlog.

Debt financing and capacity
We have in 2009, raised more than US$2.1 billion in new debt through secured credit facilities, unsecured bonds and unsecured convertible bonds. The new financing has been used to replace short-term debt, add more term to the overall debt portfolio, secure financing of the remaining newbuild installments and provide financial flexibility to facilitate investment opportunities. We have also improved our debt repayment schedule by amending certain credit facilities in the same period. Market conditions for capital raising in the debt markets have improved significantly, a trend that has continued this year. We believe that this together with sound outlook for the oil and gas industry as well as our earning visibility will present good opportunities for us to raise additional financing in the debt market. We expect to continue our strategy to optimize our debt level and interest expenses by actively using our quality rig fleet as security to support the contracted cash flow. At present, we have three ultra-deepwater units, three jack-up rigs, and three tender rigs, with an aggregated market value of some US$3 billon, free of any liens and available as collateral for new debt arrangements. Three of these newbuilds have already secured term contracts worth US$2.1 billion. We are confident that the cash flow from these units and the rig valuations are attractive as financing objects. We are currently in advanced discussion regarding Export Credit Agency (ECA) financing for some of these rigs.

Dividend policy
Our objective is to generate competitive returns to our shareholders. This includes paying out a significant part of the operating cash flow as quarterly cash dividends. The Board has in view of the Company’s solid operation, the increased contract backlog and the good progress in further financing discussions, decided to increase the quarterly dividend target from US$0.50 to US$0.55. The Board sees as a function of the strong reduction in capital expenditures in 2011 and onwards potential for further growth in dividend. The shareholders shall be assured that the Board is committed to a high payout ratio and will not enter into transactions, which could put such a strategy into jeopardy.

Ex. dividend date has been set at March 15, 2010, record date is March 17, 2010 and payment date is on or about March 29, 2010.

Growth and outlook

We have built the most modern quality drilling fleet in the world with an average age that is almost 20 years younger than our peer group. This forms a strong platform for further growth of the Company as well as solid long-term return for our shareholders.

The recovery of the oil price and the increased spending from the oil companies creates market dynamics that are very similar to what we saw when the previous spending growth started in 2004. The increased spending from 2004 to 2008 had significant positive effects for drilling rates as well as asset values. Over the last decade, the remaining reserve-life for oil and gas assets has been significantly reduced and at the same time, the depletion rate for the existing fields has reached unprecedented levels underpinning the need for discoveries of additional reserves to meet future energy demand. The recent huge finds made offshore Brazil and in the US Gulf as well as the continued exploration successes in West Africa confirm that the discoveries that will make a difference to reserve replacement rates largely will come in deep and ultra-deep waters. We have not seen anything that changes this trend As such, we continue to be optimistic on the long-term market outlook for offshore drilling units.

We are of the opinion that our industry could benefit from further consolidation and want to play active part in such consolidation. We therefore continue to evaluate potential growth opportunities for our Company. While there where limited attractively priced consolidation alternatives in 2008, the resent setback in the market have created more attractive opportunities in both the asset market as well as the corporate market. Such opportunities could be value accretive to our shareholders and create an even stronger drilling company. It is however important to state that such opportunity should not adversely influence the company's ability pay a high dividend to its shareholders.

We see the recent increased activity level in the jack up market as an early indicator of a strengthening of the overall offshore market. In line with what have been communicated, earlier Seadrill wants to play an active role in a further consolidation of the modern high-end jack up market. The Company is currently considering several options for a direct as well as indirect way to achieve such a strategy.

We have recently informed that in response to the growth of the Company, we had decided to seek a primary listing on the New York Stock Exchange for our common shares with the aim to increase trading liquidity further and to broaden the investor interest for our Company. Status on the listing project is that we have submitted the registration statement for such a listing to the Security Exchange Commission (SEC). Based on a normal process going forward from where we stand today we expect the listing to be completed in March/April this year.

The Board is pleased with what the Company has achieved since its start up in 2005. 2008 and 2009 has been a period where we successfully delivered and commenced operation for a uniquely large number of offshore drilling rigs. We have been able to deliver strong growth in our earnings and based on the current operations and market outlook we are confident of a continued solid development in earnings will continue in 2010 and 2011. This is underpinned by our solid contract backlog and the delivery and start-up of operations for further three deepwater units, three tender rigs and three jack-up rigs. The recent fixture of several jack up as well as the new contract on West Gemini further reduces the risk in the Company and put us in a strong position to get actively involved in some of the opportunities which the likely temporarily set back in the offshore industry have created.

The operational development so far in 2010 confirms this positive picture. The Board is confident that the Company in the next years will continue to deliver good growth in earnings and a high direct return to shareholders.

Forward Looking Statements
This report contains forward-looking statements. These statements are based on various assumptions, many of which are based, in turn, upon further assumptions, including Seadrill management's examination of historical operating trends.

Including among others, factors that, in the Company's view, could cause actual results to differ materially from the forward looking statements contained in this news release are the following: the competitive nature of the offshore drilling industry, oil and gas prices, technological developments, government regulations, changes in economical conditions or political events, inability of the Company to obtain financing for the newbuilds or existing assets on favorable terms, changes of the spending plan of our customers, changes in the Company's operating expenses including crew wages, insurance, dry-docking, repairs and maintenance, failure of shipyards to comply with delivery schedules on a timely basis and other important factors mentioned from time to time in our reports filed with the Oslo Stock Exchange.

February 25, 2010
The Board of Directors
Seadrill Limited
Hamilton, Bermuda

Questions should be directed to Seadrill Management AS represented by:

Alf C Thorkildsen:	Chief Executive Officer
Trond Brandsrud:	Chief Financial Officer
Jim Daatland:	Vice President Investor Relations

Seadrill Limited

INDEX TO UNAUDITED INTERIM FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS for the three month and 12 month periods ended December 31, 2009 and 2008

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

	Three month period ended December 31		12 month period ended December 31	
	2009	2008 (as adjusted)	**2009**	2008 (as adjusted)
Operating revenues				
Contract revenues	**834.9**	517.7	**3,044.9**	1,867.8
Reimbursables	**33.3**	49.1	**166.0**	163.5
Other revenues	**10.7**	11.7	**43.0**	74.5
Total operating revenues	**878.9**	578.5	**3,253.9**	2,105.8
Gain on sale of assets	**50.0**	0.0	**71.1**	80.1
Operating expenses				
Vessel and rig operating expenses	**364.9**	273.3	**1,252.8**	1,021.6
Reimbursable expenses	**30.9**	47.9	**154.9**	156.6
Depreciation and amortization	**104.8**	72.6	**395.9**	233.2
General and administrative expenses	**46.7**	31.3	**149.1**	125.8
Total operating expenses	**547.3**	425.1	**1,952.7**	1,537.2
Net operating income	**381.6**	153.4	**1,372.3**	648.7
Financial items				
Interest income	**16.8**	10.6	**78.1**	30.9
Interest expenses	**(63.4)**	(42.0)	**(228.4)**	(130.0)
Share in results from associated companies	**29.7**	(11.6)	**92.4**	15.6
Gain on sale of associated companies	-	-	-	150.5
Impairment loss on marketable securities and investments in associated companies	-	(615.0)	-	(615.0)
Gain/ (loss) on derivative financial instruments	**28.8**	(263.1)	**129.6**	(353.3)
Foreign exchange gain/ (loss)	**4.2**	76.4	**(25.4)**	130.8
Other financial items	**3.5**	(1.8)	**54.5**	22.2
Total financial items	**19.6**	(846.5)	**100.8**	(748.3)
Income/(loss) before income taxes	**401.2**	(693.1)	**1,473.1**	(99.6)
Income taxes	**(0.1)**	(19.2)	**(120.0)**	(48.3)
Gain on issuance of shares by subsidiary	-	25.2	-	25.2
Net income/ (loss)	**401.1**	(687.1)	**1,353.1**	(122.7)
Net income/ (loss) attributable to the parent	**379.1**	(706.5)	**1,261.2**	(164.4)
Net income attributable to the non-controlling interest	**22.0**	19.4	**91.9**	41.7
Basic earnings/ (loss) per share (US dollar)	**0.95**	(1.77)	**3.16**	(0.41)
Diluted earnings/ (loss) per share (US dollar)	**0.88**	(1.77)	**3.00**	(0.41)

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the three and 12 month periods ended December 31, 2009 and 2008

(In millions of US dollar)

	Three month period ended December 31		12 month period ended December 31	
	2009	2008 (as adjusted)	**2009**	2008 (as adjusted)
Net income/ (loss)	**401.1**	(687.1)	**1,353.1**	(122.7)
Other comprehensive income/ (loss), net of tax:				
Change in unrealized gain/ (loss) on marketable securities	**14.9**	80.4	**317.1**	(61.9)
Change in unrealized foreign exchange differences	**5.5**	(19.0)	**29.6**	(28.2)
Change in actuarial (loss)/ gain relating to pension	**5.30**	(5.8)	**13.7**	(5.8)
Change in unrealized gain/ (loss) on interest rate swaps in VIEs	**3.6**	(71.8)	**15.1**	(55.2)
Other comprehensive income/ (loss):	**29.3**	(16.2)	**375.5**	(151.1)
Total comprehensive income/ (loss) for the period	**430.4**	(703.3)	**1,728.6**	(273.8)
Comprehensive income/ (loss) attributable to the parent	**402.0**	(722.7)	**1,619.8**	(315.5)
Comprehensive income attributable to the non-controlling interest	**28.4**	19.4	**108.8**	41.7

	2009	2008
The total balance of accumulated other comprehensive income as at December 31 is made up as follows:		
Unrealized gain on marketable securities	**317.1**	-
Unrealized gain on foreign exchange	**80.1**	57.5
Actuarial gain relating to pension	**10.9**	(1.4)
Fair value (loss) in VIEs	**(48.6)**	(55.2)
Accumulated other comprehensive income at December 31	**359.5**	0.9

Note: All items of other comprehensive income/ (loss) are stated net of tax.

The applicable amount of income taxes associated with each component of other comprehensive income is $0 due to the fact that the items relate to companies domiciled in non-taxable jurisdictions.

UNAUDITED CONSOLIDATED BALANCE SHEETS
as of December 31, 2009 and December 31, 2008

(In millions of US dollar)

	December 31, 2009	December 31, 2008 (as adjusted)
ASSETS		
Current assets		
Cash and cash equivalents	**460.0**	376.4
Restricted cash	**142.1**	280.7
Marketable securities	**742.3**	134.7
Accounts receivables, net	**451.6**	341.1
Amount due from related party	**79.7**	115.0
Other current assets	**385.3**	415.9
Total current assets	**2,261.0**	1,663.8
Non-current assets		
Investment in associated companies	**321.0**	240.1
Newbuildings	**1,430.9**	3,660.5
Drilling units	**7,514.3**	4,645.5
Goodwill	**1,596.0**	1,547.3
Other intangible assets	**23.5**	20.1
Restricted cash	**371.0**	345.9
Deferred tax assets	**13.4**	9.7
Equipment	**115.1**	83.1
Amount due from related party	**90.0**	-
Other non-current assets	**95.2**	88.5
Total non-current assets	**11,570.4**	10,640.7
Total assets	**13,831.4**	12,304.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	**774.1**	746.1
Trade accounts payable	**84.7**	119.8
Other current liabilities	**1,175.3**	1,191.9
Total current liabilities	**2,034.1**	2,057.8
Non-current liabilities		
Long-term interest bearing debt	**6,621.8**	6,690.7
Deferred taxes	**124.5**	125.0
Other non-current liabilities	**238.1**	209.0
Total non-current liabilities	**6,984.4**	7,024.7
Commitments and contingencies	-	-
Shareholders' equity		
Common shares of par value US$2.00 per share: 800,000,000 shares authorized 399,023,016 outstanding at December 31, 2009 (December, 31 2008: 398,415,416)	**798.0**	796.9
Additional paid in capital	**164.2**	35.9
Contributed surplus	**1,955.4**	1,955.4
Accumulated other comprehensive income	**359.5**	0.9
Accumulated earnings/(deficit)	**901.9**	(159.9)
Non-controlling interest	**633.9**	592.8
Total shareholders' equity	**4,812.9**	3,222.0
Total liabilities and shareholders' equity	**13,831.4**	12,304.5

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CASHFLOWS
for the 12 month periods ended December 31, 2009 and 2008

(In millions of US dollar)

	12 month period ended December 31	
	2009	**2008 (as adjusted)**
Cash Flows from Operating Activities		
Net income/ (loss)	1,353.1	(122.7)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	395.9	233.2
Amortization of deferred loan charges	23.3	12.7
Amortization of unfavorable contracts	(43.0)	(65.3)
Amortization of mobilization revenue	(49.8)	(5.2)
Impairment loss on marketable securities and investments in associated companies	0.0	615.0
Share of results from associated companies	(92.4)	(15.6)
Share-based compensation expense	16.0	14.9
Gain on disposal of fixed assets	(71.1)	(80.1)
Gain on issuance of shares in subsidiary	0.0	(25.2)
Gain on disposal of associated companies	0.0	(150.5)
Unrealized (gain)/ loss related to derivative financial instruments	(152.9)	168.8
Realized gain on disposal of other investments	(15.9)	(22.2)
Dividend received from associated company	41.2	0.0
Deferred income tax expense	2.2	22.6
Unrealized foreign exchange loss (gain) on long term interest bearing debt	28.0	(79.2)
Changes in operating assets and liabilities, net of effect of acquisitions		
Unrecognized mobilization fees received from customers	165.9	83.0
Trade accounts receivable	(110.5)	(83.0)
Trade accounts payable	(35.1)	(62.8)
Prepaid expenses/accrued revenue	(71.5)	(95.6)
Other, net	68.6	58.2
Net cash provided by operating activities	1,452.0	401.0

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CASHFLOWS
for the 12 month periods ended December 31, 2009 and 2008

(In millions of US dollar)

	2009	2008
Cash Flows from Investing Activities		
Additions to newbuildings	(1,153.2)	(2,591.2)
Additions to rigs and equipment	(216.2)	(176.3)
Sale of rigs and equipment	392.9	103.8
Investment in subsidiaries, net of cash acquired	0.0	(173.2)
Change in margin calls and other restricted cash	344.6	(610.7)
Investment in associated companies	(32.9)	(369.2)
Proceed from repayment of short term loan to related parties	115.0	0.0
Short term loan granted to related parties	(169.7)	(115.0)
Proceeds on issuance of shares in subsidiary	0.0	25.2
Purchase of marketable securities	(263.0)	(309.9)
Disposal of associated company	0.0	221.0
Sale of marketable securities	58.8	148.1
Net cash used in investing activities	(923.7)	(3,847.4)
Cash Flows from Financing Activities		
Proceeds from debt	2,407.3	5,150.0
Repayments of debt	(2,490.9)	(2,107.7)
Debt fees paid	(42.7)	(30.1)
Change in current liability related to share forward contracts	(68.6)	67.6
Contribution (to) / from non-controlling interests	(68.0)	440.1
Purchase of treasury shares	0.0	(13.7)
Proceeds from sale of treasury shares	8.8	8.3
Dividends paid	(199.4)	(688.1)
Net cash provided by financing activities	(453.5)	2,826.4
Effect of exchange rate changes on cash and cash equivalents	8.8	(0.6)
Net increase / (decrease) in cash and cash equivalents	83.6	(620.6)
Cash and cash equivalents at beginning of the year	376.4	997.0
Cash and cash equivalents at the end of period	460.0	376.4
Supplementary disclosure of cash flow information		
Interest paid	230.5	245.4
Taxes paid	137.5	52.0

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the 12 months ended December 31, 2009

(In millions of US dollar)

	Share Capital	Additional paid-in capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Non-controlling interest	Total shareholders' equity
Balance at December 31, 2008	796.9	35.9	1,955.4	0.9	(159.9)	592.8	**3,222.0**
Sale of treasury shares	1.1	7.7					**8.8**
Employee stock options issued		15.7				0.3	**16.0**
Convertible loan-equity portion		104.9					**104.9**
Unrealized gain on marketable securities				317.1			**317.1**
Foreign exchange differences				29.2		0.4	**29.6**
Changes in actuarial gain relating to pension				12.3		1.4	**13.7**
Change in unrealized gain on interest rate swaps in VIEs						15.1	**15.1**
Net paid to non-controlling interest						(68.0)	**(68.0)**
Dividend payment					(199.4)		**(199.4)**
Net income					1,261.2	91.9	**1,353.1**
Balance at December 31, 2009	**798.0**	**164.2**	**1,955.4**	**359.5**	**901.9**	**633.9**	**4,812.9**

Note 1- General information

Seadrill Limited ("Seadrill" or the "Company"), a publicly listed company on the Oslo Stock Exchange, was incorporated in Bermuda in May 2005. Assisted by the acquisition of other companies and investment in newbuildings, Seadrill has developed into an international offshore drilling contractor providing services within drilling and well services, and at December 31, 2009 the Company owns and operates 35 offshore drilling units, including 9 units under construction. The Company's versatile fleet consists of drillships, jack-up rigs, semi-submersible rigs and tender rigs for operations in shallow and deepwater areas, as well as benign and harsh environments. In addition to owning and operating offshore mobile drilling units and tender rigs, the Company provides platform drilling, well intervention and engineering services through the separately over-the-counter ("OTC") listed subsidiary company Seawell Limited ("Seawell"), a Bermuda company in which the Company owned 74% at December 31, 2009.

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

Basis of presentation

The unaudited interim consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP) for interim financial information. The unaudited interim consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These interim financial statements should be read in conjunction with the Company's financial statements as at December 31, 2008. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements and accompanying notes for the year ended December 31, 2008, except for the accounting policy relating to issuance of shares by a subsidiary/associate which was changed, effective January 1, 2009. FAS 160, which was effective in 2009 precludes a company from recognizing 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. Instead, a profit of future issuance of shares by a subsidiary/associate will be recorded as equity transactions.

Due to the implementation of new accounting rules, effective January 1, 2009 the Company, changed the reporting of non-controlling interest (former called minority interest). The change requires that non-controlling interests be reported as equity in the consolidated balance sheet and requires that net income attributable to controlling interest and to non-controlling interests be shown separately on the face of the statement of operations. As a result of our adoption, the Company modified the consolidated statements of operations to separately present net income (loss) attributable to non-controlling interest and net income attributable to controlling interest. Prior periods have been adjusted accordingly.

Note 2– Segment information

Operating segments

The Company provides drilling and related services to the offshore oil and gas industry. The split of our organization into segments is based on differences in management structure and reporting, economic characteristics, customer base, asset class and contract structure. As of December 31, 2009, 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.

Segment results are evaluated on the basis of operating profit, and the information given below is based on information used for internal reporting. The accounting principles for the segments are the same as for the Company's consolidated financial statements.

Revenues (including gain on sale of drilling units)

(In millions of US dollar)	**Three months ended December 31,**		**12 months ended December 31,**	
	2009	**2008**	**2009**	**2008**
Mobile Units	688.5	311.6	2,323.2	1,224.2
Tender Rigs	87.6	100.8	392.0	341.4
Well Services	152.8	166.1	609.8	620.3
Total	928.9	578.5	3,325.0	2,185.9

Depreciation and amortization

(In millions of US dollar)	**Three months ended December 31,**		**12 months ended December 31,**	
	2009	**2008**	**2009**	**2008**
Mobile Units	88.0	56.2	332.8	173.0
Tender Rigs	10.3	10.7	41.8	41.7
Well Services	6.5	5.7	21.3	18.5
Total	104.8	72.6	395.9	233.2

Operating income - net income

(In millions of US dollar)	Three months ended December 31,		12 months ended December 31,	
	2009	**2008**	**2009**	**2008**
Mobile Units	337.7	98.3	1,141.3	467.7
Tender Rigs	29.4	41.2	173.5	126.1
Well Services	14.5	13.9	57.5	54.9
Operating income	381.6	153.4	1,372.3	648.7
Unallocated items:				
Total financial items	19.6	(846.5)	100.8	(748.3)
Income taxes	(0.1)	(19.2)	(120.0)	(48.3)
Gain on issuance of shares by subsidiary	-	25.2	-	25.2
Net income	401.1	(687.1)	1,353.1	(122.7)

Note 3 – Earnings per share

The computation of basic EPS is based on the weighted average number of shares outstanding during the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments.

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

(In millions of US dollar)	Three months ended December 31,		12 months ended December 31,	
	2009	**2008**	**2009**	**2008**
Net income available to stockholders	379.1	(706.5)	1,261.2	(164.4)
Effect of dilution	20.2	-	49.6	-
Diluted net income available to stockholders	399.3	(706.5)	1,310.8	(164.4)

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

(In millions)	Three months ended December 31,		12 months ended December 31,	
	2009	**2008**	**2009**	**2008**
Basic earnings per share:				
Weighted average number of common shares outstanding	398,8	398.4	398.5	398.3
Diluted earnings per share:				
Weighted average number of common shares outstanding	398.8	398.4	398.5	398.3
Effect of dilutive share options	2.8	-	1.5	-
Effect of dilutive convertible bonds	52.0	-	36.8	-
	453.6	(1.77)	436.8	398.3

Note 4 – Marketable securities

The historic cost of marketable securities is marked to market, with changes in market value recognized as "Other comprehensive income".

Marketable securities held by the Company consist of approximately 9.5% of the issued shares of Pride International Inc. ("Pride"), 9.5% of the issued shares of Seahawk Drilling Inc. ("Seahawk") and 80.2% of the partially redeemed Petromena NOK2,000 million bond ("Petromena"). Marketable securities and changes in their carrying value are as follows:

(In millions of US dollar)	Pride	Seahawk	Petromena	Total
Historic cost as of December 31, 2008 (1)	268.1	-	-	268.1
Purchases	-	25.2 (2)	174.8	200.0
Partial redemption of bonds	-	-	(42.9)	(42.9)
Mark to market changes	258.4	(0.4)	59.1	317.1
Net book value at December 31, 2009	526.5	24.8	191.0	742.3

(1) The original cost of the Company's holding of shares in Pride was written down at December 31, 2008, establishing a new historic cost for the holding.
(2) The Seahawk shares represent dividends received in connection with the Seahawk spin-off from Pride

Note 5 – Financial items

Total Return Swaps (TRS):
As of December 31, 2009 the Company had a TRS agreement with 4,500,000 Seadrill Limited shares as underlying security, with a reference price of NOK100.4 per share and expiry on February 12, 2010. An unrealized gain as of December 31, 2009 is recognized in the statement of operations as gain on derivative financial instruments based on the December 31, 2009, closing share price of NOK148.0. The total realized and unrealized gain related to the TRS agreement amounts to $69.4 million in 2009.

Interest-rate swap agreements and forward exchange contracts:
Total realized and unrealized gain on interest-rate swap agreements and forward exchange contracts amounted to $60.2 million in 2009 and are recognized in the statement of operations as gain on derivative financial instruments.

Other financial items:
In the twelve months ended December 31, 2009, the Company recorded a gain of $15.9 million on the partial redemption of its investment in the Petromena NOK2,000 million bond, and the receipt of shares to the value of $25.2 million in Seahawk as a dividend in kind paid by Pride (see Note 4 – Marketable securities). These items are included in "other financial items" totaling $54.5 million.

Note 6 – Newbuildings

(In millions of US dollars)	
Opening balance at December 31, 2008	3,660.5
Additions	1,153.2
Re-classified as drilling units	(3,382.8)
Closing balance at December 31, 2009	1,430.9

In 2009, additions to newbuildings are principally instalments paid to yards, but also include interest expenses and loan-related costs amounting to $80.3 million.

Newbuildings as at December 31, 2009, are as follows:

Drilling unit	Yard	Delivery date	Yard contract price * US$millions	Instalments paid as of December 31, 2009 US$millions
Jack-up rigs				
West Callisto	Keppel	3Q 2010	213	75
West Juno **	Keppel	4Q 2010	216	32
West Leda	PPL	3Q2010	219	87
Tender rigs				
T12	MSE	1Q 2010	116	108
West Vencedor	Keppel	1Q 2010	180	180
West Berani III	Keppel	1Q 2011	210	75
Semi-submersible rigs				
West Orion	Jurong	2Q 2010	558	188
West Capricorn	Jurong	4Q 2011	640	229
Drillships				
West Gemini	Samsung	2Q 2010	598	298
			2,950	1,272

* Including variation orders and riser allocations, but excluding spares, accrued interest expenses, construction supervision and operation preparations and mobilization

** Seadrill has an option not to take delivery of this rig. Installments paid to date will not be recovered from the yard if the option is exercised.

Refer also note 14 (commitments and contingencies) for an overview of the maturity schedule for remaining yard installments.

Note 7 – Drilling units

(In millions of US dollar)	**December 31, 2009**	**December 31, 2008**
Cost	8,251.7	5,056.2
Accumulated depreciation	(737.4)	(410.7)
Net book value	7,514.3	4,645.5

Depreciation and amortization expense was $368.9 million and $208.5 million for the twelve months ended December 31, 2009 and 2008, respectively.

Note 8– Equipment

Equipment consists of office equipment, furniture and fittings.

(In millions of US dollar)	**December 31, 2009**	**December 31, 2008**
Cost	210.6	164.4
Accumulated depreciation	(95.5)	(81.4)
Net book value	115.1	83.1

Depreciation and amortization expense was $27.0 million and $24.7 million for the twelve months ended December 31, 2009 and 2008, respectively.

Note 9 – Goodwill

In the 12 month ended December 31, 2009, and 2008, there were no impairment losses. Goodwill balance and changes in the carrying amount of goodwill are as follows:

(In millions of US dollar)	**Year ended December 31, 2009**	**Year ended December 31, 2008**
Net book balance at beginning of period	1,547.3	1,509.5
Goodwill acquired during the period	-	112.2
Impairment losses	-	-
Currency adjustments	48.7	(74.4)
Net book balance at end of period	1,596.0	1,547.3

Note 10 – Long-term interest bearing debt and interest expenses

(in millions of US dollar)	**December 31, 2009**	**December 31, 2008**
Credit facilities:		
$1,500 facility	**1,140.7**	1,339.3
$185 facility	**45.0**	71.6
$100 facility	**41.7**	91.6
$800 facility	**724.8**	668.3
$585 facility	**436.3**	485.9
$100 facility	**86.1**	96.9
$1,500 facility	**658.8**	-
$1,000 facility	**-**	792.1
NOK 1,425 facility	**210.6**	203.4
NOK other loans and leasings	**5.6**	3.3
Total Bank Loans + other	**3,349.6**	3,752.4
Debt recorded in consolidated VIE's:		
$165 facility	**-**	106.7
$170 facility	**110.8**	120.8
$700 facility	**618.7**	688.5
$1,400 facility	**1,253.3**	1,142.8

Total Ship Finance Facilities	**1,984.8**	2,058.8
Bonds and convertible bonds:		
Bonds	**250.9**	245.4
Convertible bond loans	**1,399.2**	1,000
Total bonds	**1,650.1**	1,245.4
Other credit facilities with corresponding restricted cash deposits:	**411.4**	380.2
Total interest bearing debt	**7,395.9**	7,436.8
Less: current portion	**(774.1)**	(746.1)
Long-term portion of interest bearing debt	**6,621.8**	6,690.7

The outstanding debt as of December 31, 2009 is repayable as follows:

(in millions of US dollar) **Year ending December 31**	
2010	774.1
2011	834.7
2012	2,126.3
2013	2,028.1
2014 and thereafter	1,733.5
Effect of amortization of convertible bond	(100.8)
Total debt	7,395.9

Covenants- Credit facilities:

The Company has various covenants relating to its credit facilities. These mainly consist of minimum liquidity requirements, interest coverage ratio, current ratio, equity ratio and leverage ratio - see Annual Report 2008.

Note 11 – Share capital

All shares are common shares of $2.00 par value each	**December 31, 2009**		**December 31, 2008**	
	Shares	**$millions**	**Shares**	**$millions**
Authorized share capital	800,000,000	1,600.0	800,000,000	1,600.0
Issued and fully paid share capital	399,133,216	798.3	399,133,216	798.3
Treasury shares held by Company	110,200	(0.3)	717,800	(1.4)
Outstanding shares in issue	399,023,016	798.0	398,415,416	796.9

Note 12 – Related party transactions

The Company has entered into sale and lease back contracts for several drilling units with Ship Finance International Limited ("Ship Finance"), a company in which our principal shareholders Hemen Holding Ltd and Farahead Investments Inc (hereafter jointly referred to as "Hemen") and companies associated with Hemen have a significant interest. Hemen is controlled by trusts established by the Company's President and Chairman Mr. John Fredriksen for the benefit of his immediate family. The Company has determined that the Ship Finance subsidiaries, which own the units, are variable interest entities (VIEs), and that the Company is the primary beneficiary of the risks and rewards connected with the ownership of the units and the charter contracts. Accordingly, these VIEs are fully consolidated in the Company's consolidated accounts. The equity attributable to Ship Finance in the VIEs is included in non-controlling interests in the Company's consolidated accounts.

In the 12 months ended December 31, 2009, the Company incurred the following lease costs on units leased back from Ship Finance subsidiaries:

Rig	
West Ceres	20.4
West Prospero	29.8
West Polaris	127.3
West Hercules	122.3
West Taurus	102.1
Total	**401.9**

In July 2009 the Company exercised its option to repurchase the jack-up rig *West Ceres* from Rig Finance Ltd, the Ship Finance subsidiary which owned the unit, at the option price of $135.5 million. Accordingly, Rig Finance Ltd will no longer be consolidated as a VIE by the Company.

In November 2008, the Company granted Ship Finance an unsecured credit facility of $115.0 million. Ship Finance repaid $25.0 million in the first quarter of 2009, and the balance of $90.0 million was sold to Metrogas Holdings Inc ("Metrogas"), a company indirectly controlled by trusts established by Mr. John Fredriksen for the benefit of his immediate family. The balance of $90.0 million was purchased back from Metrogas in the fourth quarter of 2009. Interest of $8.8 million was received from Ship Finance in the twelve months ended December 31, 2009.

In April 2009, the Company obtained an unsecured credit facility loan of $60 million from Metrogas. The amount was repaid in June 2009. Interest payable on the facility amounted to $0.7 million in the twelve months ended December 31, 2009.

In November 2009, the Company provided an unsecured loan of $27.7 million to Scorpion, increased to $79.7 million in December 2009. Interest payable on the facility amounted to $1.0 million in the twelve months ended December 31, 2009.

Note 13 – Fair value of financial instruments

The fair values of the Company's financial instruments are measured on a recurring basis. The fair values, their basis of measurement and the balance sheet carrying value at December 31, 2009, are as follows:

	Fair value	Fair value measurements at reporting date using			Carrying value
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
(in millions of $)	December 31, 2009	(Level 1)	(Level 2)	(Level 3)	December 31, 2009
Assets:					
Cash and cash equivalents	**460.0**	460.0			**460.0**
Restricted cash	**512.2**	512.2			**512.2**
Marketable securities	**742.3**	551.3		191.0	**742.3**
Currency forward contracts – short term receivable	**10.6**		10.6		**10.6**
TRS equity swap contracts	**40.9**		40.9		**40.9**
Total assets	**1,766.0**	1,523.5	51.5	191.0	**1,766.0**
Liabilities:					
Current portion of long term debt	**774.1**	774.1			**774.1**
Convertible bonds due 2012	**1,006.3**	1,006.3			**1,000**
Convertible bonds due 2014	**609.4**	609.4			**399.2**
Other long term debt	**5,221.8**	5,142.3	79.5		**5,222.6**
Interest rate swap contracts – short term payables	**107.6**		107.6		**107.6**
Total liabilities	**7,719.2**	7,532.1	187.1	-	**7,503.5**

ASC Topic 820 *Fair Value Measurement and Disclosures* (formerly FAS 157) emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level three of the hierarchy).

Level one inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level two inputs are inputs other than quoted prices included in level one that are observable for the asset or liability, either directly or indirectly. Level two inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level three inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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

Quoted market prices are used to estimate the fair value of marketable securities, which are valued at fair value on a recurring basis.

The fair value of total return equity swaps is calculated using the closing prices of the underlying listed shares, dividends paid since inception and the interest rate charged by the counterparty.

The fair value of the current portion of long-term debt is estimated to be equal to the carrying value, since it is repayable within twelve months.

The fair value of the long-term portion of floating rate debt is estimated to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis. This debt is not freely tradable and cannot be purchased by the Company at prices other than the outstanding balance plus accrued interest.

The fair value of the long-term portion of the fixed interest $100 million loan is equal to the loan balance less the fair market value of the fixed interest agreement, which is an amount receivable of $0.8 million.

The fair value of the long-term portion of the fixed rate CIRR loans is equal to the carrying value, as they are matched with equal balances of restricted cash.

The $1,000 million convertible bonds due 2012 are freely tradable and their fair value has been set equal to the price at which they were traded at on December 31, 2009 (100.63% of nominal value).

The $500 million convertible bonds due 2014 are freely tradable and their fair value has been set equal to the price at which they were traded at on December 31, 2009 (121.88% of nominal value). The carrying value of the $500 million convertible bonds is $399.2 million, since the calculated equity element of the loan has been recorded as equity and is amortized over the loan period. This is due to the cash settlement option stipulated in the bond agreement.

The fair values of interest rate swaps and forward exchange contracts are calculated using well-established independent valuation techniques applied to contracted cash flows and LIBOR and NIBOR interest rates as at December 31, 2009.

Note 14 – Commitments and contingencies

Purchase Commitments

At December 31, 2009, the Company had nine contractual commitments under newbuilding contracts. The contracts are for the construction of two semi-submersible rigs, three jack-up rigs, a drillship and three tender rigs. The units are scheduled to be delivered in 2010 and 2011. As of December 31, the Company has paid $1,210 million directly to the construction yards on the newbuildings, and is committed to make further payments amounting 1,678 million. These amounts include contract variation orders but exclude spares, accrued interest expenses, construction supervision and operation preparation and mobilization.

The maturity schedule for the remaining yard installments is as follows:

Maturity schedule for yard installments as of December 31, 2009	
Q1-2010	160.0
Q2-2010	800.0
Q3-2010	130.0
Q4-2010	85.0
2011	503.0
Total	1,678

Legal Proceedings:

The Company is a party, as plaintiff or defendant, to several lawsuits in various jurisdictions for demurrage, damages, off-hire and other claims and commercial disputes arising from the operation of its drilling units, in the ordinary course of business or in connection with its acquisition activities. The Company believes that the resolution of such claims will not have a material adverse effect on the Company's operations or financial condition. The Company's best estimate of the outcome of the various disputes has been reflected in the financial statements of the Company as of December 31, 2009.

Gazprom dispute

At the end of 2005 and the beginning of 2006, the Company had a dispute with Gazprom in connection with the operations of the jack-up rig *West Larissa*, which was named *Ekha* at that time.

In May 2009, legal hearings took place in the High Court of Justice, London, and the Court has issued a decision with the following main conclusions:

- The Company was awarded charter hire for the period November 23, 2005, to January 9, 2006, being the date up to when the incident occurred. Including interest this amounted to approximately $6.8 million.

- The Company was not awarded hire for the time after the incident, nor was the Company awarded any reimbursement for uninsured costs related to its claim.

- The Court has ruled that Gazprom is entitled to recover costs and expenses related to *West Larissa*, where Gazprom can demonstrate that these were wasted as a consequence of

Seadrill's actions during the incident. The Judge also ruled that Gazprom wrongfully terminated the Contract, and has thus rejected Gazprom's claim for losses associated with the contracting of another rig.

It is not possible at this stage to quantify the net outcome of this ruling. The amount of Gazprom's counter-claim, as well as responsibility for incurred legal costs, will be decided in a separate hearing at a later stage. The Court's decision has been appealed by the Company, and appeal hearings are scheduled to take place during first half of 2010. The Company does not expect the final outcome to have a significant effect on its financial results.

Transocean Dispute
In July 2009, the Norwegian Borgarting Court of Appeal granted the Company full support in Transocean's patent lawsuit against the Company. The Court maintained the judgment of the Oslo District Court given in February 2008 and rejected Transocean's appeal. The rulings have invalidated Transocean's Norwegian patents on both multi-activity offshore drilling apparatus as well as for applying simultaneous operations in offshore drilling activities in Norway. All claims against the Company were found to be invalid and the Court ruled that Transocean should pay all litigation costs. Transocean has appealed the decision to the Norwegian Supreme Court, which subsequently dismissed the appeal.

Heerema Dispute
The Company is in dispute with Heerema Engineering Services B.V. relating to alleged patent infringements in connection with world-wide dual drilling operations performed by the Company. Legal hearings took place in the Oslo District Court in August and September 2009, and on November 3, 2009, the Company was informed that a ruling was made in its favor, whereby Heerema's Norwegian patent for dual drilling operations was declared to be invalid. As of December 4, 2009, the deadline to appeal the ruling, Heerema had not filed such appeal.

Note 15 – Subsequent Events

In February 2009 the Company received a letter of award from an international E&P operator for the ultra-deepwater drillship West Gemini under construction. The letter of award represents a two-year contract with an estimated contract value of approximately US$345 million, including mobilization fee. Furthermore, the operator has the right to extend the contract for an additional year at a similar dayrate. West Gemini is expected to be completed early July 2010 and will subsequently relocate from Korea to West Africa to commence operations under the two-year contract.