SEADRILL LTD
Form 20-F
May 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from ____ to ____

OR

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report:

Commission file number: 001-34667

SEADRILL LIMITED
(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)
(Address of principal executive offices)

Bermuda
(Jurisdiction of incorporation or organization)

Par-la-Ville Place, 4th Floor, 14 Par-la-Ville Road, Hamilton, HM 08 Bermuda
(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Common stock, $2.00 par value	New York Stock Exchange
Title of class	Name of exchange on which registered

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Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of December 31, 2009, there were 399,023,016 shares of the Registrant's common stock, $2.00 par value, outstanding.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

[ ] Yes [X] No

If this report is an annual report or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

[ ] Yes [X] No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

[ ] Yes [X] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months

[ ] Yes [ ] No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [X]
(Do not check if a smaller reporting company)

Smaller reporting company [ ]

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

[X] U.S. GAAP

[ ] International Financial Reporting Standards as issued by the International Accounting Standards Board

[ ] Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow.

[ ] Item 17

[ ] Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

FORWARD LOOKING STATEMENTS

Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical or present facts or conditions.

This Annual Report and any other written or oral statements made by us or on our behalf may include forward-looking statements which reflect our current views with respect to future events and financial performance. The words "believe," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect" and similar expressions identify forward-looking statements.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere in this Annual Report, and in the documents incorporated by reference in this Annual Report, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include factors related to the offshore drilling market, including supply and demand, utilization rates, dayrates, customer drilling programs, commodity prices, effects of new rigs on the market and effects of declines in commodity prices and downturn in global economy on market outlook for our various geographical operating sectors and classes of rigs, customer contracts, including contract backlog, contract commencements, contract terminations, contract option exercises, contract revenues, contract awards and rig mobilizations, newbuildings, upgrades, shipyard and other capital projects, including completion, delivery and commencement of operations dates, expected downtime and lost revenue, the level of expected capital expenditures and the timing and cost of completion of capital projects, liquidity and adequacy of cash flow for our obligations, including our ability and the expected timing to access certain investments in highly liquid instruments, our results of operations and cash flow from operations, including revenues and expenses, uses of excess cash, including debt retirement and share repurchases under our share repurchase program, timing and proceeds of asset sales, tax matters, including our effective tax rate, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, including those associated with our activities in Bermuda, Norway and the United States, legal and regulatory matters, including results and effects of legal proceedings and governmental audits and assessments, outcome and effects of internal and governmental investigations, customs and environmental matters, insurance matters, debt levels, including impacts of the financial and credit crisis, effects of accounting changes and adoption of accounting policies, investments in recruitment, retention and personnel development initiatives, pension plan and other postretirement benefit plan contributions, the timing of severance payments and benefit payments and other important factors described from time to time in the reports filed by us with the Securities and Exchange Commission, or the Commission, and the New York Stock Exchange, or NYSE. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements, which speak only as of their dates.

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PART 1.

As used in this Annual Report, unless the context otherwise requires, references to "Seadrill Limited," the "Company," "we," "us," "Group," "our" and words of similar import refer to Seadrill Limited, its subsidiaries and its other consolidated entities. Unless otherwise indicated, all references to "USD", "US$" and "$" in this report are to, and amounts are represented in, U.S. Dollars.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected statement of operations and cash flow statement data of the Company with respect to the fiscal years ended December 31, 2009, 2008 and 2007 and the selected balance sheet data of the Company with respect to the fiscal years ended December 31, 2009 and 2008 have been derived from the Company's Consolidated Financial Statements included in Item 18 of this annual report, prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

The selected statement of operations and cash flow statement data for the fiscal year ended December 31, 2006 and the period from May 10, 2005 (date of incorporation) to December 31, 2005 and the selected balance sheet data with respect to the fiscal years ended December 31, 2007 and 2006 and the period from May 10, 2005 (date of incorporation) to December 31, 2005 have been derived from audited consolidated financial statements of the Company not included herein.

The following table should be read in conjunction with Item 5. "Operating and Financial Review and Prospects" and the Company's Consolidated Financial Statements and Notes thereto, which are included herein. The Company's accounts are maintained in U.S. Dollars. We refer you to the notes to our consolidated financial statements for a discussion of the basis on which our consolidated financial statements are presented.

	Year ended December 31,				Period from May 10, 2005 (inception) to December 31,
	2009	2008	2007	2006	2005
	(in millions of U.S. dollars except common share and per share data)				
Statement of Operations Data:					
Total operating revenues	3,254	2,106	1,552	1,155	27
Net operating income	1,372	649	489	226	(15)
Net income (loss)	1,353	(123)	515	245	(8)
Earnings per share, basic	$ 3.16	$ (0.41)	$ 1.28	$ 0.62	$ (0.04)
Earnings per share, diluted	$ 3.00	$ (0.41)	$ 1.20	$ 0.61	$ (0.04)

Dividends declared	199	688	-	-	-
Dividends declared per share	$ 0.50	$ 1.75	-	-	-

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	Year ended December 31, 2009	2008	2007	2006	Period from May 10, 2005 (inception) to December 31, 2005
	(in millions of U.S. dollars except common share and per share data)				
Balance Sheet Data (at end of period):					
Cash and cash equivalents	460	376	997	210	52
Drilling units	7,515	4,645	2,452	2,293	178
Newbuildings	1,431	3,661	3,340	2,025	439
Investment in associated companies	321	240	176	238	153
Goodwill	1,596	1,547	1,510	1,256	-
Total assets	13,831	12,305	9,293	6,743	1,149
Interest bearing debt (including current portion)	7,396	7,437	4,601	2,815	314
Share capital	798	797	797	766	458
Shareholders' equity	4,813	3,222	3,728	2,927	802
Common shares outstanding, in millions	399.0	398.4	398.5	383.1	229.1
Weighted average common shares outstanding	398.5	398.3	392.8	352.1	190.9
Other Financial Data:					
Net cash provided by operating activities	1,452	401	486	174	11
Net cash used in investing Activities	(924)	(3,847)	(1,868)	(3,180)	(256)
Net cash provided by financing activities	(454)	2,826	2,168	3,162	294
Capital expenditure	(1,369)	(2,768)	(1,738)	(1,196)	(269)

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Our assets are primarily engaged in offshore contract drilling for the oil and gas industry in benign and harsh environments worldwide, including ultra-deepwater environments. The following summarizes some of the risks that may materially affect our business, financial condition or results of operations. Unless otherwise indicated in this Annual Report on Form 20-F for the year ended December 31, 2009, all information concerning our business and our assets is as at April 26, 2010.

Risks Relating to Our Industry

Our business, financial condition, results of operations and our ability to pay dividends depend on the level of activity in the offshore oil and gas industry, which is significantly affected by, among other things, volatile oil and gas prices and may be materially and adversely affected by a decline in offshore oil and gas exploration, development and production.

The offshore contract drilling industry is cyclical and volatile. Our business depends on the level of activity in oil and gas exploration, as well as the identification and development of oil and gas reserves and production in offshore areas worldwide. The availability of quality drilling prospects, exploration success, relative production costs, the stage of reservoir development, political concerns and regulatory requirements all affect customers' levels of activity and drilling campaigns. Accordingly, oil and gas prices and market expectations of potential changes in these prices significantly affect the level of activity and demand for our drilling units and well services.

Oil and gas prices are extremely volatile and are affected by numerous factors beyond our control, including the following:

- worldwide demand for oil and gas;

- the cost of exploring for, developing, producing and delivering oil and gas;
- expectations regarding future energy prices;
- advances in exploration and development technology;
- the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels and pricing;
- the level of production in non-OPEC countries;
- government laws and regulations, including environmental protection laws and regulations;
- local and international political, economic and weather conditions;
- domestic and foreign tax policies;
- the development and exploitation of alternative fuels;
- the policies of various governments regarding exploration and development of their oil and gas reserves;
- political and military conflicts in oil-producing and other countries; and
- volatility in the exchange rate of the U.S Dollar against other currencies.

An over-supply of drilling units may lead to a reduction in dayrates, which are the amounts earned per day per drilling unit, which may materially impact our profitability.

In response to improved market conditions in 2007 and 2008 which were associated with historically high oil and gas prices, offshore drilling contractors ordered new drilling units to meet their customers' then increasing demand for services. In the past significant spikes in oil and gas prices have led to high levels of rig construction orders. This is often followed by a period of sharp and sudden declines in oil and gas prices and an oversupply of drilling units, which in turn results in declines in utilization and dayrates, and an increase in the number of idle drilling units without long-term contracts. The worldwide fleet of dynamically positioned deepwater drilling units currently consists of 65 units. An additional 69 deepwater units are under construction or on order, which would bring the expected total fleet to 134 units in 2013 when the last of the currently ordered units are scheduled to be delivered. The strong growth in deepwater units is due to the increased focus of oil companies on existing and new deepwater regions for exploration and production, and the inability to upgrade or modify the existing mid-water fleet to undertake deepwater drilling campaigns. At the same time, there are 60 jack-up rigs currently under construction, while the existing worldwide fleet of jack-up rigs contains 459 units with an average age of approximately 25 years. The growth in newbuilding jack-up rigs is targeted at oil companies with the need for more advanced and effective jack-up rigs. However, the majority of the newbuilding jack-up rigs have been ordered on speculation, i.e. without fixed employment, and not all of these rigs have secured contracts for future work. This could intensify price competition as scheduled delivery dates come closer, resulting in a reduction in dayrates. Lower utilization and dayrates could adversely affect our revenues and profitability. Prolonged periods of low utilization and dayrates could also have a material adverse effect on the value of our assets.

The market value of our current drilling units and those we acquire in the future may decrease, which could cause us to incur losses if we decide to sell them following a decline in their market values.

If the offshore contract drilling industry suffers adverse developments in the future, the fair market value of our drilling units may decline. The fair market value of the drilling units we currently own or may acquire in the future may increase or decrease depending on a number of factors, including:

- general economic and market conditions affecting the offshore contract drilling industry, including competition from other offshore contract drilling companies;
- types, sizes and ages of drilling units;
- supply and demand for drilling units;
- costs of newbuildings;

- prevailing level of drilling services contract dayrates;
- governmental or other regulations; and
- technological advances.

If we sell any drilling unit when drilling unit prices have fallen, the sale may be at a loss. Such loss could materially and adversely affect our business prospects, financial condition, liquidity, results of operations, and our ability to pay dividends to our shareholders.

Consolidation of suppliers may limit our ability to obtain supplies and services when we need them, at an acceptable cost, or at all.

We rely on a significant supply of consumables, spare parts and equipment to operate, maintain, repair and upgrade our fleet of drilling rigs. During the last decade the number of available suppliers has been reduced, resulting in fewer alternatives for sourcing key supplies and services. In addition, certain key equipment used in our business is protected by patents and other intellectual property of our suppliers. This may limit our ability to obtain supplies and services at an acceptable cost, at the times we need them, or at all. Cost increases, delays or unavailability could negatively impact our future operations and result in higher rig downtime due to delays in the repair and maintenance of our fleet.

Our international operations involve additional risks associated with operating outside the U.S.

We operate in various regions throughout the world which may expose us to political and other uncertainties, including risks of:

- terrorist acts, war, civil disturbances and piracy;
- seizure, nationalization or expropriation of property or equipment;
- political unrest;
- labor unrest and strikes;
- foreign and U.S. monetary policy and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls, imposition of trade barriers and other forms of government regulation and economic conditions that are beyond our control;
- regulatory or financial requirements to comply with foreign bureaucratic actions; and
- changing taxation policies.

In addition, international contract drilling operations are subject to the various laws and regulations in countries in which we operate, including laws and regulations relating to:

- the equipping and operation of drilling units;
- repatriation of foreign earnings;
- oil and gas exploration and development;
- taxation of offshore earnings and the earnings of expatriate personnel;
- customs duties on the importation of drilling rigs and related equipment;
- requirements for local registration or ownership of drilling rigs by nationals of the country of operations in certain countries; and
- the use and compensation of local employees and suppliers by foreign contractors.

Some foreign governments favor or effectively require (i) the awarding of drilling contracts to local contractors or to drilling rigs owned by their own citizens, (ii) the use of a local agent or (iii) foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These practices may adversely affect our ability to compete in those regions. It is difficult to predict what governmental regulations may be enacted in the future that could adversely affect the international drilling industry. The actions of foreign governments, including initiatives by OPEC, may adversely affect our ability to compete. Failure to comply with applicable laws and regulations, including those relating to sanctions and export restrictions, may subject us to criminal sanctions or civil remedies, including fines, denial of export privileges, injunctions or seizures of assets.

We may be subject to liability under environmental laws and regulations, which could have a material adverse effect on our results of operations and financial condition.

Our operations are subject to regulations controlling the discharge of materials into the environment, requiring removal and clean-up of materials that may harm the environment or otherwise relating to the protection of the environment. For example, as an operator of mobile drilling units offshore Brazil, the United States and other countries, we may be liable for damages and costs incurred in connection with spills of oil and other chemicals and substances related to our operations, and we may also be subject to significant fines in connection with spills. Laws and regulations protecting the environment have become more stringent in recent years, and may in some cases impose strict liability, rendering a person liable for environmental damage without regard to negligence. These laws and regulations may expose us to liability for the conduct of or conditions caused by others, or for acts that were in compliance with all applicable laws at the time they were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on our financial position, results of operations or cash flows. We have generally been able to obtain some degree of contractual indemnification pursuant to which our clients agree to protect, hold harmless and indemnify us against liability for pollution, well and environmental damage; however, there is no assurance that we can obtain such indemnities in all of our contracts or that, in the event of extensive pollution and environmental damage, our clients would have the financial capability to fulfill their contractual obligations to us. Also, these indemnities may be held to be unenforceable in certain jurisdictions, as a result of public policy or for other reasons.

Our ability to operate our drilling units in the U.S. Gulf of Mexico could be restricted by governmental regulation.

Hurricanes Ivan, Katrina, Rita, and Ike have caused damage to a number of drilling units unaffiliated to us in the U.S. Gulf of Mexico. In June 2009, the Minerals Management Service, or MMS, of the U.S. Department of the Interior issued the latest guidelines for jack-up drilling rig fitness requirements for the 2009 hurricane season. Also in June 2009, the MMS issued the latest guidelines for tie-downs on any drilling units and permanent equipment and facilities attached to an outer continental shelf production platform, and guidelines for moored drilling rig fitness requirements for the 2009 hurricane season. These guidelines continued requirements on the offshore oil and gas industry, in an attempt to improve the stations that house the moored units and increase the likelihood of survival of jack-up rigs and other offshore drilling units during a hurricane. The guidelines also provided for enhanced information and data requirements from oil and gas companies operating properties in the U.S. Gulf of Mexico. We do not have any jack-up rigs or moored drilling units operating in the U.S. Gulf of Mexico. However, we currently have operating in the U.S. Gulf of Mexico one ultra-deepwater semi-submersible drilling rig that is self propelled and equipped with thrusters and other machinery, which enable the rig to move between drilling locations and remain in position while drilling without the need for anchors. Nevertheless, it is possible that the MMS may issue guidelines for future hurricane seasons and may take other steps which could increase the cost of operations and implementation of such guidelines, or reduce the area of operations for our ultra-deepwater drilling unit.

Public health threats could have an adverse effect on our operations and our financial results.

Public health threats, such as swine flu, bird flu, Severe Acute Respiratory Syndrome and other highly communicable diseases, outbreaks of which have already occurred in various parts of the world in which we operate, could adversely impact on our operations, the operations of our customers and the global economy, including the worldwide demand for oil and gas, and ultimately on the level of demand for our services and could adversely affect our financial results.

We may be subject to litigation that could have an adverse effect on us.

We are currently involved in various litigation matters, none of which we expect to have a material adverse effect on us. We anticipate that we will be involved in litigation matters from time to time in the future. The operating hazards inherent in our business expose us to litigation, including personal injury litigation, environmental litigation, contractual litigation with clients, intellectual property litigation, tax or securities litigation, and maritime lawsuits including the possible arrest of our drilling units. We cannot predict with certainty the outcome or effect of any claim or other litigation matter. Any future litigation may have an adverse effect on our business, financial position, results of operations and our ability to pay dividends, because of potential negative outcomes, the costs associated with prosecuting or defending such lawsuits, and the diversion of management's attention to these matters.

Fluctuations in exchange rates and non-convertibility of currencies could result in losses to us.

As a result of our international operations, we are exposed to fluctuations in foreign exchange rates due to revenues being received and operating expenses paid in currencies other than U.S. Dollars. Accordingly, we may experience currency exchange losses in situations where we have not fully hedged our exposure to a foreign currency, or if revenues are received in currencies that are not readily convertible. We may also incur losses as a result of an inability to collect revenues because of a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital. A discussion of our policy and exposure to exchange rate fluctuations is given in Item 11 "Quantitative and Qualitative Disclosures about Market Risk".

Our business involves numerous operating hazards.

Our operations are subject to hazards inherent in the drilling industry, such as blowouts, reservoir damage, loss of production, loss of well control, lost or stuck drill strings, equipment defects, punch throughs, craterings, fires, explosions and pollution. Contract drilling and well servicing require the use of heavy equipment and exposure to hazardous conditions, which may subject us to liability claims by employees, customers and third parties. These hazards can cause personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties or customers and suspension of operations. Our offshore fleet is also subject to hazards inherent in marine operations, either while on-site or during mobilization, such as capsizing, sinking, grounding, collision, damage from severe weather and marine life infestations. Operations may also be suspended because of machinery breakdowns, abnormal drilling conditions, and failure of subcontractors to perform or supply goods or services, or personnel shortages. We customarily provide contract indemnity to our customers for claims that could be asserted by us relating to damage to or loss of our equipment, including rigs and claims that could be asserted by us or our employees relating to personal injury or loss of life.

Damage to the environment could also result from our operations, particularly through spillage of fuel, lubricants or other chemicals and substances used in drilling operations, or extensive uncontrolled fires. We may also be subject to property, environmental and other damage claims by oil and gas companies. Our insurance policies and contractual rights to indemnity may not adequately cover losses, and we do not have insurance coverage or rights to indemnity for all risks. Consistent with standard industry practice, our clients generally assume, and indemnify us against, well control and subsurface risks under dayrate contracts. These are risks associated with the loss of control of a well, such as blowout or cratering, the cost to regain control of or re-drill the well and associated pollution. However, there can be no assurance that these clients will be willing or financially able to indemnify us against all these risks. We maintain insurance coverage for property damage, occupational injury and illness, and general and marine third-party liabilities. We have no insurance coverage for named storms in the U.S. Gulf of Mexico and war perils worldwide. Furthermore, pollution and environmental risks generally are not totally insurable.

We maintain a portion of deductibles for damage to our offshore drilling equipment and third-party liabilities. With respect to hull and machinery we generally maintain a deductible per occurrence up to $1.7 million. However, in the event of a total loss or a constructive total loss of a drilling unit, such loss is fully covered by our insurance with no deductible. For general and marine third-party liabilities we generally maintain up to $250,000 deductible per occurrence on personal injury liability for crew claims as well as non-crew claims and per occurrence on third-party property damage.

If a significant accident or other event occurs and is not fully covered by our insurance or an enforceable or recoverable indemnity from a client, it could adversely affect our consolidated statement of financial position, results of operations or cash flows. The amount of our insurance may be less than the related impact on enterprise value after a loss. Our insurance coverage will not in all situations provide sufficient funds to protect us from all liabilities that could result from our drilling operations. Our coverage includes annual aggregate policy limits. As a result, we retain the risk through self-insurance for any losses in excess of these limits. Any such lack of reimbursement may cause us to incur substantial costs. In addition, we could decide to retain substantially more risk through self-insurance in the future. Moreover, no assurance can be made that we will be able to maintain adequate insurance in the future at rates we consider reasonable or be able to obtain insurance against certain risks.

As of April 26, 2010, all of the drilling units that we owned or operated were covered by existing insurance policies.

Technology disputes involving our suppliers could impact our operations or increase our costs.

The majority of the intellectual property rights relating to our drilling rigs and related equipment are owned by our suppliers. In the event that one of our suppliers becomes involved in a dispute over infringement of intellectual property rights relating to equipment owned by us, we may lose access to repair services, replacement parts, or could be required to cease use of some equipment. We could also be required to pay royalties for the use of equipment. These consequences of technology disputes involving our suppliers could adversely affect our financial results and operations. We have provisions in most of our supply contracts to provide indemnity from the supplier against intellectual property lawsuits. However, we cannot be assured that our suppliers will be willing or financially able to honor their indemnity obligations, or that the indemnities will fully protect us from the adverse consequences of such technology disputes. We also have provisions in some of our client contracts to require the client to share some of these risks on a limited basis, but we cannot be assured that these provisions will fully protect us from the adverse consequences of such technology disputes.

We may not be able to keep pace with the continual and rapid technological developments that characterize the market for our services, and our failure to do so may result in our loss of market share.

The market for our services is characterized by continual and rapid technological developments that have resulted in, and will likely continue to result in, substantial improvements in equipment functions and performance. As a result, our future success and profitability will be dependent in part upon our ability to:

- improve our existing services and related equipment;
- address the increasingly sophisticated needs of our customers; and
- anticipate changes in technology and industry standards and respond to technological developments on a timely basis.

If we are not successful in acquiring new equipment or upgrading our existing equipment on a timely and cost-effective basis in response to technological developments or changes in standards in our industry, we could lose market share. In addition, current competitors or new market entrants may develop new technologies, services or standards that could render some of our services or equipment obsolete, which could have a material adverse effect on our operations.

Risks Relating to Our Company

The amount of our debt could limit our liquidity and flexibility in obtaining additional financing and in pursuing other business opportunities.

As of December 31, 2009, we had $7.4 billion in principal amount of debt, representing approximately 61% of our total capitalization. Our current indebtedness and future indebtedness which we may incur could affect our future operations, as a portion of our cash flow from operations will be dedicated to the payment of interest and principal on such debt and will not be available for other purposes. Covenants contained in our debt agreements require us to meet certain financial tests, which may affect our flexibility in planning for, and reacting to, changes in our business and may limit our ability to dispose of assets or place restrictions on the use of proceeds from such dispositions, withstand current or future economic or industry downturns and compete with others in our industry for strategic opportunities, and our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited. Our ability to meet our debt service obligations and to fund planned expenditures, including construction costs for our newbuilding projects, will be dependent upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. Our future cash flows may be insufficient to meet all of our debt obligations and contractual commitments, and any insufficiency could negatively impact our business. To the extent that we are unable to repay our indebtedness as it becomes due or at maturity, we may need to refinance our debt, raise new debt, sell assets or repay the debt with the proceeds from equity offerings. Additional indebtedness or equity financing may not be available to us in the future for the refinancing or repayment of existing indebtedness, and we may not be able to complete asset sales in a timely manner sufficient to make such repayments.

If we are unable to comply with the restrictions and the financial covenants in the agreements governing our indebtedness, there could be a default under the terms of these agreements, which could result in an acceleration of repayment of funds that we have borrowed.

If we are unable to comply with the restrictions and covenants in the agreements governing our indebtedness or in current or future debt financing agreements, there could be a default under the terms of those agreements. Our ability to comply with these restrictions and covenants, including meeting financial ratios and tests, is dependent on our future performance and may be affected by events beyond our control. If a default occurs under these agreements, lenders could terminate their commitments to lend or accelerate the outstanding loans and declare all amounts borrowed due and payable. Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable. If any of these events occur, we cannot guarantee that our assets will be sufficient to repay in full all of our outstanding indebtedness, and we may be unable to find alternative financing. Even if we could obtain alternative financing, that financing might not be on terms that are favorable or acceptable.

We rely heavily on a small number of customers.

Our contract drilling business is subject to the risks associated with having a limited number of customers for our services. As of December 31, 2009, our five largest customers accounted for approximately 79% of our future contracted revenues, or order backlog. Our results of operations could be materially adversely affected if any of our major customers failed to compensate us for our services, were to terminate our contracts with or without cause, failed to renew its existing contracts or refused to award new contracts to us and we are unable to enter into contracts with new customers at comparable dayrates.

Newbuilding projects and surveys are subject to risks which could cause delays or cost overruns.

Rig construction projects are subject to risks of delay or cost overruns inherent in any large construction project from numerous factors, including shortages of equipment, materials or skilled labor, unscheduled delays in the delivery of ordered materials and equipment or shipyard construction, failure of equipment to meet quality and/or performance standards, financial or operating difficulties experienced by equipment vendors or the shipyard, unanticipated actual or purported change orders, inability to obtain required permits or approvals, unanticipated cost increases between order and delivery, design or engineering changes and work stoppages and other labor disputes, adverse weather conditions or any other events of force majeure. Significant cost overruns or delays could adversely affect our financial position, results of operations and cash flows. Additionally, failure to complete a project on time may result in the delay of revenue from that rig. New drilling rigs may experience start-up difficulties following delivery or other unexpected operational problems that could result in uncompensated downtime, which also could adversely affect our financial position, results of operations and cash flows or the cancellation or termination of drilling contracts.

Some of our offshore drilling contracts may be terminated early due to certain events.

Some of our customers have the right to terminate their drilling contracts upon the payment of an early termination fee. However, such payments may not fully compensate us for the loss of the contract. Under certain circumstances our contracts may permit a customer to terminate their contract early without the payment of any termination fee, as a result of non-performance, longer periods of downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events. Many of these events are beyond our control. During periods of challenging market conditions, we may be subject to an increased risk of our clients seeking to repudiate their contracts, including through claims of non-performance. Our customers' ability to perform their obligations under their drilling contracts with us may also be negatively impacted by the prevailing uncertainty surrounding the development of the world economy and the credit markets. If our customers cancel some of our contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, it could adversely affect our consolidated statement of financial position, results of operations or cash flows.

Our operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues.

Our operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues. Operating revenues may fluctuate as a function of changes in supply and demand for contract drilling services, which in turn affect dayrates, and the operational performance of our fleet of drilling rigs. However, our operating costs are generally related to the number of units in operation and the cost level in each country or region where the units are located. In addition, equipment maintenance costs fluctuate depending upon the type of activity the unit is performing and the age and condition of the equipment. In connection with new assignments, we might incur expenses relating to preparation for operations under a new contract. The expenses may vary based on the scope and length of such required preparations and the duration of the firm contractual period over which such expenditures are amortized. In situations where our rigs incur idle time between assignments, the opportunity to reduce the size of our crews on those rigs is limited as the crews will be engaged in preparing the rig for its next contract. In a situation where a rig faces longer idle periods, reductions in costs may not be immediate as some of the crew may be required to prepare drilling units for stacking and maintenance in the stacking period. Should rigs be idle for a longer period, we will seek to redeploy crew members, who are not required to maintain the rigs, to active rigs to the extent possible. However, there can be no assurance that we will be successful in reducing our costs.

The provisions of the majority of our offshore rig contracts that are term contracts at fixed dayrates may not permit us fully to recoup our costs in the event of a rise in our expenses.

Most of the units in our fleet have long-term contracts. The average contract length as of December 31, 2009, is 36 months for our deepwater units, 25 months for our tender rigs and ten months for our jack-up rigs, excluding the four jack-up rigs under construction. The majority of these contracts have dayrates that are fixed over the contract term. In order to mitigate the effects of inflation on revenues from term contracts, most of our contracts include escalation provisions. These provisions allow us to adjust the dayrates based on stipulated costs increases including wages, insurance and maintenance cost. However, because these escalations are normally performed on a semi-annual or annual basis, the timing and amount awarded as a result of such adjustments may differ from our actual cost increases, which could adversely affect our financial performance. Shorter term contracts normally do not contain escalations provisions.

We may not be able to renew or obtain new and favorable contracts for drilling units whose contracts are expiring or are terminated, which could adversely affect our revenues and profitability.

We have six contracts that expire in 2010, six contracts that expire in 2011 and seven contracts that expire in 2012. Our ability to renew these contracts or obtain new contracts will depend on the prevailing market conditions. In cases where we are not able to obtain new contracts in direct continuation, or where new contracts are entered into at dayrates substantially below the existing dayrates or on terms less favorable compared to existing contracts terms, our revenues and profitability could be adversely affected.

Our future contracted revenue for our fleet of drilling units may not be ultimately realized.

As of December 31, 2009, the future contracted revenue for our fleet of drilling units, or contract drilling backlog, was approximately $10.4 billion under firm commitments. We may not be able to perform under these contracts due to events beyond our control, and our customers may seek to cancel or renegotiate our contracts for various reasons, including adverse conditions resulting in lower dayrates. Our inability or the inability of our customers to perform under our or their contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

Competition within the oilfield services industry may adversely affect our ability to market our services.

The oilfield services industry is highly competitive and fragmented and includes several large companies that compete in many of the markets we serve, as well as numerous small companies that compete with us on a local basis. Our larger competitors' greater resources could allow them to better withstand industry downturns, compete more effectively on the basis of technology and geographic scope and retain skilled personnel. We believe the principal competitive factors in the market areas we serve are price, product and service quality, availability of crews and equipment and technical proficiency. Our operations may be adversely affected if our current competitors or new market entrants introduce new products or services with better features, performance, prices or other characteristics than our products and services, or expand into service areas where we operate. Competitive pressures or other factors also may result in significant price competition, particularly during industry downturns, which could have a material adverse effect on our results of operations and financial condition. In addition, competition among oilfield services and equipment providers is affected by each provider's reputation for safety and quality.

Uncertainty relating to the development of the world economy may reduce demand for our drilling services or result in contract delays or cancellations.

We depend on our customers' willingness and ability to make operating and capital expenditures to explore, develop and produce oil and gas, and to purchase drilling and related equipment. Recent deterioration of the world economy has caused a decline in oil and gas prices from previous high levels, which in turn has caused a number of oil and gas producers to adjust future capital budgets. Limitations on the availability of capital or higher costs of capital for financing expenditures, or the desire to preserve liquidity, may cause these and other customers to make additional reductions in future capital budgets and outlays. Such adjustments could reduce demand for our products and services, which could adversely affect our results of operations and cash flows. We cannot assure you that our customers will increase their capital budgets in response to the recent recovery in crude oil prices, which were approximately $83 per barrel as of April 26, 2010, after hitting a low of approximately $40 per barrel in late 2008 and early 2009.

Failure to obtain or retain highly skilled personnel could adversely affect our operations.

We require highly skilled personnel to operate and provide technical services and support for our business. Competition for skilled and other labor required for our drilling operations has increased in recent years as the number of rigs activated or added to worldwide fleets has increased. The recent drop in energy prices and utilization rate has to some extent reduced the need for people related to international jack-up rigs. For deepwater operations utilization rates remain high and the number of deepwater units in operation is growing as a result of the delivery of units ordered in the period 2005 to 2008. This is expected to increase the demand for qualified personnel with deepwater experience in particular. If this expansion continues and is coupled with improved demand for drilling services in general, shortages of qualified personnel could develop, creating upward pressure on wages and making it more difficult to staff and service our rigs. Such developments could adversely affect our financial results and cashflow.

Our labor costs and the operating restrictions which apply to us could increase as a result of collective bargaining negotiations and changes in labor laws and regulations.

Some of our employees are represented by collective bargaining agreements. The majority of these employees work in Brazil, Nigeria, Norway and the U.K. In addition, some of our contracted labor works under collective bargaining agreements. As part of the legal obligations in some of these agreements, we are required to contribute certain amounts to retirement funds and pension plans and have restricted ability to dismiss employees. In addition, many of these represented individuals are working under agreements that are subject to salary negotiation. These negotiations could result in higher personnel costs, other increased costs or increased operating restrictions that could adversely affect our financial performance.

The failure to consummate or integrate acquisitions of other businesses and assets in a timely and cost-effective manner could have an adverse effect on our financial condition and results of operations.

Acquisition of assets or businesses that expand our drilling and well services operations is an important component of our business strategy. We believe that acquisition opportunities may arise from time to time, and any such acquisition could be significant. Any acquisition could involve the payment by us of a substantial amount of cash, the incurrence of a substantial amount of debt or the issuance of a substantial amount of equity. Certain acquisition and investment opportunities may not result in the consummation of a transaction. In addition, we may not be able to obtain acceptable terms for the required financing for any such acquisition or investment that arises. We cannot predict the effect, if any, that any announcement or consummation of an acquisition would have on the trading price of our common stock. Our future acquisitions present a number of risks, including the risk of incorrect assumptions regarding the future results of acquired operations or assets or expected cost reductions or other synergies expected to be realized as a result of acquiring operations or assets, the risk of failing to successfully and timely integrate the operations or management of any acquired businesses or assets and the risk of diverting management's attention from existing operations or other priorities. If we fail to consummate and integrate our acquisitions in a timely and cost-effective manner, our financial condition and results of operations will be adversely affected.

In order to execute our growth strategy, we may require additional capital in the future, which may not be available to us.

Our business is capital intensive and, to the extent we do not generate sufficient cash from operations, we may need to raise additional funds through public or private debt or equity financings to execute our growth strategy and to fund capital expenditures. Adequate sources of capital funding may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing additional equity securities, dilution to the holdings of existing equity holders may result. If funding is insufficient at any time in the future, we may be unable to fund maintenance requirements and acquisitions, take advantage of business opportunities or respond to competitive pressures, any of which could adversely impact our financial condition and results of operations.

Interest rate fluctuations could affect our profitability, earnings and cash flow.

In order to finance our growth we have incurred significant amounts of debt. With the exception of our convertible bonds, the large majority of our debt arrangements have floating interest rates. As such, significant movements in interest rates could have an adverse effect on our profitability, earnings and cash flow. In order to manage our exposure to interest rate fluctuations, we use interest rate swaps to effectively fix some of our floating rate debt obligations. The principal amount covered by interest rate swaps is evaluated continuously and determined based on our debt level, our expectations regarding future interest rates and our overall financial risk exposure. As of December 31, 2009, our total net floating rate debt amounted to $5.0 billion and we had entered into interest rate swaps in order to effectively fix the interest rate for a principal amount of $4.1billion.

A change in tax laws of any country in which we operate could result in a higher tax expense or a higher effective tax rate on our worldwide earnings.

We conduct our operations through various subsidiaries in countries throughout the world. Tax laws and regulations are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, treaties and regulations in and between countries in which we operate, including treaties between the United States and other nations. Our income tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations, including those in and involving the United States, or in the interpretation thereof, or in the valuation of our deferred tax assets, which is beyond our control could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings.

A loss of a major tax dispute or a successful tax challenge to our operating structure, intercompany pricing policies or the taxable presence of our subsidiaries in certain countries could result in a higher tax rate on our worldwide earnings, which could result in a significant negative impact on our earnings and cash flows from operations.

Our income tax returns are subject to review and examination. We do not recognize the benefit of income tax positions we believe are more likely than not to be disallowed upon challenge by a tax authority. If any tax authority successfully challenges our operational structure, intercompany pricing policies or the taxable presence of our subsidiaries in certain countries; or if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure; or if we lose a material tax dispute in any country, our effective tax rate on our worldwide earnings could increase substantially and our earnings and cash flows from operations could be materially adversely affected.

While we believe that we are not currently a PFIC and do not anticipate becoming a PFIC, United States tax authorities could treat us as a "passive foreign investment company," which could have adverse United States federal income tax consequences to United States holders.

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for United States federal income tax purposes if either (1) at least 75 percent of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50 percent of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business but does not include income derived from the performance of services.

If the IRS were to find that we are or have been a PFIC for any taxable year, our United States shareholders will face adverse United States tax consequences.

Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Tax Considerations – United States Federal Income Taxation of U.S. Holders"), such shareholders would be liable to pay United States federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of our common shares. See "Tax Considerations— United States Federal Income Taxation of U.S. Holders" for a more comprehensive discussion of the United States federal income tax consequences to United States shareholders if we are treated as a PFIC.

Risks Relating to Our Common Shares

There is no assurance that an active and liquid trading market for our common shares will be sustained in the United States.

Our common shares were listed on the NYSE on April 15, 2010 under the symbol "SDRL". Our common shares have been listed on the Oslo Stock Exchange since November 2005, also under the symbol "SDRL". There is no assurance that an active and liquid trading market for our common shares will be sustained in the United States.

Our common share price may be highly volatile.

The market price of our common shares has historically fluctuated over a wide range and may continue to fluctuate significantly in response to many factors, such as actual or anticipated fluctuations in our operating results, changes in financial estimates by securities analysts, economic and regulatory trends, general market conditions, rumors and other factors, many of which are beyond our control. Over the last year the stock market has experienced extreme price and volume fluctuations. Such volatility could adversely affect the market price of our common shares and impact a potential sale price if holders of our common shares decide to sell their shares.

Because we are a foreign corporation, you may not have the same rights that a shareholder in a U.S. corporation may have.

We are a Bermuda exempted company. Our Memorandum of Association and Bye-laws and The Companies Act, 1981 of Bermuda, or the Companies Act, govern our affairs. The Companies Act does not as clearly establish your rights and the fiduciary responsibilities of our directors as do statutes and judicial precedent in some U.S. jurisdictions. Therefore, it may be more difficult to protect your interests as a shareholder in relation to the actions of management, directors or controlling shareholders, than it would be for shareholders of U.S. corporations. There is a statutory remedy under Section 111 of the Companies Act which provides that a shareholder may seek redress in the courts as long as such shareholder can establish that our affairs are being conducted, or have been conducted, in a manner oppressive or prejudicial to the interests of some part of the shareholders, including such shareholder.

We are incorporated in Bermuda and it may not be possible for our investors to enforce U.S. judgments against us.

We are incorporated in Bermuda and substantially all of our assets are located outside the U.S. In addition, all of our directors and all but one of our executive officers are non-residents of the U.S., and all or a substantial portion of the assets of these non-residents are located outside the U.S. As a result, it may be difficult or impossible for U.S. investors to serve process within the U.S. upon us or our directors and executive officers, or to enforce a judgment against us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries in which we are incorporated or where our assets are located (1) would enforce judgments of U.S. courts obtained in actions against us based upon the civil liability provisions of applicable U.S. federal and state securities laws or (2) would enforce, in original actions, liabilities against us based on those laws.

We are subject to certain anti-takeover provisions in our constitutional documents.

Several provisions of our bye-laws may have anti-takeover effects. These provisions are intended to avoid costly takeover battles, lessen our vulnerability to a hostile change of control and enhance the ability of our board of directors to maximize shareholder value in connection with any unsolicited offer to acquire us. However, these anti-takeover provisions could also discourage, delay or prevent the merger, amalgamation or acquisition of our company by means of a tender offer, a proxy contest or otherwise, that a shareholder may consider to be in its best interest. For more detailed information reference is made to Item 10 "Additional Information" of this Annual Report.

We depend on directors who are associated with affiliated companies which may create conflicts of interest.

Our principal shareholder Hemen Holding Ltd., which we refer to as Hemen, is controlled by trusts established by John Fredriksen, our President and Chairman, for the benefit of his immediate family. Hemen also has significant shareholdings in two companies affiliated with us, Frontline Ltd. (NYSE: FRO), or Frontline, and Ship Finance International Limited (NYSE: SFL), or Ship Finance. In addition, Hemen owns approximately 6.6% of our majority-owned subsidiary Seawell Limited, or Seawell. One of our directors, Kate Blankenship is also a director of Frontline, Ship Finance and Seawell and another of our directors, Kathrine Fredriksen, the daughter of

John Fredriksen, is also a director of Frontline. Mr. Fredriksen, Mrs. Blankenship and Ms. Fredriksen owe fiduciary duties to each of Seadrill, Frontline and Ship Finance and may have conflicts of interest in matters involving or affecting us and our customers. In addition they may have conflicts of interest when faced with decisions that could have different implications for Frontline or Ship Finance than they do for us. We cannot assure you that any of these conflicts of interest will be resolved in our favor.

Investor confidence may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

We will become subject to Section 404 of the Sarbanes-Oxley Act of 2002, which will require us to include in our annual report on Form 20-F our management's report on, and assessment of, the effectiveness of our internal controls over financial reporting. In addition, our independent registered public accounting firm will be required to attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting, which requirement we expect will first apply to our annual report on Form 20-F for the year ended December 31, 2010. If we fail to maintain the adequacy of our internal controls over financial reporting, we will not be in compliance with all of the requirements imposed by Section 404. Any failure to comply with Section 404 could result in an adverse perception of the Company in the financial marketplace.

If we enter into drilling contracts with countries or government-controlled entities that are subject to restrictions imposed by the U.S. government, our reputation and the market for our common stock could be adversely affected.

From time to time, we may enter into drilling contracts with countries or government-controlled entities that are subject to sanctions and embargoes imposed by the U.S. government and/or identified by the U.S. government as state sponsors of terrorism. Although these sanctions and embargoes do not prevent us from entering into drilling contracts with these countries or government-controlled entities, potential investors could view such drilling contracts negatively, which could adversely affect our reputation and the market for our common stock. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in or to divest our common shares may adversely affect the price at which our common shares trade. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company

We were incorporated under the laws of Bermuda on May 10 ,2005, and our shares of common stock have been listed on the Oslo Stock Exchange under the symbol "SDRL" since November 2005. Our principal executive offices are located at Par-la-Ville Place, 4th Floor, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda and our telephone number is +1 (441) 295-6935.

We are an offshore drilling contractor providing worldwide offshore drilling services to the oil and gas industry. Our primary business is the ownership and operation of jack-up rigs, tender rigs, semi-submersible rigs and drillships, which operate in shallow, mid and deepwater areas as well as benign and harsh environments. A description of our different types of drilling units is given in Item 4.B "Business Overview". We operate through subsidiaries located throughout the world, including in Bermuda, Norway, the Cayman Islands, the British Virgin Islands, Cyprus, Nigeria, Liberia, Hungary, Singapore, Brazil, Hong Kong, Panama, the United Kingdom, Denmark, Malaysia, Brunei and the United States. We own and operate a fleet of 36 offshore drilling units, including eight units under construction, which consist of 10 jack-up rigs, 10 semi-submersible rigs, four drillships and 12 tender rigs. The units under construction consist of two semi-submersible rigs, one drillship, one tender rig and four jack-up rigs, including one jack-up rig for which we have a purchase option that we intend to exercise. Four of the above units were sold to and leased back from wholly-owned subsidiaries of Ship Finance, a related party, and these subsidiaries are fully consolidated in our financial statements as variable interest entities, or VIEs, in which we hold the primary interest (see Note 33 to the Consolidated Financial Statements). In addition we operate five tender rigs in association with Varia Perdana Sdn Bhd, or Varia Perdana, a Malaysian company in which we have a 49% ownership interest. We have a contractual right not to take delivery of one of the four newbuilding jack-up rigs currently under construction. If we exercise this right we will forfeit the installment paid to date on the newbuilding.

We own a 73.8% interest in the well services company Seawell. Seawell provides services in platform drilling, facility engineering, modular rig, well intervention and oilfield technologies, and drilling and well services and has approximately 2,600 employees. 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.

We also hold investments in several other companies in our industry that we consider to be strategic investments, including

- 9.4% equity interest in Pride International Inc. (NYSE: PDE), or Pride, a United States offshore drilling company,

- 23.6% equity interest in SapuraCrest Bhd, or SapuraCrest, a Malaysian oil services company, and

- 40.0% equity interest in Scorpion Offshore Limited, or Scorpion, a Bermuda jack-up rig company. In April 2010 we acquired 1.3 million shares in Scorpion, which increased our shareholding from 38.6% to 40.0%. This acquisition triggered an obligation to make a mandatory cash offer for Scorpion's remaining shares or reduce our shareholding below 40%. On April 12, 2010, we announced that we plan to make a cash offer for the remaining shares in Scorpion.

We consider strategic investments to be investments in companies that own and/or operate offshore drilling rigs with similar characteristics to our own fleet of rigs and that provide us with additional exposure to market segments in which we operate or a new market segment. Further, we view investments as strategic that potentially advance the development of our Company in accordance with our business strategy, particularly relating to consolidation in the offshore drilling rig industry.

Development of the Company

We were established in May 2005 as a Bermuda company. On May 11, 2005 we entered into a Purchase and Subscription Agreement with three affiliated companies: Greenwich Holdings Limited, or Greenwich, Seatankers Management Co Limited, or Seatankers, and Hemen. Pursuant to agreements we acquired an offshore drilling fleet of three jack-up rigs and two floating production, storage and offloading vessels, or FPSOs, from Greenwich for an aggregate consideration of $310 million, and contracts for the construction of two new jack-up rigs from Seatankers for a total consideration of $67 million. In addition, Hemen subscribed for 84,994,000 of our shares at a subscription price of $2.03 per share and acquired all of Greenwich's and a part of Seatankers' claim for the purchase price for the assets referred to above. Greenwich, Seatankers and Hemen are controlled by trusts established by Mr. John Fredriksen, our President and Chairman, for the benefit of his immediate family. As a result of the related party nature of this transaction, the acquisition of these assets was accounted for as a transfer of assets under common control and recorded by Seadrill at the historical carrying values in the financial statements of Greenwich and Seatankers.

Subsequent to the above initial acquisitions, we have entered into further contracts for newbuildings and acquired other companies engaged in offshore drilling and related industries. As a result, our operations have expanded considerably and we now have approximately 7,600 skilled employees and an active fleet of 28 units, consisting of six jack-up rigs, eight semi-submersible rigs, three drillships and 11 tender rigs.

Acquisitions, Disposals and Other Transactions

Acquisitions and other transactions

In the year ended December 31, 2007, we acquired the following drilling units and entities involved in offshore drilling:

· In January 2007, we took delivery of the new jack-up rig West Prospero from Keppel FELS Limited in Singapore for a total cost of $208 million and subsequently sold the unit to an affiliated company that is a subsidiary of Ship Finance, and leased the rig back.

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In May 2007, we entered into an agreement with the Jurong Shipyard in Singapore for the construction of a new semi-submersible rig, West Orion, which we expect to be delivered in the second quarter of 2010 for a total cost of $675 million.

- In June 2007, we entered into an agreement with Keppel FELS Limited in Singapore for the construction of a new tender rig, West Vencedor, which we expect to be delivered in the first quarter of 2010 for a total cost of $201 million.

- In July 2007, we entered into a contract with the Samsung Shipyard in South Korea for the construction of a new drillship, West Gemini, which we expect to be delivered in the second quarter of 2010 for a total cost of $716 million.

- In September 2007, we took delivery of the new jack-up rig West Atlas from Keppel FELS Limited in Singapore for a total cost of $155 million.

- In September 2007, we established Seawell as a company providing drilling and well services. Our ownership interest in Seawell is currently approximately 73.8%. Seawell has entered into an agreement with the Norwegian Stock Broker Association, which provides an over-the-counter ("OTC") market for its shares.

In the year ended December 31, 2008, we acquired the following drilling units and entities involved in offshore drilling:

- In the first quarter of 2008, the new semi-submersible rig West Phoenix was delivered from the Samsung Shipyard in South Korea and the new semi-submersible rig West Sirius was delivered from the Jurong Shipyard in Singapore, at total costs of $804 million and $561 million, respectively. Also in the first quarter of 2008, the new jack-up rig West Triton was delivered from the PPL Shipyard in Singapore at a total cost of $155 million.

- In January 2008, Seawell acquired Noble Corporation's North Sea platform drilling division, a labor contract well services business, for an aggregate purchase price of $54 million. This purchase included labor contracts to service the drilling operations on 11 platforms in the UK sector of the North Sea.

- In February 2008, we entered into a construction contract with Malaysia Marine and Heavy Engineering Sdn Bnd for the construction of a new tender rig T12, which we expect to be delivered in the first quarter of 2010 for a total cost of $123 million.

- In February 2008, Seawell entered into an agreement for the construction of a new modular well service unit. The unit is expected to be delivered in the second half 2010 and will be primarily marketed for operations on platforms on the UK and Norwegian continental shelves.

- In March 2008, we acquired all of the outstanding shares in Peak Well Solutions AS, a company which specializes in the production, manufacturing and installation of equipment for drilling rigs, for the aggregate purchase price of $85 million.

- In April 2008, we announced that we had acquired beneficial ownership of 200,000 of the issued shares of Pride and had forward purchase contracts for a further 16,300,000 shares, totaling 9.5% of the issued share capital. Pride is one of the largest offshore drilling contractors listed on the NYSE. The aggregate purchase price of the investment in Pride was approximately $558 million. In August 2009, Pride spun off its mat-supported jack-up rigs into a new company, Seahawk Drilling Inc, which is listed on Nasdaq. In that connection we received a dividend in the form of shares in Seahawk Drilling Inc, corresponding to a 9.5% equity interest which we currently hold.

- In April 2008, we acquired 8,100,000 shares of Scorpion Offshore Limited, or Scorpion, at a price of NOK80 per share, which increased our shareholding in Scorpion to 36% of Scorpion's outstanding shares, which is above the 33.3% threshold for making a mandatory tender offer for the remaining shares under the rules of the Oslo Stock Exchange. We conducted the mandatory tender offer at the offering price of NOK80 per share, which offer expired in June 2008. As a result of the tender offer, we registered acceptances for a further 1.1% of Scorpion's shares. As of January 20, 2010, we held a 39.6% equity interest in Scorpion, for which we paid an aggregate amount of $343 million. Scorpion is a drilling contractor listed on the Oslo Stock Exchange, with six recently completed newbuilding jack-up rigs and one additional newbuilding jack-up rig under construction. Under the Oslo Stock Exchange's mandatory offer rules, if we increase our equity interest in Scorpion to 40% or more, we will be required to make another tender offer for Scorpion's shares. Currently, we do not expect to trigger any further mandatory offerings or compulsory acquisitions. Please see "Subsequent Events" and "Summary of Oslo Stock Exchange Mandatory Offer Rules' below:

- In May 2008, Seawell acquired Tecwel AS, a company which provides logging services to the oil industry worldwide, for an aggregate purchase price of $34 million.

- In June 2008, we entered into agreements with Keppel FELS Limited in Singapore and the PPL Shipyard in Singapore for the construction of two new jack-up rigs each, all of which are scheduled for delivery in the second half of 2010. In January 2009 the terms of the agreements with the PPL Shipyard and Keppel FELS Limited were amended to include the option on our part not to take delivery of the second rig scheduled for delivery from each yard, while the PPL Shipyard had the option to terminate the construction contract for the second rig scheduled for delivery by them. In October 2009, the PPL Shipyard exercised its option to terminate the construction of one rig. The total cost of the three rigs currently remaining to be delivered is $658 million.

- In June 2008, we entered into agreement with Keppel FELS Limited in Singapore for the construction of one new tender rig, West Berani III, with delivery expected in the first quarter of 2011 at a total cost of $119 million. Also in June 2008, we entered into agreement with the Jurong Shipyard in Singapore for the construction of one new semi-submersible drilling rig, West Capricorn, with delivery expected in fourth quarters of 2011 at a total cost of $771 million.

- In the second quarter of 2008, we took delivery of the new tender rig T11 from Malaysia Marine and Heavy Engineering Sdn Bnd at a total cost of $96 million, and the new jack-up rig West Ariel from Keppel FELS Limited in Singapore at a total cost of $177 million.

- In September 2008, following a series of transactions beginning in 2006, we acquired 22.7% of the total outstanding shares of SapuraCrest for a total purchase price of $124 million. SapuraCrest owns 51% of each of Varia Perdana and Tioman.

- In the third quarter of 2008, we took delivery of the new drillship West Polaris from Samsung Heavy Industries in South Korea for a total cost of $695 million, and sold the unit to a subsidiary of Ship Finance, an affiliated company, and leased the rig back.

- In the fourth quarter of 2008, we took delivery of the new semi-submersible rig West Hercules from the DSME Shipyard in South Korea and the new semi-submersible rig West Taurus from the Jurong Shipyard in Singapore, at total costs of $630 million and $531 million, respectively. These two rigs were sold to Ship Finance, an affiliated company, and leased back. Also in the fourth quarter of 2008, we took delivery of the new drillship West Capella from Samsung Heavy Industries in South Korea at a total cost of $640 million.

In the year ended December 31, 2009 we acquired the following drilling units and investments in entities involved in offshore drilling:

- In the first quarter of 2009, we took delivery of the new semi-submersible rig West Aquarius from the DSME Shipyard in South Korea and the new semi-submersible rig West Eminence from the Samsung Shipyard in South Korea, at total costs of $630 million and $707 million, respectively.

- In March 2009, we acquired an 81% interest in a bond issued by Petromena AS in the amount of NOK2.00 billion, at a cost of $183 million. The bond was secured by construction contracts for two new deepwater rigs scheduled for delivery later in 2009. Both rigs have subsequently been sold and as at December 31, 2009, we have received a partial repayment of the bond amounting to $101 million, including premium and accrued interest. Based on the achieved sales price of the rigs and the priority of the bonds, we expect to receive payments that equal 100% of the principal bond amount plus a 7% early redemption fee and accrued interests including penalty interests.

The total cost shown for the above drilling units consists of the accumulated historic cost paid to the shipyards, including amounts paid by entities prior to their acquisition by us. The cost shown includes capitalized interest and other ancillary costs.

Disposals

In February 2007, we sold our two FPSOs Crystal Ocean and Crystal Sea for $90 million and $80 million, respectively, recording gains totaling $124 million.

In July 2007, we entered into an agreement to sell the jack-up rig West Titania for a total consideration of $134 million. The jack-up rig was delivered to its new owner in the second quarter of 2008 and a gain on sale of $80 million was recorded.

In October 2007, we entered into an agreement to sell our entire holding of shares in Apexindo to third parties for a net consideration of approximately $220 million. The gain from the disposal was recorded in the first quarter of 2008 and amounted to approximately $150 million.

In July 2009, we exercised our option to repurchase the jack-up rig West Ceres from Rig Finance Ltd., a subsidiary of Ship Finance, an affiliated party, at the option price of $135.5 million. In July 2009, we sold the jack-up rig West Ceres to a third party for $175 million, recording a gain on sale of $21 million.

On November 30, 2009 our jack-up rig West Atlas was confirmed a constructive total loss following the damage caused by a blow-out and later fire on the Montara production platform in Australia where the rig was working for PTTEPA. The compensation from our insurers amounting to $200 million was received in December 2009. We have a contractual obligation to PTTEPA for removing the West Atlas wreck from the Montara field. Our insurance coverage provides for reimbursement of the costs related to such removal operations which are expected to be completed during 2010.

Subsequent Events

- In the first quarter of 2010 we took delivery of the new tender rigs West Vencedor and T12 from the Keppel FELS shipyard in Singapore and Malaysia Marine and Heavy Engineering Sdn Bnd, at total costs of $209 million and $123 million, respectively.

- In April 2010 we announced that we have acquired a purchase option from the Jurong shipyard in Singapore for a high specification, harsh environment jack-up rig of the CJ70 design. We have announced our intention to exercise this option and the rig is expected to be delivered in the first quarter of 2011 at an acquisition cost of $356 million, excluding capitalized interest and ancillary costs.

- In April 2010 we took delivery of the new semi-submersible rig West Orion from the Jurong shipyard in Singapore. The rig will reported under newbuildings until it commences operations in Brazil in July 2010.

- In April 2010, Seadrill Limited successfully completed a private placement of a total of 12.5 million shares, representing 3.1% of the issued capital, to a price of NOK151.50 per share. Gross proceeds amounted to NOK1,894 million (approximately US$322 million).

- In April 2010 we acquired 1.3 million shares in Scorpion at a price of NOK36.00 per share, which increased our shareholding from 38.6% to 40.0%. The acquisition triggered an obligation on us to make a mandatory cash offer for Scorpion's remaining shares or to reduce our shareholding below 40%. We have announced that we will make a mandatory cash offer for the remaining shares in Scorpion. Please see "Summary of Oslo Stock Exchange Mandatory Offer Rules" below:

- On April 30, 2010, the Company received a partial payment of the Petromena bond amounting to $165 million.

Summary of Oslo Stock Exchange Mandatory Offer Rules

- Generally, under the rules of the Oslo Stock Exchange, a shareholder who acts in its own name or in concert with others, and who acquires shares representing more than 1/3 of the votes of an Oslo Stock Exchange listed company is obligated to make an offer for the Company's remaining shares. The obligation to make a mandatory offer is triggered again if the shareholder subsequent to the initial mandatory offer acquires further shares in the Company and through such acquisition becomes the owner of shares representing either 40% or more or 50% or more of the votes in the Company.

- Before January 1 2008 the threshold of ownership required to trigger the initial mandatory offer requirement was 40%.

- There are various procedural and substantive rules, including a best price rule that relates to the price that the offeror must pay for the shares.

- There is also a procedure for certain Oslo Stock Exchange companies to obtain exemptions from the rules.

B. BUSINESS OVERVIEW

We are an offshore drilling contractor providing global offshore drilling services to the oil and gas industry. We have a versatile fleet of drilling units that is outfitted to operate in shallow water, mid-water and deepwater areas, in benign and harsh environments. Our customers are national, international and independent oil companies. The various types of drilling units in our fleet are as follows:

Semi-submersible drilling rigs

Semi-submersible drilling rigs consist of an upper working and living quarters deck resting on vertical columns connected to lower hull pontoons. Such rigs operate in a "semi-submerged" floating position, in which the lower hull is below the waterline and the upper deck protrudes above the surface. The rig is situated over a wellhead location and remains stable for drilling in the semi-submerged floating position, due in part to its wave transparency characteristics at the water line.

There are two types of semi-submersible rigs, moored and dynamically positioned. Moored semi-submersible rigs are positioned over the wellhead location with anchors, while the dynamically positioned semi-submersible rigs are positioned over the wellhead location by a computer-controlled thruster system. Semi-submersible rigs generally operate with crews of 65 to 100 people.

Drillships

Our drillships are self-propelled ships equipped for drilling in deep waters, and are positioned over the well through a computer-controlled thruster system similar to that used on semi-submersible rigs. Drillships are suitable for drilling in remote locations because of their mobility and large load-carrying capacity. Depending on region, drillships operate with crews of 65 to 100 people.

Jack-Up Rigs

Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the ocean floor. A jack-up rig is towed to the drill site with its hull riding in the sea as a vessel and its legs raised. At the drill site, the legs are lowered until they penetrate the sea bed and the hull is elevated until it is above the surface of the water. After completion of the drilling operations, the hull is lowered until it rests on the water, the legs are raised and the rig can be relocated to another drill site. Jack-ups are generally suitable for water depths of 400 feet or less and operate with crews of 40 to 60 people.

Tender Rigs

Self-erecting tender rigs conduct production drilling from fixed or floating platforms. During drilling operations, the tender rig, is moored next to the platform rig. The modularized drilling package is lifted from the unit onto the platform prior to commencement of operations. The tender rig contains living quarters, helicopter deck, storage for drilling supplies, power machinery for running the drilling equipment and well completion equipment. There are two types of tender rigs, barge type and semi-submersible (semi-tender) type. Tender barges and semi-tenders are equipped with similar equipment but the semi-tender's semi-submersible hull structure allows the unit to operate in rougher weather conditions. Self-erecting tender rigs allow for drilling operations to be performed from platforms without the need for permanently installed drilling packages. Self-erecting tender rigs generally operate with crews of 60 to 85 people.

Seawell Limited

In addition to owning and operating offshore drilling units, we provide well services through Seawell, our majority owned subsidiary. Seawell provides platform 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.

We report our business in the following three operating segments:

- Mobile units: We offer services encompassing drilling, completion and maintenance of offshore wells. The drilling contracts relate to semi-submersible rigs, jack-up rigs and drillships.

- Tender Rigs: We operate 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: We provide services using platform drilling, facility engineering, modular rig, well intervention and oilfield technologies.

Information regarding our revenues, segment operating profit or loss and total assets attributable to each operating segment for the last three fiscal years is presented in Note 3 to our consolidated financial statements included in this Annual Report. Information regarding our operating revenues and identifiable assets attributable to each of our geographic areas of operations for the last three fiscal years is also presented in Note 3 to our consolidated financial statements included in this Annual Report. For information about revenues, operating income, assets and other information relating to our business, our segments and the geographic areas in which we operate, see also Item 5 "Operating and Financial Review and Prospects".

Our Business Strategy

Our primary objective is to profitably grow our business to increase long-term distributable cash flow per share to our shareholders.

Our business strategy is to focus our company on modern state-of-the-art offshore drilling units with our main focus on deepwater operations. We believe we have one of the most modern fleets in the industry and believe that by combining quality assets and experienced and skilled employees we will be able to provide our customers with safe and effective operations, and establish, develop and maintain a position as a preferred provider of offshore drilling services for our customers. We believe that a combination of quality assets and highly skilled employees will facilitate the procurement of term contracts and premium dayrates. We have grown our company significantly since its incorporation in 2005 and have strong ambitions to continue the growth. We believe that the combination of term contracts and quality assets will provide us with the opportunity to obtain debt financing for such growth, and allow us to increase the return on our invested equity.

The key elements in our strategy are as follows:

- commitment to provide customers with safe and effective operations;
- combine state-of-the-art mobile drilling units with experienced and skilled employees;
- growth through targeted alliances, purchase of newbuildings, mergers and acquisitions;
- develop our strong position in deepwater and harsh environments;
-

develop our strong position in the tender rig market and pursue further growth in conventional waters as well as deepwater areas; and
- offer a diversified range of well services.

We believe that consolidation in the offshore drilling rig industry would improve the pricing and earnings visibility for our services. Such consolidation activities may be in the form of transactions for specific offshore drilling units or companies. We actively look for growth opportunities and intend to take part in the future consolidation of our industry if we determine that potential transactions are in the best interest of our shareholders.

Market Overview

Our customers include oil super-majors and major integrated oil and gas companies, state-owned national oil companies and independent oil and gas companies. Our customers have experienced higher oil prices and significantly increased revenues over the last decade. The increase has been related to higher demand for oil and limited increase in available oil production to offset the growth in demand. Over the same period the depletion rate for existing oil production has risen and replacement rates for oil reserves have fallen for most oil producers, highlighting the shortfall in exploration and production spending to meet future demand. In response to this development, oil producers, particularly super-majors, majors and national oil companies, have devoted more of their activities to identifying replacements for existing production in new geographical areas at increasing water depths. This has translated into an increased focus on frontier deepwater and ultra-deepwater areas, not only in existing offshore regions such as Brazil, U.S. Gulf of Mexico, Europe and West Africa but also expanding to India, Southeast Asia, China, East Africa, Mexican Gulf of Mexico, Australasia and the Mediterranean.

Mobile units

Developments in the oil and gas industry discussed above have caused a strong increase in demand for offshore drilling services, resulting in materially increased dayrates for drilling units.

For dynamically positioned deepwater units, dayrates increased from $290,000 in May 2005 at the inception of our Company to more than $600,000 in September 2008 just prior to the financial downturn in world markets. The increase in dayrates made it attractive for existing drilling contractors as well as new market participants to order new units to meet mounting demand. As a result, the worldwide fleet of dynamically positioned deepwater drilling units is expected to increase from 29 units in 2005 to 134 units in 2013, if all of the new units ordered between 2005 and 2008 are delivered. Most of these newbuildings were ordered on speculation, meaning that no drilling contract in place at the time the construction contract was entered into. As a result of favorable market developments, the majority of these units have secured term contracts on attractive terms. However, due to the sudden and immediate deterioration of overall market conditions in October 2008, there remain a significant number of units under construction that have not yet secured employment. Although the majority of these units will not be delivered before the end of 2010 or later, some of the owners of these units have limited or no operating experience in deepwater drilling, and there is a risk that they could be willing to accept contract conditions that deviate from prevailing market terms, in order to secure employment for their units and the financing necessary to take delivery of their newbuilds. This could adversely affect dayrates for deepwater drilling units in the short-term. Since October 2008, the number of new contracts entered into for dynamically positioned deepwater units has been limited. The most recent fixture was reported at approximately $450,000 per day. However, dayrate levels are typically dependant on country of operation, length of contract and overall contract terms

Since 2005 we have taken delivery of nine dynamically positioned ultra-deepwater units and have a further two ultra-deepwater units under construction. We believe the long-term prospects for deepwater drilling are positive given the expected growth in oil consumption from developing nations, limited or negative growth in oil reserves, and high depletion rates of mature oil fields. We believe that these factors will continue to provide incentives for the exploration and development of deepwater fields, particularly in view of recent geologic successes in Brazil, US Gulf of Mexico, West Africa and elsewhere, along with improving access to promising offshore areas and new, more efficient technologies.

For jack-up rigs, dayrates increased from $90,000 from May 2005 to more than $200,000 per day in September 2008 as a consequence of a significant undersupply of available jack-ups in a period when oil and gas prices were increasing rapidly, thereby making extremely lucrative the drilling of new and previous oil and gas discoveries with a tie-back to the existing infrastructure. In response to this development, approximately 145 new jack-ups have been ordered bringing the total worldwide fleet of jack-ups up to 519, assuming all the ordered units are delivered. The majority of these newbuildings were ordered on speculation and the majority of the 61 jack-up rigs remaining to be delivered have at present not secured initial employment. In a period of considerable uncertainty relating to the development of the world economy and the direction of oil and gas prices, this could intensify price competition as scheduled delivery dates come closer, possibly impacting adversely on dayrates for jack-up rigs. Since October 2008, the utilization rate has been significantly reduced for the jack-up fleet bringing dayrates down sharply as well. As of April 2010, we believe market dayrates for new jack-up rigs are approximately $120,000 per day, depending on country of operation, length of contract and overall contract terms, and below $100,000 per day for older jack-up rigs. We believe that the industry will require more modern and more effective jack-ups, as approximately 70% of the current worldwide jack-up fleet is more than 20 years old. We expect operators to gradually replace older and incumbent drilling units with new, more modern and efficient rigs due to wells becoming increasingly technically challenging and consequently demanding with respect to rig equipment. This replacement could however take longer than previously anticipated, given the uncertainty surrounding the global economy.

Tender rigs

From May 2005 to September 2008 dayrates increased for barge-type tender rigs from $45,000 to $130,000 and for semi-submersible tender rigs from $70,000 to more than $200,000. The increase was due to a significant undersupply of available tender rigs and reduced competition from jack-ups due to the overall increase in offshore drilling activity. The tender rig market is a specialized niche, with the world fleet consisting of 29 units, including four units under construction. We are the largest operator in this segment with our fleet of 17 units, including the five units we operate in association with Varia Perdana and the unit we have under construction. Tender rigs are primarily used for development drilling based on term contracts, and this has historically made this market segment more resilient to the volatility in activity levels seen in the shallow water market and experienced by benign environment jack-ups. Nevertheless, the sharp drop in shallow water activity in 2008 and 2009 had an adverse impact on the tender rig market. The short-term effect is that tender rigs that have come off contracts since October 2008 have been warm stacked, as oil companies have postponed drilling activity in response to lower oil and gas prices. Accordingly, there were no tender rig fixtures in 2009. The most recent fixture in 2010 was at approximately $90,000 per day. We believe the market uncertainty is diminishing in response to more stable oil prices, and the long-term outlook for tender rigs remains favorable, due to their versatility and lower construction costs compared to jack-up rigs. In addition, in recent years a combination of tender rigs and floating platforms, such as mini tension-leg platforms and spar platforms has been used in the development of deepwater oilfields, which has increased the market for tender rigs. Based on this we expect the market to continue to offer opportunities to build additional order backlog and earnings visibility.

Well services

Seawell is mainly involved in oil production activities in existing mature fields. The level of activity is therefore related to the development and level of the oil price. We believe that when oil prices are above $70 per barrel, oil companies will focus on maintaining their production from mature fields. Based on current market conditions, demand for drilling and well services is expected to remain high over the next few years. However, the activity level in 2010 will depend on the outcome of ongoing tendering activities, employment of the modular rig we have under construction, and our success in expanding our main products and services into new regions. We have also in response to the oil price developments in 2008 and the beginning of 2009 experienced pressure on pricing from our customers. This has resulted in lower contract rates, which in turn has causes us to emphasize our focus on cost control and utilization of synergies in order to maintain and grow profit levels.

The above overview of the various offshore drilling sectors is based on previous market developments and current market conditions. Future markets conditions and developments cannot be predicted and may well differ from our current expectations.

Customers

Our customers are oil and gas exploration and production companies, including major integrated oil companies, independent oil and gas producers and government-owned oil and gas companies. In the year ended December 31, 2009 our five largest customers have been:

- Statoil ASA, or Statoil, accounting for approximately 17% of revenues;
- Total S.A. Group, or Total, accounting for approximately 13% of revenues;
- Exxon Mobil Corp, or Exxon, accounting for approximately 12% of revenues;
- Royal Dutch Shell, or Shell, accounting for approximately 10% of revenues; and
- Petròleo Brasileiro S.A., or Petrobras, accounting for approximately 10% of revenues.

No other customers have accounted for more than ten percent of our revenues in any period since inception. In the year ended December 31, 2008, our two largest customers were Statoil and Shell, who provided approximately 32% and 7% of our contract revenues, respectively. Statoil and Shell were also our largest customers in the year ended December 31, 2007, providing approximately 33% and 13% of our contract revenues, respectively. The loss of any of these significant customers could have a material adverse effect on our results of operations if they were not replaced by other customers.

Most of our drilling units are contracted to customers for periods between one and five years ahead, and our forward contracted revenue, or backlog, at December 31, 2009 totaled approximately $10.4 billion, with $8.6 billion of this amount attributable to our semi-submersible rigs and drillships. We expect approximately $3.1 billion of this backlog to be realized in 2010. Backlog for our drilling fleet is calculated as the contract dayrate multiplied by the number of days remaining on the contract, assuming full utilization. Backlog excludes revenues for mobilization and demobilization, contract preparation and customer reimbursables. The amount of actual revenues earned and the actual periods during which revenues are earned will be different from the backlog projections due to various factors. Downtime, caused by unscheduled repairs, maintenance, weather and other operating factors, may result in lower applicable dayrates than the full contractual operating dayrate.

The following table shows the percentage of rig days committed by year as of December 31 2009. The percentage of rig days committed is calculated as the ratio of total days committed under firm contracts to total available days in the period. Total available days for our units under construction are based on their expected delivery dates.

% of rig-days committed	Year ending December 31, 2010		2011		2012	
Jack-up rigs	62	%	7	%	0	%
Semi-submersible rigs	100	%	94	%	55	%
Drillships	88	%	75	%	70	%
Tender rigs	84	%	69	%	40	%

Competition

The offshore drilling industry is highly competitive, with market participants ranging from large multinational companies to small locally-owned companies.

The demand for offshore drilling services is driven by oil and gas companies' exploration and development drilling programs. These drilling programs are affected by oil and gas companies' expectations regarding oil and gas prices, anticipated production levels, worldwide demand for oil and gas products and many other factors. The availability of quality drilling prospects, exploration success, availability of qualified rigs and operating personnel, relative production costs, availability and lead time requirements for drilling and production equipment, the stage of reservoir development and political and regulatory environments also affect our customers' drilling programs. Oil and gas prices are volatile, which has historically led to significant fluctuations in expenditures by our customers for drilling services. Variations in market conditions during cycles impact us in different ways, depending primarily on the length of drilling contracts in different regions. For example, contracts in shallow waters for jack-up rig activities are shorter term, so a deterioration or improvement in market conditions for such units tends to quickly impact revenues and cash flows from those operations. On the other hand, contracts in deepwater for semi-submersible rigs and drillships tend to be longer term, so a change in market conditions tends to have a delayed impact. Accordingly, short-term changes in these markets may have a minimal short-term impact on revenues and cash flows, unless the timing of contract renewals coincides with short-term movements in the market.

Offshore drilling contracts are generally awarded on a competitive bid basis. In determining which qualified drilling contractor is awarded a contract, the key factors are pricing, rig availability and sustainability, rig location, condition of equipment, operating integrity, safety performance record, crew experience, reputation, industry standing and client relations.

Competition for offshore drilling rigs is generally on a global basis, as rigs are highly mobile. However, the cost associated with mobilizing rigs between regions is sometimes substantial, as entering a new region could necessitate upgrades of the unit and its equipment to specific regional requirements. In particular, for rigs to operate in harsh environments, such as offshore Norway and Canada, as opposed to benign environments, such as the Gulf of Mexico, West Africa, Brazil, the Mediterranean and Southeast Asia, more demanding weather conditions would require more costly investment in the outfitting and maintenance of the drilling units.

We believe that the market for drilling contracts will continue to be highly competitive for the foreseeable future.

Risk of Loss and Insurance

Our operations are subject to hazards inherent in the drilling of oil and gas wells, including blowouts and well fires, which could cause personal injury, suspend drilling operations,