

## Seadrill Limited (SDRL) - First quarter 2011 results

### Highlights

- Seadrill generates first quarter 2011 EBITDA<sup>\*)</sup> of US\$573 million
- Seadrill reports first quarter 2011 net income of US\$823 million and earnings per share of US\$1.84
- Seadrill distributes quarterly cash dividend of US\$0.75 per share
- Seadrill establishes a harsh environment focused drilling company, North Atlantic Drilling Ltd, subscribes for 75% of the shares in a US\$1.7 billion private placement, lists the company on the Norwegian OTC and transfers five existing drilling units with drilling contracts and staff, and one unit under construction to the new company
- Seadrill orders a new harsh environment jack-up rig to be named West Linus and signs a five-year contract with ConocoPhillips
- Seadrill orders two new tender rigs and signs five-year contracts for both units with Chevron
- Seadrill takes delivery of one ultra-deepwater semi-submersible rig and one semi-tender rig
- Seadrill subsidiary Seawell completes the merger with Allis-Chalmers Energy Inc in late February reducing Seadrill's shareholding to 36.4% and a deconsolidation in Seadrill accounts

### Subsequent events

- Seadrill exercises its right to call the remaining US\$750 million of the 2012 convertible bond
- Seadrill repurchases 2.5 million of its own common shares
- Seadrill orders a new ultra-deepwater drillship at Samsung for an all-in cost of US\$600 million
- Seadrill secures US\$1.3 billion worth of new contracts
- Seadrill orders a new tender rig for a total consideration of US\$115 million
- Seadrill agrees to sell the jack-up rig West Juno for a total consideration of US\$248.5 million
- Seadrill transfers the construction contract and drilling contract for jack-up rig West Linus to North Atlantic Drilling Ltd

\*) EBITDA is defined as earnings before interest, depreciation and amortization equal to operating profit plus depreciation and amortization.

### Condensed consolidated income statements

In response to the increase in number of drilling units in operation and the deconsolidation of Seawell, we have reviewed our internal reporting structure including the operating and reporting business segments, and have decided to change our reporting segments with effect from January 1, 2011, and report our results in the following segments: Floaters, Jack-up Rigs and Tender Rigs.

In the first quarter 2011, the contribution from Seawell is reported as a separate segment, Well Services, up to the point of the consummation of the merger with Allis-Chalmers Energy Inc. at the end of February and thereafter as an investment in associated companies under other financial items.

### *First quarter results*

Consolidated revenues for the first quarter of 2011 amounted to US\$1,110 million as compared to US\$1,169 million in the fourth quarter of 2010.

Operating profit for the quarter was US\$430 million down from US\$479 million in the preceding quarter. The US\$49 million reduction was due to US\$26 million in gain on sale of the jack-up rig West Larissa in the fourth quarter and lower contribution from our Floaters, from US\$322 million to US\$312 million, Well Services, from US\$18 million to US\$5 million, and Tender Rigs, from US\$75 million to US\$49 million. The decrease in contribution from Tender Rigs was due to certain non-recurring revenues being recorded in fourth quarter and the rig West Menang being idle in the first quarter. The Jack-Up Rigs segment, adjusted for the mentioned gain on sale, increased their contribution from US\$40 million to US\$64 million.

Net financial items for the quarter amounted to a gain of US\$441 million compared to a loss of US\$176 million in the previous quarter. The improvement is mainly related to a gain of US\$477 million recognized in connection with the deconsolidation of Seawell. The deconsolidation triggered an adjustment of the book value of our holding to reflect the market value of the underlying shares. In addition, interest expenses were reduced from US\$109 million to US\$77 million whereas derivative financial instruments delivered a gain of US\$41 million compared to a gain of US\$77 million in the fourth quarter.

Income taxes for the first quarter were US\$48 million.

Net income for the quarter was US\$823 million and basic earnings per share of US\$1.84.

### *Balance sheet*

As of March 31, 2011, total assets amounted to US\$18,573 million, up from US\$17,497 million as of December 31, 2010.

Total current assets decreased from US\$2,883 million to US\$2,765 million over the course of the quarter. The decrease was primarily related to the deconsolidation of our Well Services segment.

Total non-current assets increased from US\$14,614 million to US\$15,808 million. The US\$1,194 million increase was mainly due to the acquisition of two ultra-deepwater rigs under construction from Lloyds Bank and Seawell being accounted for as investment in an associated company.

Total current liabilities decreased from US\$2,514 million to US\$2,312 million. Long-term interest bearing debt increased from US\$8,176 million to US\$8,838 million over the course of the quarter. Net interest bearing debt was US\$8,974 million compared to US\$8,377 million as of December 31, 2010. In the first quarter, Seadrill repaid US\$609 million of debt.

Total equity increased from US\$5,937 million as of December 31, 2010 to US\$6,206 million as of March 31, 2011. The increase is related to contribution from net income for the quarter and unrealized gain on marketable securities, offset by dividend paid during the quarter.

### *Cash flow*

As of March 31, 2011, cash and cash equivalents amounted to US\$824 million, which corresponds to an increase of US\$69 million as compared to year-end 2010. Net cash from operating activities for the period was US\$509 million whereas net cash used in investing activities for the same period amounted to US\$1,330 million, primarily related to the acquisition of two ultra-deepwater rigs under construction in January and milestone

payments on our newbuilds. Net cash from financing activities was US\$883 million consisting of US\$890 million in net proceeds from debt and US\$425 million raised in private placement in North Atlantic Drilling Ltd, offset by US\$385 million paid in dividend and US\$47 million in other miscellaneous payments.

## Outstanding shares

As of March 31, 2011, the issued common shares in Seadrill Limited totaled 443,088,509 adjusted for our holding of 219,978 treasury shares. We had at the same time 5.0 million options outstanding under various share incentive programs for management, out of which approximately 1.4 million are vested and exercisable.

On April 7, 2011, we exercised our right to redeem the outstanding loan amount of US\$749.4 million remaining of the US\$1,000 million five-year convertible bond maturing in 2012. Settlement was completed on May 10, 2011 when US\$721.2 million of the remaining outstanding loan was settled through issuance of 25,942,446 new shares and a further US\$28.2 million was redeemed at par value plus interest. In order to reduce the dilution effect from issuance of new shares, we repurchased 2,500,000 shares at an average price of NOK183.66 equivalent to US\$34.25 per share in the period between April 18 and May 12, 2011. As of May 27, 2011, the total number of issued and outstanding shares is 466,555,243 adjusted for 2,695,690 in treasury shares.

## Operations

### Offshore drilling units

Seadrill had 42 offshore drilling units in operation (including the five tender rigs owned by Varia Perdana) in North Europe, US Gulf of Mexico, South Americas, West Africa, Middle East and Southeast Asia and 3 units stacked during the first quarter.

For our floaters (drillships and semi-submersible rigs) the economical utilization rate averaged 94 percent compared to 93 percent in the fourth quarter. The utilization for the floaters was hampered by the BOP challenges on West Phoenix as mentioned in our fourth quarter report, which kept the rig out of operation for five weeks. For our jack-up rigs, the average economical utilization was 99 percent for the units in operation compared with 97 percent in the fourth quarter. If we include Offshore Resolute, which was idle during the quarter, the utilization rate for our jack-up rigs was 93 percent, slightly up from 92 percent in the preceding quarter. The economical utilization rate for our tender rigs averaged 99 percent for the units in operation in line with the fourth quarter. If we include T8 and West Menang, which were idle during the quarter, utilization reduces to 81 percent compared to 90 percent in the preceding quarter.

Table 1.0 Contract status offshore drilling units

| Unit                         | Current client | Area of location            | Contract start | Contract expiry |
|------------------------------|----------------|-----------------------------|----------------|-----------------|
| <b>Semi-submersible rigs</b> |                |                             |                |                 |
| West Alpha **                | BG Consortium  | Norway                      | May 2009       | Feb 2013        |
| West Aquarius                | Exxon          | Southeast Asia/China        | Feb 2009       | Feb 2013        |
| West Capricorn (NB*)         |                | Singapore – Jurong Shipyard |                |                 |
| West Eminence                | Petrobras      | Brazil                      | Jul 2009       | Jul 2015        |
| West Hercules                | Husky          | China                       | Nov 2008       | May 2013        |
| West Leo (NB*)               |                | Singapore – Jurong Shipyard |                |                 |
| West Orion                   | Petrobras      | Brazil                      | Jul 2010       | Jul 2016        |
| West Pegasus (NB*)           | PEMEX          | In transit to Mexico        | Aug 2011       | Aug 2016        |
| West Phoenix **              | Total          | Norway                      | Jan 2009       | Dec 2014        |
| West Sirius                  | BP             | US Gulf of Mexico           | Jul 2008       | Jul 2014        |
| West Taurus                  | Petrobras      | Brazil                      | Feb 2009       | Feb 2015        |
| West Venture **              | Statoil        | Norway                      | Aug 2010       | Jul 2015        |
| <b>Drillships</b>            |                |                             |                |                 |
| West Capella                 | Total          | Nigeria                     | Apr 2009       | Apr 2014        |

| Unit              | Current client | Area of location               | Contract start | Contract expiry |
|-------------------|----------------|--------------------------------|----------------|-----------------|
| West Gemini       | Total          | Angola                         | Sep 2010       | Sep 2012        |
| West Navigator ** | Shell          | Norway                         | Jan 2009       | Dec 2012        |
| West Polaris      | Exxon          | Brazil                         | Oct 2008       | Oct 2012        |
| West Auriga (NB*) |                | South Korea – Samsung Shipyard |                |                 |
| West Tellus (NB*) |                | South Korea – Samsung Shipyard |                |                 |
| West Vela (NB*)   |                | South Korea – Samsung Shipyard |                |                 |

#### HE Jack –ups

|                     |                |                             |          |          |
|---------------------|----------------|-----------------------------|----------|----------|
| West Elara (NB*) ** | Statoil        | Singapore – Jurong Shipyard | Oct 2011 | Oct 2016 |
| West Epsilon **     | Statoil        | Norway                      | Dec 2010 | Dec 2014 |
| West Linus (NB*) ** | ConocoPhillips | Singapore – Jurong Shipyard | Dec 2013 | Dec 2018 |

#### BE Jack-up rigs

|                     |                      |                             |          |          |
|---------------------|----------------------|-----------------------------|----------|----------|
| Offshore Courageous | Shell                | Malaysia                    | Jan 2009 | Jan 2012 |
| Offshore Defender   | Petrobras            | Brazil                      | Mar 2010 | Feb 2012 |
| Offshore Freedom    | Odfjell              | Saudi Arabia / Kuwait       | Jun 2009 | May 2013 |
| Offshore Intrepid   | Odfjell              | Saudi Arabia / Kuwait       | May 2009 | Nov 2012 |
| Offshore Mischief   | Anadarko             | Brazil                      | Jul 2010 | Nov 2011 |
| Offshore Resolute   | BHP Billiton         | Vietnam                     | May 2011 | Aug 2011 |
| Offshore Vigilant   | Cardon IV            | Venezuela                   | Aug 2010 | Oct 2011 |
| West Ariel          | VSP                  | Vietnam                     | Nov 2009 | Dec 2011 |
| West Callisto       | Premier Oil          | Indonesia                   | Aug 2010 | Nov 2011 |
| West Cressida       | PTTEP                | Thailand                    | Nov 2010 | May 2014 |
| West Janus          | PCPPOC               | Malaysia                    | Aug 2008 | Aug 2011 |
| West Juno ***       | Rimbunan<br>Petrogas | Andaman Sea                 | May 2011 | Jun 2011 |
| West Leda           | PT Pan               | Indonesia                   | Nov 2010 | May 2011 |
| West Prospero       | VSP                  | Vietnam                     | Nov 2010 | Dec 2011 |
| West Triton         | CPOC                 | Malaysia                    | Dec 2010 | Nov 2011 |
| West Castor (NB*)   |                      | Singapore – Jurong Shipyard |          |          |
| West Tucana (NB*)   |                      | Singapore – Jurong Shipyard |          |          |
| West Telesto (NB*)  |                      | China – Dalian Shipyard     |          |          |
| West Oberon (NB*)   |                      | China – Dalian Shipyard     |          |          |

#### Tender rigs

|                 |                |                        |          |           |
|-----------------|----------------|------------------------|----------|-----------|
| T4              | Chevron        | Thailand               | Jul 2008 | Jul 2013  |
| T7              | Chevron        | Thailand               | Nov 2006 | Oct 2011  |
| T8 ****         |                | Singapore              |          |           |
| T11             | Chevron        | Thailand               | May 2008 | May 2013  |
| T12             | Chevron        | Thailand               | Apr 2011 | Apr 2014  |
| T15 (NB*)       | Chevron        | China – COSCO Shipyard | May 2013 | May 2018  |
| T16 (NB*)       | Chevron        | China – COSCO Shipyard | Nov 2013 | Nov 2018  |
| T17 (NB*)       |                | China – COSCO Shipyard |          |           |
| West Alliance   | Shell          | Malaysia               | Jan 2010 | Jan 2015  |
| West Berani     | ConocoPhillips | Indonesia              | Jan 2009 | Dec 2011  |
| West Jaya (NB*) | BP             | Singapore              | Sep 2011 | Sep 2013  |
| West Menang     | Murphy         | Singapore              | Jul 2011 | Jan 2013  |
| West Pelaut     | Shell          | Brunei                 | Apr 2009 | Mar 2015  |
| West Setia      | Chevron        | Angola                 | Aug 2009 | Aug 2012  |
| West Vencedor   | Chevron        | Angola                 | Apr 2010 | July 2015 |

\* Newbuilding under construction or in mobilization to its first drilling assignment.

\*\* Owned by our subsidiary NADL in which we own 75 percent of the outstanding shares.

\*\*\* Seadrill has entered into an agreement to sell the unit, a transaction, which is expected to be completed in end of June or in July 2011.

\*\*\*\* Usable equipment has been removed from the T8 unit, and the barge has been decided sold for scrap.

### *North Atlantic Drilling Ltd*

On February 15, 2011, the Board of Seadrill resolved to establish a new subsidiary focused entirely on harsh environment operations named North Atlantic Drilling (“North Atlantic”). 1 billion new ordinary shares were issued at a price of US\$1.7 per share of which Seadrill subscribed for 750 million shares, corresponding to 75 percent ownership in the new company. The remaining 25 percent of the shares was primarily subscribed by American and European shareholders. North Atlantic was listed on the Norwegian OTC list in February and the transfer of associated assets, companies, contracts and staff was completed on April 1, 2011. In order to finance the transaction, North Atlantic secured a US\$2 billion credit facility from commercial banks and issued a US\$500 million seven-year bond loan with a coupon of 7.75% that was subscribed for by Seadrill. At completion, North Atlantic had a fleet of five harsh environment units in operation and one new harsh environment jack-up rig under construction. North Atlantic has since then taken over the construction contract and drilling contract for another new harsh environment rig to be named West Linus. The Board of North Atlantic has decided to proceed with a listing of the company's shares on the Oslo Stock Exchange later this year.

North Atlantic's first quarter of operations will be the second calendar quarter in 2011, which will be reported in August this year. The company will subsequently commence distribution of its committed quarterly dividend of minimum US\$0.03 per share with payment in September 2011. The market for offshore drilling rigs in the North Atlantic has tightened significantly since the OTC listing. In Norway, the number of rigs currently in the region with availability before 2013 is limited to one rig following recent fixtures. This together with other positive developments in NADL such as a new contract for the mid-water semi-submersible rig West Alpha and the West Linus project have strengthened the Board's market confidence, including the possibility to increase the dividend for NADL going forward. Furthermore, the company is committed to build shareholder value and is actively evaluating consolidation opportunities in this market segment.

### *Well Services (Archer Limited formerly known as Seawell Limited)*

In late February 2011, the shareholders of Allis-Chalmers Energy Inc approved the proposed merger agreement with Seawell. As a result, our ownership interest in the combined entity, which has been renamed Archer Ltd. (“Archer”) was reduced to 36.4 percent of the outstanding shares. Archer will following the consummation of the merger, no longer be consolidated in Seadrill accounts, but will be recognized as an investment in an associated company. We continue to own 117,798,650 shares in Archer, which represents a gross value of US\$720 million based on the closing share price of NOK33.60 on May 26, 2011.

For more information on Archer, see their separate quarterly report published on [www.archerwell.com](http://www.archerwell.com).

### **Next quarter operational events**

We expect our second quarter 2011 earnings to be favorably impacted by the jack-up rig Offshore Resolute resuming operations in Vietnam in early May after being idle during the first quarter. Furthermore, we expect an improvement in utilization for our floaters. We will be adversely impacted by four weeks of down time on the jack-up rig Offshore Intrepid due to repair of the bully gears. Our harsh environment jack-up rig West Epsilon is expected to have approximately two weeks on reduced dayrate during the second quarter as the rig will undertake some mandatory survey work in connection with a yard stay to prepare for its next assignment for Statoil. The sale of the benign environmental jack-up rig West Juno will be completed in mid June upon completion of its present contract. We expect to record a gain on sale of approximately US\$18 million on closing. Finally, in response to our customers' preference for modern equipment, we have decided to retire the tender rig T8, which has been idle since the third quarter 2009. The retirement of T8 is not expected to adversely impact our income statement as the value of the spare parts and scrap-price for

the barge justify the remaining book value for the rig, and will reduce our cost basis with approximately US\$3 million due to the elimination of stacking costs.

### **Newbuilding program**

We have since the filing of our fourth quarter 2010 report ordered a further five units from Asian shipyards, including one ultra-deepwater unit, one harsh environment jack-up rig, and three tender rigs.

Firstly, in February, we ordered two tender rigs from the COSCO shipyard in China. The estimated project cost, including project management, drilling and handling tools, spares, and capitalized interest, for the two rigs is US\$225 million. The deliveries of the rigs are scheduled for the first and second quarter 2013. In April, we exercised an option to build a third identical tender rig at the same yard for a total project cost of US\$115 million with a delivery in the first quarter 2013.

In April, we exercised one of our two remaining options to build another 12,000ft dual derrick ultra-deepwater drillship at the Samsung yard in South Korea. The estimated total project cost for the new drillship is US\$600 million, including project management, drilling and handling tools, spares, capitalized interest and operations preparation expenses, and delivery is scheduled for the third quarter 2013. The drillship is identical to the two drillships we ordered from Samsung in November last year. For the one remaining option, an extension of the maturity date was agreed with the yard.

Further, in April, we placed an order for a new harsh environment jack-up rig to be named West Linus. The rig will be built at the Jurong yard in Singapore and has a total project cost estimated at US\$530 million including project management, drilling and handling tools, spares, capitalized interest and operations preparation expenses. Completion of construction is scheduled at the end of the third quarter 2013 after which the rig will be mobilized to Norway in order to commence operations under a five-year contract with ConocoPhillips.

In March, we completed the construction of the ultra-deepwater semi-submersible rig West Pegasus and the semi-tender rig West Jaya. West Pegasus is currently in transit to Seadrill's first drilling assignment in Mexico and we anticipate the commencement of operations for PEMEX to take place in August. West Jaya is currently being upgraded in accordance with customer requirements to prepare for its two-year assignment for BP in Trinidad-Tobago. The commencement of this assignment is scheduled for September this year. Both units will receive mobilization fees for the transit period. Furthermore, we will be compensated for the upgrade activities undertaken by West Jaya.

In summary, the total number of units under construction is 14, including five ultra-deepwater units, six jack-up rigs and three tender rigs. This year, we will take delivery of the harsh environment jack-up rig West Elara at the end of June and the semi-submersible rigs West Leo and West Capricorn in December. The remaining units under construction are scheduled for delivery in the period from the fourth quarter 2012 to the third quarter 2013. The remaining payable yard installments total some US\$3.3 billion.

For further information about the newbuilding program, see Note 6 to the financial accounts.

### **Operations in associated companies**

#### *Varia Perdana Bhd.*

We have a 49 percent ownership in Varia Perdana Bhd, which owns and operates five self-erecting tender rigs. During the first quarter, the tender barge T3 worked for PTTEP in Thailand and T10 worked for Chevron in the Malaysia - Thailand Joint Development Area. The tender barge T6 completed work for Carigali Hess while the Teknik Berkas worked for Petronas Carigali and T9 worked for Exxon Mobil Exploration & Production Malaysia.

Varia Perdana contributed US\$12 million to our first quarter earnings compared to US\$5 million in the fourth quarter. Contribution from Varia Perdana is reported as part of investment in associated companies under other financial items.

#### *SapuraCrest Bhd.*

We have an ownership interest of 23.6 percent, or 301,132,020 shares, in the Malaysian oil service provider, SapuraCrest Bhd that is listed on the Malaysian Stock Exchange. Among other things, SapuraCrest owns 51 percent of Varia Perdana Bhd and has a strong foothold in the deepwater construction market in the Asia Pacific region. SapuraCrest is currently establishing a foothold in the Brazilian offshore construction market with some assistance from Seadrill. Our holding in SapuraCrest has a gross value of some US\$373 million based on the closing share price on May 26, 2011, compared to a book value of US\$93 million. The market conditions for the company's business remain attractive and it contributed US\$7 million to our performance in the first quarter up from US\$5 million in the fourth quarter. Contribution from SapuraCrest is reported as part of investment in associated companies under other financial items.

### **Other investments in offshore drilling companies**

#### *Pride International Inc.*

Seadrill has 9.3 percent ownership interest in the New York Stock Exchange listed offshore drilling company Pride International Inc. ("Pride"). The holding is comprised of direct ownership of 200,000 shares and forward contracts for 16,300,000 shares at an average strike price per share of US\$33.1. In February this year, Ensco plc ("Ensco") and Pride announced a merger agreement subject to shareholder approval of an offer from Ensco for all the outstanding shares in Pride. The offer constituted a settlement of US\$15.60 in cash and 0.4778 of new Ensco shares for each share in Pride. Ensco and Pride will hold extra shareholder meetings on May 31, 2011 to vote on the proposed merger agreement described in their joint proxy statement/prospectus of April 26, 2011. It is Seadrill's intention to vote in favor of the proposed merger. Our exposure based on a Pride closing share price on May 26, 2011 of US\$41.60 totals US\$686 million, as compared to a book value of US\$708 million at the end of the first quarter, which included an unrealized gain of US\$440 million.

Seadrill will as a result of the merger receive 7,883,700 shares in Ensco and US\$257 million in cash, of which US\$109 million will reduce the existing forward obligations. We have currently no intention of disposing of the position in the joint Pride / Ensco company. The combined company is likely to benefit from improved market conditions as well as an improved corporate structure.

### **New contracts and contract extensions**

Subsequent to the filing of our 2010 fourth quarter report, we have entered into the following new contracts and contract extensions:

Late February, two five-year contracts were agreed with Chevron for two tender rigs T-15 and T-16, which are currently under construction at COSCO Shipyard in China. Upon completion of the construction, the rigs will start operations in Thailand. The agreed daily rate is US\$115,000 for each rig.

In March, a five-year contract was agreed with ConocoPhillips for the new harsh environment jack-up rig West Linus that is currently under construction at the Jurong Shipyard in Singapore. The agreed daily rate for the rig for operations offshore Norway is US\$362,000.

In April, Murphy awarded an 18-month contract to our semi-tender rig West Menang for operations offshore Malaysia. The agreed daily rate is US\$160,000 and the commencement of operations is scheduled for July following completion of an ongoing yard-stay outfitting the rig with customer specific equipment in preparation for assignment.

Further, in April, BHP Billiton awarded us two jack-up rig contracts, one for Offshore Vigilant in Trinidad and one for Offshore Resolute in Vietnam. The expected duration for the three well drilling assignment for Offshore Vigilant is 150 days and the agreed dayrate is US\$132,500. The two well drilling assignment for Offshore Resolute is expected to take 90 days and the agreed dayrate is US\$127,500.

Also in April, we confirmed a five-year assignment for the semi-submersible rig West Pegasus with PEMEX for operations in the Gulf of Mexico. The agreed daily rate for the first two years of the contract is US\$465,000. For the remaining three years, the daily rate will be adjusted annually to reflect the prevailing market dayrates for drilling units with similar technical capabilities.

In May, our harsh environment semi-submersible rig West Alpha was awarded a two well assignment for Exxon for operations in Norway estimated to take some 210 days. The agreed rate for the assignment is US\$477,000 per day. In addition, the customer has option for further four wells at same terms and conditions.

A one-year extension has also been secured for the ultra-deepwater semi-submersible rig West Hercules with start-up in May 2012. The agreed daily rate is US\$490,000.

For more detailed information regarding dayrates and contract durations including escalation, currency adjustment or other minor changes to dayrates and duration profiles, see our fleet status report or news releases on the our web site [www.seadrill.com](http://www.seadrill.com).

### **Market development**

The outlook and fundamentals for the oil and gas industry continues to look attractive. Sound demand based on improved world economy coupled with political instability in certain oil producing regions has provided an environment for higher oil prices. As a result, we have seen and expect to see further increases in spending on exploration and development activities by our customers. For the offshore drilling business, this development has translated into growth in demand for high specification units that can offer superior technical capabilities, operational flexibility and reliability, in shallow water as well as deep and ultra-deep waters. These factors are expected to result in an increasingly tight market in the short to medium term and create an attractive contracting environment for the drilling units that we have available in this period.

#### *Ultra-deepwater floaters (>7,500 ft water)*

The pace of worldwide tendering and contracting for ultra-deepwater units has improved significantly this year. Not only have we seen an uptick in the number of new tenders issued in various regions, but available rig capacity has also been absorbed rapidly. Despite the adverse effects on rig demand following the tragic Macondo incident in the US Gulf of Mexico in April last year, the utilization rate in the ultra-deepwater market has remained close to 100%. While activity levels in the US Gulf of Mexico continue to be adversely impacted by the new requirements related to issuance of drilling permits, there is increasing clarity for oil and gas companies with respect to the application of new permitting requirements and compliance with enhanced regulations. This increased visibility has already led to a renewed interest in securing rig capacity for operations in the US Gulf of Mexico and we expect this positive demand development to trend upwards this year and forward for this region.

In addition to the improved sentiment in the Gulf of Mexico, new demand has surfaced in regions such as West Africa, Southeast Asia and in particular Brazil. As a result, the ultra-deepwater rig capacity available in 2011 has been rapidly shrinking. The market is close to a supply-demand balance and based on known current programs, market analysis suggests that the number of available rig years in 2011 could soon be down to less than two rig years and less than 10 rig years in 2012. We expect pricing in terms of dayrates to

become sensitive to any material incremental demand in the same period. This together with the continued focus on technically superior dynamically positioned deepwater units leads us to be optimistic regarding opportunities and achievable daily rates for our available rig capacity in 2011 and 2012. Longer term the continued increase in rigs under construction could to some extent reduce the upside potential of daily rates from late 2013 and in 2014. Since November last year, the number of new units ordered has risen to 31. Nevertheless, the recent two five-year fixtures for operations in the Gulf of Mexico with start-up in late 2013 sends a strong signal of the oil companies focus on new and modern equipment and the sound environment for ultra-deepwater field developments. There is a growing consensus that the number of drilling programs oil companies wish to commence before the end of 2012 exceeds the number of rigs that are available and technically capable of conducting such work.

#### *Premium jack-up rigs (>350 ft water)*

The market for premium jack-up rigs continues to show measured improvement. The number of inquiries and pace of tendering activity has improved quarter after quarter, and oil companies remain attracted to the safety and efficiency gains offered by the newer and higher specification units. New rigs have been preferred at the expense of older rigs even in situation where the drilling program does not absolutely require the increased technical capabilities of the newer equipment. Age restrictions are becoming a more common requirement in new tenders and the bifurcation in utilization and pricing between older jack-ups and newer premium jack-ups continues to become more entrenched.

Despite the addition of 40 new jack-ups to the market ordered since October last year, utilization in the premium jack-up market worldwide continues to stay above 90%. Southeast Asia continues to be the most significant market for premium jack-up rigs, but increased interest from customers in the Middle East, West Africa and the Americas as proven in the recent fixtures confirms the improvement in demand and bodes well for the development of the premium jack-up market in the longer term. In the North Sea, oil companies have increasingly shown a stronger interest in very large, high specification harsh environment jack-ups, which can meet drilling requirements and simultaneously host production equipment. This developing market has already resulted in a number of new rigs being ordered, some supported by long-term contracts but most ordered on speculation. We anticipate that further growth opportunities will arise in this market segment.

In addition, over the last year, market values have increased by more than 25% for existing modern high specification jack-up rigs something that illustrates the strong demand for and support the valuation of modern equipment.

#### *Tender rigs*

We continue to see strong interest from oil companies for the tender rig concept, which provides a versatile and cost effective alternative to a fixed or floating platform solution. As for the other rig classes, our customers are increasingly focused on utilizing the services of contractors who can provide quality equipment along with operational experience. These factors together with the benefits of newer drilling packages and lighter derrick equipment sets have already resulted in additions to our fleet, backed by attractive term contracts. In addition to the traditional tender rig markets, we continue to see growing interest in this concept from other regions and remain optimistic about the outlook for our existing fleet and the possibility for us to add further capacity to this attractive market segment, which lately has delivered the highest return on investment among our asset classes.

### **Corporate strategy, dividend and outlook**

Seadrill is one of the leading offshore drilling companies in the global oil and gas industry with presence in all the important offshore regions. We are the second largest owner and operator of ultra-deepwater units in the industry, the largest owner and operator of self-

erecting tender rigs and the largest owner and operator of modern premium jack-up rigs. Seadrill also has the most modern drilling fleet among the major rig operators.

#### *Growth and Investments*

The corporate ambition has been, since our incorporation in 2005, to build the leading offshore drilling contractor. The strategy has been to develop a fleet of new premium offshore drilling units through newbuild orders and targeted acquisitions of modern assets. In line with this strategy, we have invested significantly in new rigs with enhanced technical capability while the industry in general has been facing the challenges of an ageing rig fleet.

We have expressed an optimistic view on the outlook for our business for some time. Our optimism has been based on a belief of continued increase in demand for energy in the form of hydrocarbons, more challenging access to resources, and a need for technically more advanced drilling units. For ultra-deepwater assets, this trend is further supported by strong growth in development drilling after significant exploration success in several regions. Over the last few months, we have seen a significant increase in tenders and requests from our customers for new drilling rigs. The increase in demand is not only directed towards rigs suitable for exploration or development projects in ultra-deep waters but also towards premium jack-up rigs and tender rigs for shallow water assignments. In general, we have seen a tightening supply-demand balance developing in these markets. The prevailing oil prices, which are at historically attractive levels, are providing our customer with significant cash earnings, which is increasingly being re-directed into incremental exploration and production activities. The short-term development is further supported by oil companies' raising their expectations for oil prices future trading band.

When we reported our 2010 results in February this year, we had just recently completed the acquisition of two ultra-deepwater semi-submersible drilling rigs under construction in Singapore. The purchase was financed nearly 100 percent by debt at an all-in price per unit of US\$600 million. The first of those two rigs is at present in transit to Mexico to start operations under a five-year contract for PEMEX fixed at a daily rate of US\$465,000 for the first two years. The second rig, which is uncontracted, will be delivered from yard in December this year, at a point in time that seems very opportune due to the strong increase in rig demand and the limited supply available.

In April, the Board decided to exercise one of our two option agreements with Samsung for construction of a new ultra-deepwater drillship. The newly ordered dual-derrick drillship has an attractive payment schedule, US\$600 million all in project cost and delivery window in the third quarter 2013. At the same time, the exercise period for the other option agreement was extended. In February, we ordered two new tender rigs worth a total of US\$250 million against five-year contracts with Chevron for operations in Thailand. Furthermore, in March, we were able to order a second harsh environment jack-up rig from Jurong at a total project price of US\$530 million against a five-year contract with ConocoPhillips for operations in the North Sea. In April, we decided to order another tender rig at a price of US\$115 million in order to replace the retirement of the old tender rigs barge T8.

In total, we have committed US\$1.5 billion in new investments over the last three months in addition to US\$3.2 billion committed between October last year and January this year. As part of our newbuild order agreements, we have options to order a further nine units at pre-agreed prices, one drillship, seven jack-ups and one tender rig. These options provide us with significant flexibility to react to market developments or special customer requirements.

#### *Divestments*

We are frequently approached by brokers that present us with unsolicited sale and purchase opportunities for drilling rigs. This leads to a continuous evaluation of our fleet

composition in order to optimize our earnings potential and maximize the long-term return for our shareholders. This dynamic approach can from time to time lead to divestments and reallocation of capital. In April, we agreed to divest the new jack-up rig West Juno at an attractive price of US\$248.5 million. Through the sale of West Juno, we have been able to monetize some of the significant improvement in the sentiment in the jack-up rig market. Although we remain optimistic on the market outlook for premium jack-up rigs, we made a decision to relocate the proceeds to fund investment in other new units as mentioned above.

#### *Other Significant Investments*

We have various ownership interests in other listed offshore drilling and oil service companies. The current portfolio includes among others a 36.5% holding in Archer Limited, a 23.6% holding in SapuraCrest Bhd and a 9.3% holding in Pride International Inc. In February, Pride and Ensco announced their intentions to merger. The proposed merger will be voted on in extra ordinary shareholder meetings on May 31, 2011. Seadrill has decided to support the merger and intends to vote in favor of it at Pride's shareholder meeting.

The Board is of the opinion that these investments add significant financial flexibility as well as strategic value to our company. A sale of these holdings at prevailing shares price could free up more than US\$1.2 billion in cash. The Board evaluates the strategic and financial prospects for these holdings on a continuous basis.

Seadrill has declared the repurchase option to acquire the jack-up rig West Prospero from Ship Finance International Inc, or Ship Finance. This is expected to reduce the financing cost of the unit with more than US\$3 million per year going forward. Seadrill has also entered into discussions with Ship Finance and the lending banks with the target of reducing the financing cost associated to the three ultra-deepwater rigs that are presently part of sale and leaseback arrangements with Ship Finance. Seadrill has an option to acquire the first rig through a repurchase option in the fourth quarter this year.

#### *Financial flexibility*

Our financial flexibility has increased significantly over the last months. The closing of the North Atlantic transaction freed up approximately US\$700 million in cash on the parent company level. As part of the transaction, Seadrill also became holder of US\$500 million worth of North Atlantic bonds yielding 7.75% interest, bonds that can be resold in the secondary market if and when necessary. Furthermore, in May, we retired US\$749 million of convertible debt, of which the vast majority was converted into equity. In connection with the North Atlantic transaction, a refinancing of the bank debt related to the associated assets was also completed. The refinancing included an upsizing of the outstanding loan amount as well as increased term reducing the future financing risk profile. In general, the cash flow from our operations has been increasing as new units have been added to our operating fleet. If we look at our existing fleet as well as units under construction, we still own a significant number of rigs that has not been pledged as securities for loans. At present, that number of rigs is 19 of which 13 are newbuilds. These units are estimated to have an aggregated market value of some US\$5.5 billion compared to remaining yard installments related to the committed newbuild program of US\$3.1 billion.

#### *Quarterly Cash Dividend*

The Board has decided to increase the long-term quarterly dividend to US\$0.70 based on improved market outlook for high quality drilling units and strong earnings visibility. In addition, the Board has decided to pay out an additional US\$0.20 per share during the next four quarters, payable by US\$0.05 per quarter. This top-up dividend reflects the present strong cash flow and could if the current market sentiment continues or improves further also be payable for the coming years. Total dividend for the next quarters is thereby likely to be minimum US\$0.75 per share. The ex. dividend date has been set at

June 6, 2011. Record date is June 8, 2011 and payment date is on or about June 17, 2011.

*New customers and areas of operations*

We are pleased to have been given the opportunity to develop a relationship with two new major customers. We recently started our first operation for BHP Billiton in Vietnam and we are lined up to start-up a second rig for the same operator in Trinidad in the not too distant future. Furthermore, we have an ultra-deepwater rig en route to Mexico to start our first operation for PEMEX. This opens up the opportunity to establish a long-term relationships based on quality operations that pave the way for repetitive contracts.

*Near term prospects*

Our ambition is to deliver the highest overall shareholder return in our industry through a strong blend of dedicated and targeted focus on operational management as well as financial management.

On the operational side, we continue to improve the performance and predictability of our operations. There have been various issues related to the blow out preventers for our floater fleet that has hampered our performance. This is an industry challenge, but we see that our focus on these challenges internally and our efforts in mitigating the associated operational risk are starting to pay off. In April and so far in May, we have had the following utilization rates for our rigs in operations; above 98 percent for the floaters, 96 percent for the jack-up rigs and 99 percent for the tender rigs. The Board wants to give credit to the Seadrill organization for improved operational performance as well as an improved and very solid health, safety and environment (HSE) record, and is in particular pleased to see that the increased efficiency of the operations in Brazil both in regards to utilization rates and operating costs.

Over the last three months, we have secured US\$1.3 billion of new contracts at leading dayrates. The recent spike in fixtures in all our market segments and for all our asset classes are tightening the market balance and paving the way for a further increased in dayrate levels. We are of the opinion that our unique composition of modern high quality assets provides us with the opportunity to benefit significantly from the strength of the up-cycle that we see unfolding. We have two new ultra-deepwater units that are available for contracts at the end of the year. We believe that these rigs are well positioned for contracts at increasingly favorable terms enhancing our earnings potential in 2012. Similarly, we have a number of jack-ups and tender rigs that will roll off contracts this year and next year that are likely to contribute positively to our earnings performance.

As mentioned in our last reports, our ambition is to grow our annual EBITDA to US\$3 billion. Our recent acquisitions, newbuild orders, contract signings and market development are taking us closer to that goal. The Board continues to be of the opinion that with the current underlying fundamentals this is a realistic target for the next two to three years. Further, we anticipate that daily rates for modern ultra-deepwater rigs and premium jack-up rigs will improve in the second part of the year pushed by an increasingly tight market for modern equipment.

The Board is excited about the prospects for our Company and the possibility to generate a strong return to our shareholders.

## **Forward Looking Statements**

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

Including among others, factors that, in Seadrill's view, could cause actual results to differ materially from the forward looking statements contained in this report are the following: (i) the competitive nature of the offshore drilling industry; (ii) oil and gas prices; (iii) technological developments; (iv) government regulations; (v) changes in economical conditions or political events; (vi) inability of Seadrill to obtain financing for the newbuilds or existing assets on favorable terms or at all; (vii) changes of the spending plan of our customers; (viii) changes in Seadrill's operating expenses including crew wages; (ix) insurance; (x) dry-docking; (xi) repairs and maintenance; (xii) failure of shipyards to comply with delivery schedules on a timely basis; (xiii) and other important factors mentioned from time to time in our reports filed with the United States Security Exchange Commission ("SEC") and the Oslo Stock Exchange.

May 27, 2011  
The Board of Directors  
Seadrill Limited  
Hamilton, Bermuda

Questions should be directed to Seadrill Management AS represented by:

|                    |                                   |
|--------------------|-----------------------------------|
| Alf C Thorkildsen: | Chief Executive Officer           |
| Esa Ikäheimonen:   | Chief Financial Officer           |
| Jim Daatland:      | Vice President Investor Relations |

Seadrill Limited

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*Seadrill Limited*

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
for the three month periods ended March 31, 2011 and 2010

(In millions of US\$)

|  | <b>Three month period ended<br/>March 31,</b> |      |
|--|---|------|
|  | <b>2011</b>                                   | 2010 |
| <b>Operating revenues</b>                                      |   |      |
| Contract revenues  | <b>1 081</b>                                  | 810  |
| Reimbursables  | <b>26</b>                                     | 33   |
| Other revenues   | <b>3</b>                                      | 10   |
| <b>Total operating revenues</b>                                | <b>1 110</b>                                  | 853  |
| <b>Operating expenses</b>                                      |   |      |
| Vessel and rig operating expenses                              | <b>460</b>                                    | 351  |
| Reimbursable expenses  | <b>25</b>                                     | 31   |
| Depreciation and amortization                                  | <b>143</b>                                    | 102  |
| General and administrative expenses                            | <b>52</b>                                     | 37   |
| <b>Total operating expenses</b>                                | <b>680</b>                                    | 521  |
| <b>Net operating income</b>                                    | <b>430</b>                                    | 332  |
| <b>Financial items</b>   |   |      |
| Interest income  | <b>6</b>                                      | 19   |
| Interest expenses  | <b>(77)</b>                                   | (48) |
| Share in results from associated companies                     | <b>19</b>                                     | 18   |
| Gain/ (loss) on derivative financial instruments               | <b>41</b>                                     | (77) |
| Foreign exchange (loss)  | <b>(23)</b>                                   | 1    |
| Gain on loss of control in subsidiary                          | <b>477</b>                                    | -    |
| Other financial items  | <b>(2)</b>                                    | 1    |
| <b>Total financial items</b>                                   | <b>441</b>                                    | (86) |
| <b>Income before income taxes</b>                              | <b>871</b>                                    | 246  |
| Income taxes   | <b>(48)</b>                                   | (29) |
| <b>Net income</b>  | <b>823</b>                                    | 217  |
| <b>Net income attributable to the parent</b>                   | <b>816</b>                                    | 196  |
| <b>Net income attributable to the non-controlling interest</b> | <b>7</b>                                      | 21   |
| <b>Basic earnings per share (US\$)</b>                         | <b>1.84</b>                                   | 0.49 |
| <b>Diluted earnings per share (US\$)</b>                       | <b>1.70</b>                                   | 0.47 |
| <b>Declared dividend per share (US\$)</b>                      | <b>0.75</b>                                   | 0.60 |

Seadrill Limited

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
for the three month period ended March 31, 2011 and 2010

(In millions of US\$)

|  | <b>Three month period ended<br/>March 31,</b> |      |
|--|---|------|
|  | <b>2011</b>                                   | 2010 |
| <b>Net income</b>  | <b>823</b>                                    | 217  |
| Other comprehensive income/ (loss), net of tax:                          |   |      |
| Change in unrealized gain/ (loss) on marketable securities               | 164   | (34) |
| Change in unrealized foreign exchange differences                        | 23  | (6)  |
| Change in unrealized gain/ (loss) on interest rate swaps in subsidiaries | 1   | (2)  |
| Change in unrealized gain/ (loss) on interest rate swaps in VIEs         | 7   | (8)  |
| <b>Other comprehensive income/ (loss):</b>                               | <b>195</b>                                    | (50) |
| <b>Total comprehensive income for the period</b>                         | <b>1,018</b>                                  | 167  |
| <b>Comprehensive income attributable to the parent</b>                   | <b>994</b>                                    | 155  |
| <b>Comprehensive income attributable to the non-controlling interest</b> | <b>24</b>                                     | 12   |

Accumulated other comprehensive income as per March 31, 2011 and December 31, 2010:

|  | <b>March 31,</b> | December 31, |
|--|------------------|--------------|
|  | <b>2011</b>      | 2010         |
| The total balance of accumulated other comprehensive income is made up as follows: |                  |              |
| Unrealized gain on marketable securities   | 456              | 292          |
| Unrealized gain on foreign exchange  | 109              | 96           |
| Actuarial gain relating to pension   | (15)             | (15)         |
| Unrealized gain/ (loss) on interest rate swaps in subsidiaries                     | 0                | (1)          |
| Unrealized gain/ (loss) on interest rate swaps in VIEs                             | (49)             | (49)         |
| <b>Accumulated other comprehensive income</b>                                      | <b>501</b>       | 323          |

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

The applicable amount of income taxes associated with each component of other comprehensive income is \$0 due to the fact that the items relate to companies domiciled in non-taxable jurisdictions. However for actuarial loss related to pension, the applicable amount of income taxes is US\$4.2 million as this item is related to companies domiciled in Norway where the tax rate is 28%.

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

Seadrill Limited  
 UNAUDITED CONSOLIDATED BALANCE SHEETS

(In millions of US\$)

| <b>ASSETS</b>  | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|--|-----------------------|--------------------------|
| <b>Current assets</b>  |                       |                          |
| Cash and cash equivalents  | 824                   | 755                      |
| Restricted cash  | 147                   | 155                      |
| Marketable securities  | 759                   | 598                      |
| Accounts receivables, net  | 440                   | 696                      |
| Amount due from related party  | 130                   | 140                      |
| Other current assets   | 465                   | 538                      |
| <b>Total current assets</b>  | <b>2,765</b>          | <b>2,883</b>             |
| <b>Non-current assets</b>  |                       |                          |
| Investment in associated companies   | 930                   | 205                      |
| Newbuildings   | 2,167                 | 1,247                    |
| Drilling units   | 10,912                | 10,795                   |
| Goodwill   | 1,320                 | 1,676                    |
| Other intangible assets  | 0                     | 57                       |
| Restricted cash  | 315                   | 305                      |
| Deferred tax assets  | 18                    | 30                       |
| Equipment  | 15                    | 158                      |
| Other non-current assets   | 131                   | 141                      |
| <b>Total non-current assets</b>  | <b>15,808</b>         | <b>14,614</b>            |
| <b>Total assets</b>  | <b>18,573</b>         | <b>17,497</b>            |
| <b>LIABILITIES, TEMPORARY NCI AND EQUITY</b>                                   |                       |                          |
| <b>Current liabilities</b>   |                       |                          |
| Current portion of long-term debt  | 987                   | 981                      |
| Trade accounts payable   | 65                    | 95                       |
| Other current liabilities  | 1,261                 | 1,439                    |
| <b>Total current liabilities</b>   | <b>2,312</b>          | <b>2,514</b>             |
| <b>Non-current liabilities</b>   |                       |                          |
| Long-term interest bearing debt  | 8,838                 | 8,176                    |
| Long-term debt to related party  | 435                   | 435                      |
| Deferred taxes   | 158                   | 181                      |
| Other non-current liabilities  | 198                   | 255                      |
| <b>Total non-current liabilities</b>   | <b>9,629</b>          | <b>9,046</b>             |
| <b>Commitments and contingencies</b>   | -                     | -                        |
| <b>Temporary Non-controlling interest</b>                                      | <b>425</b>            | -                        |
| <b>Equity</b>  |                       |                          |
| Common shares of par value US\$2.00 per share:                                 |                       |                          |
| 800,000,000 shares authorized  |                       |                          |
| 443,088,509 outstanding at March 31, 2011<br>(December, 31 2010: 443,125,691 ) | 886                   | 886                      |
| Additional paid in capital   | 1,206                 | 1,217                    |
| Contributed surplus  | 1,956                 | 1,956                    |
| Accumulated other comprehensive income   | 501                   | 323                      |
| Accumulated earnings   | 1,447                 | 1,016                    |
| Non-controlling interest   | 210                   | 539                      |
| <b>Total equity</b>  | <b>6,206</b>          | <b>5,937</b>             |
| <b>Total liabilities, temporary NCI and equity</b>                             | <b>18,573</b>         | <b>17,497</b>            |

**UNAUDITED CONSOLIDATED STATEMENT OF CASHFLOWS**  
for the three month period ended March 31, 2011 and 2010

(In millions of US\$)

|   | <b>Three month period ended</b> |             |
|---|---------------------------------|-------------|
|   | <b>March 31,</b>                |             |
|   | <b>2011</b>                     | <b>2010</b> |
| <b>Cash Flows from Operating Activities</b>                                       |                                 |             |
| <b>Net income/ (loss)</b>   | <b>823</b>                      | 217         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |             |
| Depreciation and amortization   | 143                             | 103         |
| Amortization of deferred loan charges   | 6                               | 7           |
| Amortization of unfavorable contracts   | (9)                             | (10)        |
| Amortization of favorable contracts   | 6                               | 0           |
| Amortization of mobilization revenue  | (23)                            | (5)         |
| Share of results from associated companies  | (19)                            | (18)        |
| Share-based compensation expense  | 3                               | 4           |
| Unrealized (gain)/ loss related to derivative financial instruments               | (17)                            | 30          |
| Dividend received from associated company   | 0                               | 21          |
| Deferred income tax expense   | (3)                             | 6           |
| Unrealized foreign exchange loss (gain) on long term interest bearing debt        | 11                              | (8)         |
| Non cash gain recognized related to loss of control                               | (477)                           | 0           |
| <b>Changes in operating assets and liabilities, net of effect of acquisitions</b> |                                 |             |
| Unrecognized mobilization fees received from customers                            | 5                               | 3           |
| Trade accounts receivable   | 96                              | 49          |
| Trade accounts payable  | (8)                             | (20)        |
| Prepaid expenses/accrued revenue  | (12)                            | (82)        |
| Other, net  | (16)                            | (84)        |
| <b>Net cash provided by operating activities</b>                                  | <b>509</b>                      | 213         |

**UNAUDITED CONSOLIDATED STATEMENT OF CASHFLOWS**  
for the 12 month periods ended March 31, 2010 and 2009

(In millions of US\$)

|  | <b>2011</b>    | <b>2010</b>  |
|--|----------------|--------------|
| <b>Cash Flows from Investing Activities</b>                              |                |              |
| Additions to newbuildings  | (1,150)        | (249)        |
| Additions to rigs and equipment  | (32)           | (31)         |
| Change in margin calls and other restricted cash                         | 5              | 48           |
| Proceed from repayment of short term loan to related parties             | 0              | 90           |
| Investment in subsidiaries, net of cash acquired                         | (26)           | 0            |
| Cash deconsolidated upon loss of control in subsidiary                   | (127)          | 0            |
| Short term loan granted to related parties                               | 0              | (50)         |
| <b>Net cash used in investing activities</b>                             | <b>(1,330)</b> | <b>(192)</b> |
| <b>Cash Flows from Financing Activities</b>                              |                |              |
| Proceeds from debt   | 1,499          | 324          |
| Repayments of debt   | (609)          | (163)        |
| Debt fees paid   | (4)            | 0            |
| Change in current liability related to share forward contracts           | 0              | (69)         |
| Contribution (to) / from non-controlling interests                       | (23)           | 0            |
| Contribution from non-controlling interests related to private placement | 425            | 0            |
| Proceeds from issuance of equity   | 0              | 1            |
| Purchase of treasury shares  | (26)           | (21)         |
| Proceeds from sale of treasury shares                                    | 6              | 0            |
| Dividends paid   | (385)          | (214)        |
| <b>Net cash provided by financing activities</b>                         | <b>883</b>     | <b>(142)</b> |
| Effect of exchange rate changes on cash and cash equivalents             | 7              | (1)          |
| <b>Net increase / (decrease) in cash and cash equivalents</b>            | <b>69</b>      | <b>(122)</b> |
| Cash and cash equivalents at beginning of the year                       | 755            | 460          |
| <b>Cash and cash equivalents at the end of period</b>                    | <b>824</b>     | <b>338</b>   |
| <b>Supplementary disclosure of cash flow information</b>                 |                |              |
| Interest paid  | (50)           | (49)         |
| Taxes paid   | (34)           | (15)         |

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

Seadrill Limited

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*for the three months ended March 31, 2011*

(In millions of US\$)

|  | <b>Share<br/>Capital</b> | <b>Additional<br/>paid-in<br/>capital</b> | <b>Contributed<br/>surplus</b> | <b>Accumulated<br/>OCI</b> | <b>Retained<br/>earnings</b> | <b>NCI</b> | <b>Total<br/>equity</b> |
|--|--------------------------|---|--------------------------------|----------------------------|------------------------------|------------|-------------------------|
| Balance at December 31, 2010                                       | 886                      | 1,217                                     | 1,956                          | 323                        | 1,016                        | 539        | <b>5,937</b>            |
| Sale of treasury shares  | 1                        | 5   |                                |                            |                              |            | <b>6</b>                |
| Purchase of treasury shares  | (2)                      | (24)                                      |                                |                            |                              |            | <b>(26)</b>             |
| Employee stock options issued                                      |                          | 3   |                                |                            |                              |            | <b>3</b>                |
| Unrealized gain/(loss) on marketable securities                    |                          |   |                                | 164                        |                              |            | <b>164</b>              |
| Foreign exchange differences                                       |                          |   |                                | 13                         |                              | 10         | <b>23</b>               |
| Change in unrealized (loss) on interest rate swaps in VIEs         |                          |   |                                |                            |                              | 7          | <b>7</b>                |
| Change in unrealized (loss) on interest rate swaps in subsidiaries |                          |   |                                | 1                          |                              |            | <b>1</b>                |
| Dividend payment   |                          |   |                                |                            | (385)                        |            | <b>(385)</b>            |
| Dividend paid to Non-controlling interests in VIE                  |                          |   |                                |                            |                              | (23)       | <b>(23)</b>             |
| Deconsolidation of subsidiary                                      |                          |   |                                |                            |                              | (330)      | <b>(330)</b>            |
| Induced conversion of convertible bonds                            | 1                        | 5   |                                |                            |                              |            | <b>6</b>                |
| Net income   |                          |   |                                |                            | 816                          | 7          | <b>823</b>              |
| <b>Balance at March 31, 2011</b>                                   | <b>886</b>               | <b>1,206</b>                              | <b>1,956</b>                   | <b>501</b>                 | <b>1,447</b>                 | <b>210</b> | <b>6,206</b>            |

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

## **Note 1- General information**

Seadrill Limited (“we”, “the Company”, or “our”) is a publicly listed company on the New York Stock Exchange and the Oslo Stock Exchange. We were incorporated in Bermuda in May 2005. Assisted by the acquisition of other companies and investment in newbuildings, we have developed into an international offshore drilling contractor providing services within drilling and well services, and at March 31, 2011 we owned and operated 54 offshore drilling units, including 14 units under construction. Our versatile fleet consists of drillships, jack-up rigs, semi-submersible rigs and tender rigs for operations in shallow and deepwater areas, as well as benign and harsh environments.

In addition to owning and operating offshore mobile drilling units and tender rigs, we provide platform drilling, well intervention and engineering services through the separately Oslo Stock Exchange listed subsidiary company Seawell Limited, now renamed Archer Ltd (“Archer”), a Bermuda company in which we owned 36.4% at March 31, 2011. In February 2011, we reduced our ownership in Archer from 52.3 percent. As a consequence of this, Archer will no longer be fully consolidated into our financial statements, but will instead be classified as an investment in an associated company.

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

### **Basis of presentation**

The unaudited interim consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP) for interim financial information. The unaudited interim consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These interim financial statements should be read in conjunction with our financial statements as at December 31, 2010. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

### **Significant accounting policies**

The accounting policies adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2010.

## Note 2– Segment information

### *Operating segments*

We provide offshore drilling services to the oil and gas industry. Our business has been organized into segments based on differences in management structure and reporting, economic characteristics, customer base, asset class and contract structure.

We have in 2010 and 2011 significantly expanded our fleet of drilling rigs through acquisitions of new rigs and newbuilding orders. In response to this development and the deconsolidation of Archer, management has reviewed our internal reporting structure including the operating and reporting business segments. This review has resulted in a change in our reporting segments with effect from January 1, 2011.

We currently operate in the following three segments:

**Floaters:** We offer services encompassing drilling, completion and maintenance of offshore exploration and production wells. The drilling contracts relate to semi-submersible rigs and drillships for harsh and benign environments in mid-, deep- and ultra-deep waters.

**Jack-up rigs:** We offer services encompassing drilling, completion and maintenance of offshore exploration and production wells. The drilling contracts relate to jack-up rigs for operations in harsh and benign environment.

**Tender Rigs:** We offer services encompassing drilling, completion and maintenance of offshore production wells in Southeast Asia, West Africa and the Americas. The drilling contracts relate to self-erecting tender rigs and semi-submersible tender rigs.

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

### *Total operating revenues (excluding gain on sale of drilling units)*

(In millions of US\$ )

|                 | Three months ended |            |
|-----------------|--------------------|------------|
|                 | March 31,          |            |
|                 | 2011               | 2010       |
| Floaters        | 624                | 493        |
| Jack-up rigs    | 203                | 89         |
| Tender Rigs     | 126                | 89         |
| Well Services * | 128                | 139        |
| <b>Total</b>    | <b>1,081</b>       | <b>810</b> |

\* Represents the activity up to the time of deconsolidation in February 2011, refer note 15

### ***Depreciation and amortization***

| <i>(In millions of US\$ )</i> | <b>Three months ended</b> |             |
|-------------------------------|---------------------------|-------------|
|                               | <b>March 31,</b>          |             |
|                               | <b>2011</b>               | <b>2010</b> |
| Floaters                      | 89                        | 68          |
| Jack-up rigs                  | 34                        | 17          |
| Tender Rigs                   | 13                        | 11          |
| Well Services*                | 7                         | 6           |
| <b>Total</b>                  | <b>143</b>                | <b>102</b>  |

\* Represents the activity up to the time of deconsolidation in February 2011, refer note 15

### ***Operating income - net income***

| <i>(In millions of US\$ )</i> | <b>Three months ended</b> |             |
|-------------------------------|---------------------------|-------------|
|                               | <b>March 31,</b>          |             |
|                               | <b>2011</b>               | <b>2010</b> |
| Floaters                      | 312                       | 253         |
| Jack-up rigs                  | 64                        | 32          |
| Tender Rigs                   | 49                        | 35          |
| Well Services*                | 5                         | 12          |
| Operating income              | 430                       | 332         |
| <i>Unallocated items:</i>     |                           |             |
| Total financial items         | 441                       | (86)        |
| Income taxes                  | (48)                      | (29)        |
| <b>Net income</b>             | <b>823</b>                | <b>217</b>  |

\* Represents the activity up to the time of deconsolidation in February 2011, refer note 15

### ***Total Assets***

| <i>(In millions of US\$ )</i> | <b>March 31,</b> | <b>December 31,</b> |
|-------------------------------|------------------|---------------------|
|                               | <b>2011</b>      | <b>2010</b>         |
| Floaters                      | 13,503           | 11,831              |
| Jack-up rigs                  | 3,147            | 3,531               |
| Tender Rigs                   | 1,923            | 1,148               |
| Well Services*                | -                | 987                 |
| <b>Total</b>                  | <b>18,573</b>    | <b>17,497</b>       |

\* Deconsolidated as of March 31, 2011, refer note 15

### Note 3 – Earnings per share

The computation of basic earnings per share (“EPS”) is based on the weighted average number of shares outstanding during the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments.

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

| <i>(In millions of US \$)</i>                                 | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2011</b>               | <b>2010</b> |
| Net income available to stockholders                          | 816                       | 196         |
| Effect of dilution, related to interests on convertible bonds | 15                        | 19          |
| Diluted net income available to stockholders                  | 831                       | 215         |

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

| <i>(Numbers in million)</i>                          | <b>Three months ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2011</b>               | <b>2010</b> |
| <i>Basic earnings per share:</i>                     |                           |             |
| Weighted average number of common shares outstanding | 443                       | 399         |
| <i>Diluted earnings per share:</i>                   |                           |             |
| Weighted average number of common shares outstanding | 443                       | 399         |
| Effect of dilutive share options                     | 2                         | 2           |
| Effect of dilutive convertible bonds                 | 44                        | 53          |
| Diluted number of shares                             | 489                       | 454         |

### Note 4 – Marketable securities

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

Marketable securities held by us consist of approximately 9.4% of the issued shares of Pride International Inc. (“Pride”), 9.3% of the issued shares of Seahawk Drilling Inc. (“Seahawk”), 80.2% of the partially redeemed Petromena NOK2,000 million bond (“Petromena”) and 3.3% of Golden Close Maritime bond (“Golden Close”). Marketable securities and changes in their carrying value are as follows:

| <i>(In millions of US \$)</i>                   | <b>Pride</b> | <b>Seahawk</b> | <b>Petromena</b> | <b>Golden Close</b> | <b>Total</b> |
|---|--------------|----------------|------------------|---------------------|--------------|
| Net book value at December 31, 2010             | 544          | 10             | 29               | 15                  | 598          |
| Realization                                     | -            | -              | -                | -                   | -            |
| Purchase  | -            | -              | -                | -                   | -            |
| Impairment charge                               | -            | (3)            | -                | -                   | (3)          |
| <u>Mark to market changes at March 31, 2011</u> | <u>164</u>   | <u>-</u>       | <u>-</u>         | <u>-</u>            | <u>164</u>   |
| Net book value at March 31, 2011                | 708          | 7              | 29               | 15                  | 759          |

As of March 31, 2011, we determined that the decline in fair value of the Seahawk investment was other than temporary based preliminary upon its evaluation of the severity of the excess of its cost basis over the market price of the security and prospects for recovery within 2011. As a result of this evaluation we recognized an impairment charge so that its adjusted cost basis as of March 31, 2011 is equal to the market price of the securities. A loss of US\$3 million has been classified as other financial items.

On February 7, 2011, Ensco plc ("Ensco") (NYSE: ESV) and Pride (NYSE: PDE) jointly announced that they have entered into a definitive merger agreement under which Ensco will combine with Pride in a cash and stock transaction valued at \$41.60 per share based on Ensco's closing share price on February 4, 2011. The implied offer price represents a premium of 21% to Pride's closing share price as of the same date and a premium of 25% to the one month volume weighted average closing price of Pride. The definitive merger agreement has unanimously been approved by each company's board of directors. Under the terms of the merger agreement, Pride stockholders will receive 0.4778 newly-issued shares of Ensco plus \$15.60 in cash for each share of Pride common stock. Upon closing, and reflecting the issuance of new Ensco shares, Pride stockholders collectively will own approximately 38% of Ensco's outstanding shares. The transaction is subject to approval by the shareholders of Ensco and Pride, as well as other customary closing conditions. The transaction is not subject to any financing condition. Ensco and Pride will hold special shareholder meetings on May 31, 2011 to vote on the proposed merger agreement.

#### **Note 5 – Gain/ (loss) on derivative financial instruments**

##### *Total Return Swaps (TRS):*

We settled 750,000 of the underlying shares in the TRS agreement with 2,750,000 Seadrill Limited shares as underlying security on January 3, 2011. On February 2, 2011 we settled the remaining part of 2,000,000 underlying shares. Subsequently we entered into a new TRS agreement with 2,000,000 Seadrill Limited shares as underlying security, with a reference price of NOK 202.726 per share and expiry on May 2, 2011.

The total realized and unrealized gain related to the two mentioned TRS agreements amounted to US\$4 million for the three months ended March 31, 2011 and is recognized in the statement of operations as gain/(loss) on derivative financial instruments.

##### *Interest-rate swap agreements and forward exchange contracts:*

Total realized and unrealized gain on interest-rate swap agreements, not qualified for hedge accounting, and forward exchange contracts amounted to US\$25 million for the three months ended March 31, 2011. The gain is recognized in the statement of operations as gain on derivative financial instruments.

*Other derivatives:*

Total realized gain on other derivative instruments amounted to US\$12 million for the three months ended March 31, 2011.

**Note 6 – Newbuildings**

*(In millions of US\$ )*

|                                      |       |
|--------------------------------------|-------|
| Opening balance at December 31, 2010 | 1,247 |
| Additions                            | 1,150 |
| Re-classified as drilling units      | (230) |
| Closing balance at March 31, 2011    | 2,167 |

In 2011, additions to newbuildings are principally related to the acquisition of West Pegasus and West Leo in addition to yard installments, but also include interest expenses and loan-related costs amounting to US\$14 million.

Newbuildings as at March 31, 2011, are as follows:

| Drilling unit                | Yard    | Delivery date | Estimated total project price<br>US\$millions | Book Value as of<br>March 31, 2011<br>US\$millions |
|------------------------------|---------|---------------|---|--|
| <i>Jack-up rigs</i>          |         |               |   |  |
| <i>West Elara</i>            | Jurong  | 2Q 2011       | 356   | 127  |
| <i>West Telesto</i>          | Dalian  | 4Q 2012       | 190   | 18   |
| <i>West Tucana</i>           | Jurong  | 4Q 2012       | 200   | 36   |
| <i>West Castor</i>           | Jurong  | 1Q 2013       | 200   | 36   |
| <i>West Oberon</i>           | Dalian  | 1Q 2013       | 190   | 18   |
| <i>West Linus</i>            | Jurong  | 3Q 2013       | 530   | 90   |
| <i>Tender rigs</i>           |         |               |   |  |
| <i>West Jaya</i>             | Keppel  | 1Q 2011       | 210   | 212  |
| <i>T-15</i>                  | Nantong | 4Q 2012       | 113   | 13   |
| <i>T-16</i>                  | Nantong | 1Q 2013       | 113   | 13   |
| <i>Semi-submersible rigs</i> |         |               |   |  |
| <i>West Capricorn</i>        | Jurong  | 4Q 2011       | 640   | 374  |
| <i>West Pegasus</i>          | Jurong  | 1Q 2011       | 550   | 526  |
| <i>West Leo</i>              | Jurong  | 4Q 2011       | 650   | 438  |
| <i>Drillships</i>            |         |               |   |  |
| <i>West Auriga</i>           | Samsung | 1Q 2013       | 600   | 133  |
| <i>West Vela</i>             | Samsung | 2Q 2013       | 600   | 133  |
|                              |         |               | <u>5,142</u>                                  | <u>2,167</u>                                       |

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

**Note 7 – Drilling units**

| <i>(In millions of US\$)</i> | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------|---------------------------|------------------------------|
| Cost                         | 12,176                    | 11,927                       |
| Accumulated depreciation     | (1,264)                   | (1,132)                      |
| Net book value               | 10,912                    | 10,795                       |

Depreciation and amortization expense was US\$132 million and US\$94 million for the three months ended March 31, 2011 and 2010, respectively.

**Note 8– Equipment**

Equipment consists of office equipment, furniture and fittings.

| <i>(In millions of US \$)</i> | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-------------------------------|---------------------------|------------------------------|
| Cost                          | 25                        | 279                          |
| Accumulated depreciation      | (10)                      | (121)                        |
| Net book value                | 15                        | 158                          |

Depreciation and amortization expense was US\$11 million and US\$9 million for the three months ended March 31, 2011 and 2010, respectively.

**Note 9 – Goodwill**

In the three months period ended March 31, 2011 there was no impairment losses. Goodwill balance and changes in the carrying amount of goodwill are as follows:

| <i>(In millions of US \$)</i>                                  | <b>Period ended<br/>March 31, 2011</b> | <b>Year ended<br/>December 31, 2010</b> |
|--|--|---|
| Net book balance at beginning of period                        | 1,676                                  | 1,596                                   |
| Goodwill acquired during the period                            | -                                      | 85                                      |
| Goodwill derecognized related to loss of control in subsidiary | (356)                                  | -                                       |
| Impairment losses  | -                                      | -                                       |
| Currency adjustments   | -                                      | (5)                                     |
| Net book balance at end of period                              | 1,320                                  | 1,676                                   |

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

| <i>(In millions of US \$)</i>  | March 31,<br>2011 | December<br>31, 2010 |
|--|-------------------|----------------------|
| Credit facilities:   |                   |                      |
| US\$1,500 facility   | 1,028             | 1,060                |
| US\$800 facility   | 613               | 636                  |
| US\$585 facility   | 374               | 387                  |
| US\$100 facility   | 79                | 80                   |
| US\$1,500 facility   | 1,191             | 1,027                |
| US\$1,200 facility   | 1,100             | 1,133                |
| US\$700 facility   | 682               | 700                  |
| \$550 million secured multi currency credit facility (Archer)        | -                 | 189                  |
| NOK other loans and leasings (Archer)                                | -                 | 5                    |
| US\$1,121 facility   | 859               | 0                    |
| <b>Total Bank Loans + other</b>                                      | <b>5,926</b>      | <b>5,217</b>         |
| Debt recorded in consolidated VIE's:                                 |                   |                      |
| US\$170 facility   | 99                | 101                  |
| US\$700 facility   | 527               | 546                  |
| US\$1,400 facility   | 1,059             | 1,099                |
| <b>Total Ship Finance Facilities</b>                                 | <b>1,685</b>      | <b>1,746</b>         |
| Bonds and convertible bonds:   |                   |                      |
| Bonds  | 562               | 552                  |
| Convertible bonds  | 1,285             | 1,287                |
| <b>Total bonds</b>   | <b>1,847</b>      | <b>1,839</b>         |
| Other credit facilities with corresponding restricted cash deposits: | 367               | 355                  |
| <b>Total interest bearing debt</b>                                   | <b>9,825</b>      | <b>9,157</b>         |
| <i>Less: current portion</i>   | <i>(987)</i>      | <i>(981)</i>         |
| <b>Long-term portion of interest bearing debt</b>                    | <b>8,838</b>      | <b>8,176</b>         |

The outstanding debt as of March 31, 2011 is repayable as follows:

| <i>(In millions of US \$)</i>              |              |
|--|--------------|
| <b>Year ending December 31</b>             |              |
| 2011                                       | 766          |
| 2012                                       | 1,975        |
| 2013                                       | 2,417        |
| 2014                                       | 1,983        |
| 2015 and thereafter                        | 2,799        |
| Effect of amortization of convertible bond | (115)        |
| <b>Total debt</b>                          | <b>9,825</b> |

In January 2011 a US\$1.10 billion secured credit facility was entered into to fund the acquisition of the two ultra-deepwater semi-submersible drilling rigs West Pegasus and West Leo. These two units were pledged as security for the facility which bears interest at LIBOR plus a margin and is repayable over a term of seven years. At maturity a balloon payment of \$498 million is due.

*Convertible bonds:*

In October 2010 we issued at par US\$650 million of senior unsecured convertible bonds. Interest on the bonds is fixed at 3.375%, payable semi-annually in arrears. The bonds are convertible into Seadrill Limited common shares at any time up to ten banking days prior to October 27, 2017. The conversion price at the time of issuance was US\$38.9172 per share, representing a 30% premium to the share price at the time. Since then, dividend distributions have reduced the conversion price to US\$37.29. The conversion price does not reflect the resolved dividend announced in connection with this quarterly report. For accounting purposes US\$121 million was allocated to the bond equity component and US\$529 million to the bond liability component at the time of issuance. This is due to the cash settlement option stipulated in the bond agreement. Unless previously redeemed, converted or purchased and cancelled, the bonds mature in October 2017.

On December 16th 2010, we announced a conversion incentive period for holders of up to US\$250 million of its US\$1 billion principal amount convertible bond due 2012. We accepted for early conversion of US\$250 million in principal amount (being the "maximum conversion amount"). The remaining US\$750 million convertible bond has an annual coupon of 3.625 percent payable semi annually and a conversion price of US\$27.8 per share. The conversion price does not reflect the resolved dividend announced in connection with this quarterly report. Refer also note 17 "subsequent events" related to this convertible bond.

*Covenants- Credit facilities:*

We have various covenants relating to its credit facilities. These mainly consist of minimum liquidity requirements, interest coverage ratio, current ratio, equity ratio and leverage ratio - see Annual Report 2010.

**Note 11 – Share capital**

| <i>All shares are common shares of US\$2.00 par value each</i> | March 31, 2011 |               | December 31, 2010 |               |
|--|----------------|---------------|-------------------|---------------|
|  | Shares         | US\$ millions | Shares            | US\$ millions |
| Authorized share capital                                       | 800,000,000    | 1,600.0       | 800,000,000       | 1,600.0       |
| Issued and fully paid share capital                            | 443,308,487    | 887           | 443,308,487       | 887           |
| Treasury shares held by Company                                | (219,978)      | (1)           | (182,796)         | (1)           |
| Shares issued and outstanding                                  | 443,088,509    | 886           | 443,125,691       | 886           |

## Note 12 – Related party transactions

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

In the three month period ended March 31, 2011, we incurred the following lease costs on units leased back from Ship Finance subsidiaries:

| <b>Rig</b>    |           |
|---------------|-----------|
| West Prospero | 4         |
| West Polaris  | 31        |
| West Hercules | 31        |
| West Taurus   | 28        |
| <b>Total</b>  | <b>94</b> |

On July 1, 2010, the VIE companies SFL Deepwater and SFL Polaris declared and paid a dividend of US\$290 million and US\$145 million respectively to Ship Finance International Limited (SFIL). SFIL simultaneously granted loans to SFL Deepwater and SFL Polaris of the same amounts with an interest rate of 4.5%. These loans are presented as long term debt to related parties in our balance sheet as of March 31, 2011.

### Note 13 – Fair value of financial instruments

The fair values of our financial instruments are measured on a recurring basis. The fair values, their basis of measurement and the balance sheet carrying values at March 31, 2011, are as follows:

|  | Fair value | Fair value measurements at reporting date using      |                                     |                                 | Carrying value |
|--|------------|--|-------------------------------------|---------------------------------|----------------|
|  |            | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |                |
|  |            |  |                                     |                                 |                |
| <i>(In millions of US \$)</i>                      |            |  |                                     |                                 |                |
| <b>Assets:</b>                                     |            |  |                                     |                                 |                |
| Marketable securities                              | <b>759</b> | 715  |                                     | 44                              | <b>759</b>     |
| Currency forward contracts – short term receivable | <b>21</b>  |  | 21                                  |                                 | <b>21</b>      |
| TRS equity swap contracts                          | <b>1</b>   |  | 1                                   |                                 | <b>1</b>       |
| <b>Total assets</b>                                | <b>781</b> | 715  | 22                                  | 44                              | <b>781</b>     |
| <b>Liabilities:</b>                                |            |  |                                     |                                 |                |
| Interest rate swap contracts – short term payables | <b>119</b> |  | 119                                 |                                 | <b>119</b>     |
| <b>Total liabilities</b>                           | <b>119</b> |  | 119                                 |                                 | <b>119</b>     |

Roll forward of fair value measurements using unobservable inputs (Level 3):

| <i>(In millions of US \$)</i>     |    |
|-----------------------------------|----|
| Beginning balance January 1, 2011 | 44 |
| Movements                         | -  |
| Ending balance March 31, 2011     | 44 |

ASC Topic 820 *Fair Value Measurement and Disclosures* (formerly FAS 157) emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level three of the hierarchy). Level one input utilizes unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Level two inputs are inputs other than quoted prices included in level one that are observable for the asset or liability, either directly or indirectly. Level two inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level three inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is

based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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

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

The fair values of interest rate swaps and forward exchange contracts are calculated using well-established independent valuation techniques applied to contracted cash flows and LIBOR and NIBOR interest rates as at March 31, 2010.

#### **Note 14 – Commitments and contingencies**

##### **Purchase Commitments**

At March 31, 2011, we had fourteen contractual commitments under newbuilding contracts. The contracts are for the construction of three semi-submersible rig, six jack-up rigs, two drillships and three tender rigs. The units are scheduled to be delivered in 2011, 2012 and 2013. As of March 31, we have paid US\$2,167 million to the construction yards including other payments on the newbuildings, and are committed to make further payments amounting US\$2,975 million. These amounts include contract variation orders, spares, accrued interest expenses, construction supervision, operation preparation and mobilization.

The maturity schedule for the remaining payments is as follows:

##### **Maturity schedule for remaining payments as of March 31, 2011**

*(In millions of US dollar)*

|              |              |
|--------------|--------------|
| 2011         | 729          |
| 2012         | 436          |
| 2013         | 1,810        |
| <b>Total</b> | <b>2,975</b> |

##### **Legal Proceedings:**

We are a party, as plaintiff or defendant, to several lawsuits in various jurisdictions for demurrage, damages, off-hire and other claims and commercial disputes arising from the operation of its drilling units, in the ordinary course of business or in connection with its acquisition activities. We believe that the resolution of such claims will not have a material adverse effect on our operations or financial condition. Our best estimate of the outcome of the various disputes has been reflected in our financial statements as of March 31, 2011.

### **Note 15 – Gain on loss of control in subsidiary**

On August 13, 2010 our previously held subsidiary Archer announced that their Boards of Directors had unanimously approved a definitive merger agreement providing for the acquisition of Allis-Chalmers by Seawell and that the name of the new company will be Archer.

On February 23, 2011, the stockholders in Allis-Chalmers also approved the merger agreement and a plan of merger involving Allis-Chalmers, Seawell and Wellco Sub Company, pursuant to which Allis-Chalmers will become a subsidiary of Seawell.

We currently hold 117,798,650 shares in Archer. Based on closing share price of NOK34.00 on February 23, 2011, this ownership has a gross value of some US\$711 million. As a consequence of the merger, our ownership interest in Archer was reduced from 52.3 percent to 36.5 percent. As a consequence of this we have concluded that our holding in Archer is neither quantitatively nor qualitatively material in respect of the ASC 810 consolidation determination, and as such Archer was deconsolidated as of February 23, 2011.

A change in control is considered a remeasurement event; therefore, upon losing control of Archer, we have remeasured at fair value any retained equity interest in the former subsidiary.

The gain recognized on a separate line item in our consolidated financial statements as of March 31, 2011 has been calculated as follows:

| <i>(In millions of US dollar)</i>                            |              |
|--|--------------|
| Fair value of the consideration received                     | 0            |
| Fair value of the retained non-controlling investment        | 711          |
| The carrying amount of non-controlling interest in Archer    | 330          |
| <u>The carrying amount of Archers assets and liabilities</u> | <u>(564)</u> |
| <u>Total gain</u>  | <u>477</u>   |

### **Note 16 – Temporary Non-controlling interests**

On February 16, 2011 it was announced that the private placement of shares in North Atlantic Drilling Company (“NADL”), was completed. The private placement consisted of 250,000,000 new ordinary shares of US\$1.00 par value at a subscription price of US\$1.70, raising US\$425 million in gross proceeds. In addition to this we have subscribed for 750,000,000 new shares in NADL at the same subscription price.

Related to the Private Placement, we had an obligation to repurchase the shares issued at the issue price of US\$1.70 during the period from the date of issue until the earliest of i) the 10th business day (Oslo time) after closing of the acquisition agreement and (ii) close of business Oslo time on May 13, 2011.

Due to the related put options, the proceeds of US\$425million are considered to be redeemable non-controlling interests as of March 31, 2010. As a consequence of this the amount of US\$425 million is presented outside equity in our balance sheet as temporary non-controlling interests. The amount of US\$425million will be re-classified to non-controlling interests included in the equity when the shares are no longer puttable to us. Refer also note 17 subsequent events on this matter.

### **Note 17 – Subsequent Events**

During the month of April, we have exercised two options, one to build a new ultra-deepwater dual derrick drillship at the Samsung yard in South Korea and the other to build a new tender barge at the COSCO Nantong Shipyard in China. Total project price for the first one is estimated at US\$600 million (includes project management, drilling and handling tools, spares, capitalized interest and operations preparations) and the delivery is scheduled for the third quarter 2013. The new tender rig unit, T17, is scheduled for delivery in the first quarter 2013, with a total project price estimated at US\$115 million, which includes project management, drilling and handling tools, spares and capitalized interest.

Also in April, we have entered into an agreement to sell the newly built jack-up drilling rig West Juno to an undisclosed buyer incorporated in UK for a total consideration of US\$248.5 million. Seadrill expects to record a gain on sale of approximately US\$18 million on closing. Closing of the agreement and the transfer of ownership of the unit is scheduled upon completion of the rig's present drilling assignment late second quarter or early third quarter 2011.

Reference is made to news release dated April 7, 2011 disclosing that we had exercised our right to redeem the remaining outstanding bonds of the 2012 convertible bond (ISIN NO 001 0395981). The remaining convertible bonds outstanding that was settle on May 10, 2011, totaled US\$749.4 million of which bondholders representing US\$721.2 million had requested conversion within the conversion date stipulated in the loan agreement. The other US\$28.2 million was redeemed at par. In connection with conversion of the bonds, we have issued 25,942,446 new shares at par value of US\$2.00 increasing the number of outstanding common shares to 469,250,933 shares.

In order to reduce the dilution effect of the conversion Seadrill has since April 18, 2011 repurchased 2,500,000 common shares at an average price of NOK183.6 per share, equivalent to an average price of US\$34.3 per share. Our current holding of treasury shares is 2,695,690 shares.

In April 2011, our subsidiary North Atlantic Drilling announced that it signed the US\$2.0 billion loan facility. The US\$2.0 billion loan facility has a six-year tenor, has interest rate of Libor plus margin and has a balloon instalment of US\$1.0 billion at maturity.

On April 15, 2011, we announced that the right for North Atlantic Drilling's shareholders to put their North Atlantic Drilling shares to Seadrill at the original issue price of US\$1.70 per share lapsed on April 14, 2011 at 16:30 (CET) without any shares being put back to Seadrill. As a consequence of this, the temporary non-controlling interest of US\$425 million will be re-classified to non-controlling interests included in the equity.