Seadrill Limited (SDRL) - Fourth quarter and preliminary 2012 results

Highlights

- Seadrill generates fourth quarter 2012 EBITDA*) of US$604 million
- Seadrill reports fourth quarter 2012 net income of US$50 million and earnings per share of US$0.04
- Seadrill prepaid US$0.85 per share in dividend for the fourth quarter 2012 in December 2012.
- Seadrill Partners LLC listed its common units on the NYSE raising US$207 million
- Seadrill secured a five-year commitment with Husky for the newbuild ultra-deepwater semi-submersible rig West Mira for operations offshore Canada, with an estimated total revenue potential of US$1.2 billion
- Seadrill secured a two-year extension for the jack-up West Epsilon with a total estimated revenue potential of US$215 million
- Seadrill added in total US$2.3 billion to the orderbacklog during the fourth quarter
- Seadrill increases ownership in Asia Offshore Drilling to 66.16 percent

Subsequent events

- Seadrill announces the signing of the sale and purchase agreement for the sale of 18 tender rigs to SapuraKencana Petroleum Bhd. for a total enterprise value of US$2.9 billion
- Seadrill secures a two-year extension for the ultra-deepwater semi-submersible rig West Leo with a total estimated revenue potential of US$430 million
- Seadrill completes the acquisition of the ultra-deepwater semi-submersible rig Songa Eclipse for a total consideration of US$590 million
- Seadrill orders two jack-ups for a total estimated project price of US$230 million per rig, with deliveries in the first and second quarter 2015
- Seadrill takes delivery of the newbuild tender rig T15
- Seadrill participates in a private placement in Archer Limited, maintaining its shareholding at 39.9 percent
- Seadrill participates in a private placement in Sevan Drilling ASA, increasing the ownership from 28.5 to 30.31 percent

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

Condensed consolidated income statements
Fourth quarter and preliminary 2012 results

Consolidated revenues for the fourth quarter of 2012 amounted to US$1,215 million compared to US$1,092 million in the third quarter 2012.

Operating profit for the quarter was US$441 million compared to US$413 million in the preceding quarter.

Net financial items for the quarter showed a loss of US$335 million compared to a loss of US$158 million in the previous quarter, mainly related to recording an impairment charge of US$221 million on our investment in Archer in the fourth quarter 2012. In addition, we recorded a gain of US$17 million on forwards and cross currency interest rate swap agreements during the quarter.

Income taxes for the fourth quarter were US$56 million, an increase of US$17 million in the previous quarter.

Net income for the quarter was US$50 million representing basic earnings per share of US$0.04.

The Company reports operating revenues of US$4,478 million, operating income of US$1,791 million and a net income of US$1,257 million for the year 2012. This compares to operating revenues of US$4,192 million, operating income of US$1,774 million and a net income of US$1,482 million for the year 2011.

Balance sheet
As of December 31, 2012, total assets amounted to US$19,633 million, an increase of US$154 million compared to September 30, 2012.

Total current assets increased from US$2,298 million to US$2,355 million over the course of the quarter primarily related to an increase in accounts receivable and marketable securities offset by a decrease in cash and cash equivalents.

Total non-current assets increased from US$17,181 million to US$17,278 million mainly due to payments for the yard installments for T-15 and West Mira.

Total current liabilities increased from US$2,896 million to US$3,561 million largely due to an increase in current portion of long-term debt.

Long-term interest bearing debt decreased from US$9,296 million to US$8,695 million over the course of the quarter and net interest bearing debt increased from $10,354 million to US$11,039 million.

Total equity decreased from US$6,567 million to US$6,077 million as of December 31, 2012. The decrease is mainly due to the paid dividend for the third quarter and the accelerated payment for the fourth quarter, offset by net income and the proceeds from the private placement in our subsidiary Seadrill Partners LLC in October 2012.

Cash flow
As of December 31, 2012, cash and cash equivalents amounted to US$318 million, which corresponds to a decrease of US$200 million compared to the previous quarter. Net cash from operating activities for the period was US$1,590 million whereas net cash used in investing activities for the same period amounted to US$1,360 million, primarily related to additions to newbuilds. Net cash used for financing activities was US$395 million mainly due to dividend payments and net proceeds from debt.

Outstanding shares
As of December 31, 2012, the issued common shares in Seadrill Limited totaled 469,178,074 adjusted for our holding of 72,859 treasury shares. In addition, we had stock options for 3.9 million shares outstanding under various share incentive programs for management, out of which approximately 1.2 million have vested and are exercisable.

Operations

Offshore drilling units

Seadrill had during the fourth quarter, 16 floaters, 16 jack-up rigs and 16 tender rigs in operation in Northern Europe, US Gulf of Mexico, Mexico, South Americas, West Africa, Middle East and Southeast Asia (including five tender rigs owned by Varia Perdana).

Our floaters (drillships and semi-submersible rigs) achieved an economic utilization rate of 86 percent in the fourth quarter compared to 82 percent in the third quarter. The economic utilization rate for the fourth quarter was impacted by BOP issues on several rigs. Additionally the West Hercules was in transit and at the yard in preparation for its upcoming assignment with Statoil, and the West Alpha had a yard stay.

For our jack-up rigs the average economic utilization was 94 percent in the fourth quarter compared to 83 percent in the preceding quarter. The improvement is mainly related to less rigs being in mobilization to new operating locations and improved operating performance for the fleet.

The tender rig fleet achieved an average economic utilization of 98 percent for the fourth quarter, in-line with the third quarter economic utilization of 98 percent.

Table 1.0 Contract status offshore drilling units

Unit	Current client	Area of location	Contract start	Contract expiry
Semi-submersible rigs				
West Alpha **	ExxonMobil	Norway	Aug 2012	Jul 2016
West Aquarius	ExxonMobil	In transit to Canada	Jan 2013	Jun 2015
West Capricorn	BP	USA	Jul 2012	Aug 2017
West Eclipse	Total	Angola	Jan 2013	Dec 2014
West Eminence	Petrobras	Brazil	Jul 2009	Jul 2015
West Hercules	Statoil	In transit to Norway	Feb 2013	Jan2017
West Leo	Tullow Oil	Ghana	Apr 2012	April 2018
West Mira (NB*)	Husky	South Korea – Hyundai Shipyard	Jun 2015	Jun 2020
West Orion	Petrobras	Brazil	Jul 2010	Jul 2016
West Pegasus	PEMEX	Mexico	Aug 2011	Aug 2016
West Phoenix **	Total	UK	Jan 2012	Jan 2015
West Rigel (NB*)**		Singapore – Jurong Shipyard		
West Sirius	BP	USA	Jul 2008	Jul 2019
West Taurus	Petrobras	Brazil	Feb 2009	Feb 2015
West Venture **	Statoil	Norway	Aug 2010	Jul 2015
Drillships				
West Capella	Total	Nigeria	Apr 2009	Apr 2017
West Gemini	Total	Angola	Sep 2010	Sep 2017
West Navigator **	Shell	Norway	Jan 2009	Jun 2014
West Polaris	ExxonMobil	Nigeria	Nov 2011	Jan 2018
West Auriga (NB*)	BP	South Korea – Samsung Shipyard	Jun 2013	Oct 2020
West Tellus (NB*)		South Korea – Samsung Shipyard		
West Vela (NB*)	BP	South Korea – Samsung Shipyard	Sep 2013	Jan 2021
West Neptune (NB*)		South Korea – Samsung Shipyard		
West Jupiter (NB*)		South Korea – Samsung Shipyard		
West Saturn (NB*)		South Korea – Samsung Shipyard		
West Carina (NB*)		South Korea – Samsung		

Unit	Current client	Area of location	Contract start	Contract expiry
		Shipyard		
HE Jack-up rigs				
West Elara **	Statoil	Norway	Mar 2012	Mar 2017
West Epsilon **	Statoil	Norway	Dec 2010	Dec 2016
West Linus (NB*) **	ConocoPhillips	Singapore – Jurong Shipyard	Apr 2014	Mar 2019
BE Jack-up rigs				
West Courageous	Shell/Hess	Malaysia	Jan 2012	Feb 2014
West Defender	Shell	Brunei	Aug 2012	May 2016
West Freedom	GDF Suez	Qatar	Dec 2012	Jul 2013
West Intrepid	KJO	Saudi Arabia / Kuwait	May 2009	Nov 2013
West Mischief	ENI	Republic of Congo	Dec 2012	Dec 2014
West Resolute	KJO	Saudi Arabia / Kuwait	Oct 2012	Oct 2015
West Vigilant	Talisman	Malaysia	Oct 2012	Oct 2013
West Ariel	Vietsovpetro	Vietnam	Jan 2012	Jul 2013
West Callisto	Saudi Aramco	Saudi Arabia	Nov 2012	Nov 2015
West Cressida	PTTEP	Thailand	Nov 2010	May 2014
West Janus***	Vietsovpetro	Vietnam	Jul 2012	Jan 2013
West Leda	ExxonMobil	Malaysia	Mar 2012	Apr 2014
West Prospero	Vietsovpetro	Vietnam	Jan 2012	Jul 2013
West Triton	KJO	Saudi Arabia / Kuwait	Aug 2012	Aug 2015
West Castor (NB*)	Saudi Aramco	Singapore – Jurong Shipyard	Aug 2013	Aug 2016
West Tucana (NB*)	PVEP	Singapore – Jurong Shipyard	June 2013	Oct 2013
West Telesto (NB*)	Saudi Aramco	China – Dalian Shipyard	Aug 2013	Aug 2016
West Oberon (NB*)	Premier	China – Dalian Shipyard	Oct 2013	Nov 2014
West Titan (NB*)		China – Dalian Shipyard		
West Proteus (NB*)		China – Dalian Shipyard		
AOD-1 (NB*)****	Saudi Aramco	Singapore - Keppel FELS	April 2013	April 2016
AOD-2 (NB*)****		Singapore - Keppel FELS		
AOD-3 (NB*)****		Singapore - Keppel FELS		
Tender rigs				
T4	Chevron	Thailand	Jul 2008	Jun 2013
T7	Chevron	Thailand	Nov 2011	Mar 2013
T11	Chevron	Thailand	May 2008	May 2017
T12	Chevron	Thailand	Apr 2011	Apr 2014
T15 (NB*)	Chevron	China – COSCO Shipyard	Mar 2013	Mar 2018
T16 (NB*)	Chevron	China – COSCO Shipyard	Jun 2013	Jun 2018
T17 (NB*)	PTTEP	China – COSCO Shipyard	May 2013	May 2018
T18 (NB*)	Chevron	China – COSCO Shipyard	Mar 2014	Mar 2019
West Alliance	Shell	Malaysia	Jan 2010	Jan 2015
West Berani	ConocoPhilips	Indonesia	Jan 2013	Jan 2014
West Jaya	BP	Trinidad & Tobago	Nov 2011	Sep 2014
West Esperanza (NB*)	Amerada Hess	Singapore - Keppel FELS	Jul 2013	Dec 2014
West Menang	Murphy	Malaysia	Aug 2011	Sep 2014
West Pelaut	Shell	Brunei	Apr 2012	Mar 2015
West Setia	Chevron	Angola	Aug 2012	Aug 2014
West Vencedor	Chevron	Angola	Mar 2010	Mar 2015

* Newbuild under construction or in mobilization to its first drilling assignment.
**Owned by our subsidiary North Atlantic Drilling in which we own 73 percent of the outstanding shares.
*** Seadrill has entered into an agreement to sell the unit, the transaction is expected to be completed during the first quarter 2013.
****Owned by Asia Offshore Drilling in which we own 66 percent of the outstanding shares.

Operations in associated companies

Archer Limited ("Archer")

Archer is an international oilfield service company specializing in drilling and well services.

To remedy a breach in its financial covenants, Archer completed a private placement of 208,334,000 shares at a subscription price of US$1.20 per share raising US$250 million in gross proceeds on February 8, 2013. Seadrill was allocated and subscribed for a total 84,814,793 shares in the private placement, and as a result currently owns 231,053,239 shares in Archer, corresponding to an ownership of 39.9 percent. Our ownership in Archer represent a gross value of US$245 million based on the closing share price of NOK6.06 on February 26, 2013. Seadrill has as a part of the new financing also contributed USD 100 million in financial guarantees to Archers financing banks.

Our Archer position contributed a loss of US$4.4 million to our fourth quarter net income based on public available preliminary information, compared to a loss of US$53.3 million in the third quarter. Contribution from Archer is reported under other financial items as part of investments in associated companies. For more information on Archer we refer to their quarterly report available on www.archerwell.com.

The Board in Seadrill is not satisfied with Archer's operational performance we are however pleased that an agreement has been reached with Archer's lending banks and expects to see improvements in Archer's operating results during the next quarters.

Asia Offshore Drilling Ltd ("AOD")

AOD is an offshore drilling company listed on Oslo Axess. On January 31, 2013, AOD took delivery of its first jack-up drilling rig, AOD I, from Keppel FELS in Singapore. The rig is mobilizing to its first drilling assignment in Saudi Arabia and is estimated to commence operation during April 2013. AOD has further two jack-up rigs, AOD II and AOD III, under construction at Keppel FELS, with delivery scheduled for April and July 2013 respectively.

On November 9, 2012, we launched a mandatory offer for all the remaining shares in AOD at a share price of NOK28.71 or US$5.00. Upon expiry of the mandatory offer Seadrill had received acceptances increasing our ownership to 66.16 percent (equivalent to 26,463,050 shares). Our shareholding in AOD had a gross value of US$136 million based on the closing share price of NOK29.40 on February 26, 2013. The results of AOD contributed a loss of US$1 million to our fourth quarter net income compared to US$0 million in the previous quarter. Contribution from AOD is reported under other financial items as part of investment in associated companies.

The board of AOD is working on a long-term financing solution of the company. In the meantime Seadrill has given AOD a short-term loan enabling the company to take delivery of AOD I from Keppel FELS.

For more information on AOD, please see their separate quarterly report published on **www.aodrilling.com**.

Sevan Drilling ASA ("Sevan Drilling")

Sevan Drilling is an offshore drilling company listed on Oslo Stock Exchange. Sevan Drilling owns and operates two ultra-deepwater rigs of the cylindrical Sevan design in Brazil and has two further newbuilds of similar design under construction, with delivery scheduled for fourth quarter 2013 and second quarter 2014. In February 2013, Sevan Drilling completed a private placement, in which Seadrill was allocated and subscribed for 81,828,500 shares at a subscription price of NOK3.95, increasing our ownership stake from 28.5 to 30.31 percent. Seadrill's shareholding in Sevan Drilling represented a gross market value of US$123 million based on the closing share price on February 26, 2013.

Contribution from Sevan Drilling is reported as part of investment in associated companies under other financial items. For the fourth quarter, Sevan Drilling contributed US$2 million to net income compared to US$2 million in the third quarter. We view the investment in Sevan Drilling as opportunistic and will continue to evaluate it compared to alternatives to further grow Seadrill. For more information on Sevan Drilling, see their separate quarterly report published on www.sevandrilling.com.

Varia Perdana Bhd.("Varia Perdana")
We have a 49 percent ownership interest in Varia Perdana, which owns and operates five self-erecting tender rigs. During the fourth quarter, the tender rig T3 worked for PTTEP in Thailand and T10 worked for Chevron in Thailand. The tender rig T6 worked for CPOC (Carigali PTTEP Operating Company) and Carigali Hess in the Malaysia - Thailand Joint Development Area while the Teknik Berkat worked for Petronas Carigali. T9 operated for Petronas Carigali offshore Malaysia. Varia Perdana contributed US$13 million to our fourth quarter earnings compared to US$12 million in the third quarter. Contribution from Varia Perdana is reported as part of investment in associated companies under other financial items. The controlling ownership interest in Varia Perdana is owned by SapuraKencana Petroleum Bhd.

SapuraKencana Petroleum Bhd.("SapuraKencana")
SapuraKencana is a fully integrated Malaysian oil service provider listed on the Malysian Stock Exchange. We currently own 319,540,802 shares equivalent to a 6.4 percent ownership stake, which had a gross value of US$297 million based on a closing share price of MYR2.88 on February 25, 2013. Our ownership in SapuraKencana is treated as a marketable security and is marked-to-market. For more information on SapuraKencana, see their separate quarterly report published on www. sapurakencana.com.

On February 8, 2013, the Sale and Purchase agreement regarding the sale of a large part of our tender rig fleet to SapuraKencana was signed. The sale comprises all the rigs in Seadrill's fleet, including the equity interest in Varia Perdana, except for T15, T16, and West Vencedor for a total enterprise value of US$2.9 billion. The sale price includes future capital commitments for the newbuilds T17, T18, and West Esperanza, and all the debt in the tender rig business estimated at US$780 million as of February 6, 2013. In addition Seadrill has agreed to reimburse SapuraKencana US$75 million at closing to compensate for the cash flow from the tender rigs business in the period from the signing of the agreement until closing, netted off for lost interest income.

Seadrill will through a transition period retain the management for all the tender rigs that are operating outside Asia as well as manage and supervise the current tender rigs under construction. The transaction is expected to be closed by the end of April 2013.
The Board is very pleased to have reached an agreement with SapuraKencana and Seadrill will as the second largest equity holder in SapuraKencana look forward to continue to aggressively grow the Company

Newbuilding program
On February 1, 2013, we ordered two new high specification jack-up rigs at the Dalian shipyard in China. The total estimated project price is US$230 million per rig, with delivery scheduled for the first and second quarter 2015. The two new units will be based on the same design as the existing jack-ups under construction at both Dalian and the Jurong shipyard in Singapore.

The jack-ups of the F&G JU2000 design currently under construction at Dalian and Jurong have been delayed due to a jacking gear pinion failure. There is a need for replacing the jacking gear pinions on all the newbuilds and after carefully considering all alternatives, including replacing them offshore, the decision has been made to delay the delivery of these units until the jacking gear pinions can be safely replaced at the yard. Due to manufacturing lead-time, the rigs will be delayed for approximately six months.

After taking delivery of the tender rig T15, and the jack-up rig AOD I in December and January, we now have 22 rigs under construction. The newbuild program comprises of seven ultra-deepwater drillships, two ultra-deepwater semi-submersible rigs, one harsh environment jack-up rig, eight premium benign environment jack-up rigs, one semi-tender rig, and three tender rigs. In total 12 out of 22 newbuilds have already secured long-term contracts upon delivery.

The delivery schedule for the newbuilds under construction ranges from the first quarter 2013 to the second quarter 2015, with the majority of deliveries in 2013 and 2014. The total remaining yard installments for our newbuilds are approximately US$5.6 billion, excluding the AOD rigs. In total US$1.8 billion has been paid to the yards in pre-delivery installments.

For further information on our newbuilding program please see Note 9 and Note 18 to our financial statements.

New contracts and contract extensions

In the fourth quarter we added contracts with an estimated revenue potential US$2.3 billion to our orderbacklog. In addition, we have after year end 2012 entered into the following new contracts and received the following commitments with a total estimated revenue potential of US$0.6 billion and the total orderbacklog as of February 25, 2013, is approximately US$21.0 billion.

In January 2013, Tullow Oil exercised its contractual option to extend the contract for the ultra-deepwater semi-submersible rig West Leo by two years from May 2016 to May 2018 at the same terms and conditions.

For our jack-up rigs in operation we have received the following new commitments:
The West Prospero and West Ariel have secured extensions to their existing contracts with Vietsovpetro in Vietnam. The new contracts are for a duration of seven month at a daily rate of US$151,000. West Courageous has secured a new one-year contract with Hess operating offshore Malaysia at an agreed daily rate of US$150,000.

In addition we have secured a new one-year contract for the semi-tender West Berani. The rig will operate for ConocoPhillips offshore Indonesia at an agreed daily rate of US$192,500.

With regard to the delayed jack-ups under construction, we are presently concluding negotiations with one of our clients who have fixed some of these rigs ,with the possibility of these contracts being novated to other rigs within the Seadrill fleet.

For more detailed information regarding daily rates and contract durations including escalation, currency adjustment or other minor changes to daily rates and duration profiles, see our fleet status report or news releases on the our website **www.seadrill.com**

Market development
The offshore drilling industry continues to benefit from strong spending of oil and gas companies worldwide which support the growth in the current newbuild programs.

Exploration success in frontier locations such off east Africa such as Tanzania and Kenya and in more developed areas like West Africa, US, GoM and the North Sea provide future opportunities for jack-ups and floaters in an already robust market. Development opportunities remain as the strongest long-term charter options for all asset classes and the industry has a strong backlog of developments that is expected to move towards execution as governments and regulatory agencies approve plans.

With an industry focused on chartering modern high specification drilling units, oil and gas companies continue to give preference to contractors with a proven track record for operating modern rigs with highly competent crews, safely and efficiently.

Ultra-deepwater floaters (>7,500 ft water)
The North Sea, Norway, Gulf of Mexico, West and East Africa represent strong candidates for locations to secure currently available ultra-deepwater units. An example is how the success of past exploration programs in Ghana, Nigeria, and Angola have encouraged the development of new exploration programs up and down the entire west coast of Africa resulting in both short and longer term demand for drilling units. East Africa has also developed a significant backlog of opportunities and areas such as Kenya are expected to see additional activity in the near term.

Rig supply in the North Sea and Norway is tight through 2015, with no significant capacity available until 2014. The demand is supported by the evidence of strong rates and some of the longest contracting lead times in the market. The strength of the market is expected to continue beyond 2015 with oil and gas companies focusing on discovering additional reserves to offset declining mature fields. Together with more development drilling programs this is likely to lead to a significant increase in the number of rigs needed to support the demand from oil and gas companies. Since 2005 approximately 107 new rigs have been introduced in the market . It is however a reflection that offshore oil production has not increased since the introduction of the new rigs. This clearly shows the increasing need for drilling in order to produce one barrel of oil. Petroleum consultants 'Rysstad Energy' have recently conducted studies where the conclusion is that approximately 500 more rigs will have to be built before 2020 in order to support the oil companies need for field developments.

Contract rates for ultra-deepwater floaters remains strong with dayrates in the US$550,000 to US$650,000 range dependent on location. Contract lead times for the ultra-deepwater units remain between 12 and 18 months on average in most regions. We have recently seen a strong trend that 6th generation assets are contracted to replace 4 – 5th generation assets. This is to a large extend driven by the oil companies requirements to have additional operational and safety capabilities after the Macondo accident.

The strong demand for ultra-deepwater floaters put Seadrill in an excellent position to capitalize on future opportunities with six uncontracted ultra-deepwater floaters available before mid-2015. Seadrill is currently in specific discussions regarding most of its units available in 2014 and 2015.

We will dependent on the outcome of these discussions consider to continue to grow the Company by placing additional orders for additional ultra-deepwater / harsh environment assets at what we see as very attractive newbuild prices. The earliest delivery slots for new rig capacity are presently second half of 2015.

Premium jack-up rigs (>350 ft water)
The premium jack-up market continues to improve as recognized in three important indicators; rate, contract durations and contracting lead times have all increased over the past 12 months. The market strength is driven by strong contracting activity in the Middle East, Asia, and Africa. It is further anticipated that demand for large harsh environment jack-ups in the North Sea will remain strong and present interesting opportunities

Several multiyear contracts illustrates the increasing strength of the jack-up market. Oil companies continue to favor modern units that provide improved efficiencies that reduce well delivery times. For example, operators drilling deeper and more complex wells benefit from increased mud and hoisting capacities together with additional redundancy in surface equipment.

The saying ‘easy oil is over’ that refers to the complexity of accessing reserves has played a significant role in the demand for drilling contractors to upgrade their jack-up fleets to modern premium units. Oil companies are favoring high specification units that provide redundancy and additional safety enhancements beyond what was offered in the earlier generation units. Seadrill has the largest and youngest premium jack-up fleet in the industry and is set to capitalize on the tightening market. This fact is demonstrated by Seadrill’s commitment in the recent order of two more jack-ups bringing the total number of newbuild jack-ups to 12 units including the three AOD rigs. Seadrill is currently in specific discussions with shipyards to increase our jack-up investments further.

Tender rigs
Asia and Africa continue as strong markets for the tender rig fleet and we recognize the market to have further room for growth and development. Tender rigs continue to provide advantages in fixed platform, TLP, and spar development economics with clear enhancements over the standard platform-drilling package plus the ability to work in water depths up to 6500 ft.

Corporate strategy, dividend and outlook

Growth and Investments
Since our third quarter report we have in response to an improving jack-up market ordered two further premium high-specification jack-up rigs at the Dalian shipyard in China, as well as completed the acquisition of the 2011 built ultra-deepwater semi-submersible rig Songa Eclipse for US$590 million. This is in continuation with our strategy of developing a modern fleet of highly advanced drilling units through newbuild orders and selective acquisitions of modern assets.

We have also finalized the sale and purchase agreement for the sale of most of our tender rig fleet to SapuraKencana. The funds released from this transaction will enable us to make further investments in both the ultra-deepwater and premium jack-up rig segments, and to further grow both our earnings and increase our future dividend capacity. We currently have 22 newbuilds under construction at a total all-in cost of US$7.5 billion, excluding AOD, being delivered between 2012 and 2015 with the majority of deliveries in 2013 and 2014. Approximately US$1.6 billion of the project costs have already been paid.

Revenue backlog

As of February 25 2013, our orderbacklog was at US$21 billion. Our orderbacklog provides commitment for our future earnings as well as generating future visibility for dividend capacity. For our ultra-deepwater fleet we still have the West Tellus available at a very attractive slot in 2013, while we in 2014 have open positions for four ultra-deepwater rigs. North Atlantic Drilling's harsh environment semi-submersible rig, West Rigel, will be available in the first quarter 2015. The average contract duration, including our newbuilds is 47 months for our ultra-deepwater fleet.

With regard to our shallow water capacity, nearly all our future jack-up capacity has been firmed up through recent contracting activity, evidencing that both daily rates and duration are increasing in the premium jack-up segment. The average contract length for our jack-ups is 22 months. All of our tender rigs have secured employment, and the average contract length is 23 months.

Financial flexibility

In January 2013, we obtained a US$450 million bridge facility in relation to the acquisition of the Songa Eclipse. We expect to refinance this facility within the second quarter into a long-term amortizing financing and have already received an attractive offer from our bank syndicate.

During the fourth quarter we secured a US$450 million credit facility with regard to our Chinese newbuilds that will be delivered in 2013, through a combination of Chinese export credit funding and commercial banks. In addition, we have also secured funding for our three Korean built drillships that will be delivered in 2013 for US$1.45 billion, through a combination of Korean export credit funding and commercial banks. The only newbuild delivered in 2013 that has yet to secure funding is the West Linus, which has a five-year contract with ConocoPhillips offshore Norway. We have already received attractive offers for financing this rig, and will look to secure funding over and above the remaining yard installments. We are also considering different lease structures for this rig in order to optimize the cost of the financing.

The Board is as previously stated confident that all newbuilds can be financed without raising additional equity and recognizes that the Company will have significant financial flexibility after completing the tender rig sale to SapuraKencana. The transaction will reduce Seadrill's net debt position with approximately US$2.5 billion through a reduction in debt and future capital commitments and the receipt of cash proceeds from the transaction. In addition, the establishment of Seadrill Partners is also a source to increase our financial flexibility through drop downs at accretive values to Seadrill shareholders. In the most recent financings Seadrill has seen a slight reduction in the margins paid to the banks. Based on feedback from the banks Seadrill anticipates that this positive trend will strengthen further driven by the continued strong market, the completion of the Sapura transaction, the pricing differential to the unsecured market and reduced need for new building financing. Seadrill is actively monitoring the bond market and are hopeful that the improved credit statistics also will influence the pricing of the Company's notes. The Board considers the unsecured bond market as an attractive source of financing.

Other Significant Investments

We hold various ownership positions in other listed offshore drillers and oil service companies. Our portfolio includes a 39.9 percent holding in Archer Limited, a 30.3 percent in Sevan Drilling, and 6.4 percent holding in SapuraKencana. Except for our strategic investments in Archer and SapuraKencana, the Board evaluates the prospects of these investments on a continuous basis.

At current market prices, the total cash invested in these investments is approximately US$665 million.

Quarterly Cash Dividend
The Board decided in November 2012 to prepay the dividend for the fourth quarter 2012 together with the dividend for the third quarter. A fourth quarter dividend of US$0.85 per share were paid out to shareholders on a record date of December 6, 2012.

A regular dividend of at least US$0.85 per share should be expected for the first quarter 2013. Final confirmation of the first quarter dividend will be given in the first quarter earnings release in May 2013, with anticipated distribution in June 2013.

Near-term prospects
The Board continues to be optimistic on the long-term market outlook in both the ultra-deepwater and jack-up markets. We see the recent increased activity level in the jack-up market as an early indicator of an overall strengthening offshore market, and have in response ordered two further jack-ups to be delivered in 2015. We have the second largest ultra-deepwater fleet in the industry and the largest fleet of modern high-specification jack-up rigs.

Currently we have six ultra-deepwater floaters under construction that have yet to secure employment. There is strong interest in the market from clients in securing this capacity. With recent fixtures in the US$580-620,000 region we remain confident that we will be able to secure contracts that will enhance our earnings growth and dividend capacity further. The sale of the tender rig fleet to SapuraKencana will provide significant financial flexibility for Seadrill. This flexibility can be used to grow further, either through M&A or organic growth, in both the jack-up and ultra-deepwater markets.

The Board is not satisfied with the operational performance of the deepwater fleet in the fourth quarter. The main weakness is linked to the time it took for West Hercules to commence its contract to Statoil. The Board will complete a total review of this operation with the target to learn from any mistakes made in the process.

The focus in the next quarters will be to optimize our operational performance related to the economic utilization of our rigs and ensuring that operating costs do not exceed current levels. The Board is based on a detailed budget review comfortable that the we have good control over the development in offshore operating cost. It is our near-term ambition to deliver utilization rates exceeding 95 percent for our units in operation. Nevertheless, operating in deep subsurface formations with extreme pressure and heavy equipment has inherent risks that expose us to equipment failure and downtime. In order to mitigate these risks, transfer of learning from downtime incidents across the fleet, systematic improvement in work processes and adherence to the Company's safety procedures and processes are key. We are always working together with our customers to achieve maximum drilling efficiency. Operational uptime is paramount for our customers, our earnings and in providing maximum shareholder return.

In February, 2013, BSEE (Bureau of Safety and Environmental Enforcement) issued a statement that Vetco H4 connectors on BOP's have issues with bolts and that those bolts needed to be replaced. Seadrill has taken action and have replaced the bolts on the rigs that have this connector. Partly due to the need to replace the bolts, we have so far in the first quarter experienced 117 days of downtime for our floater fleet, including one idle month for West Hercules, there is furthermore 21 days of planned downtime occurring in the first quarter due to five-year classing and planned maintenance and repair work.

A total of nine units are scheduled to complete their special surveys during 2013. The lost revenue in connection with these surveys and other planned maintenance is estimated to be less than US$100 million.

In-line with earlier communication general and administrative costs have escalated due to one-off costs related to the transition of the management office from Stavanger to London and one specific IT project. It is expected that this cost will remain at the current levels for the coming two quarters before reducing back to levels experienced in the last quarter.
The Board is very pleased with the success of Seadrill Partners (NYSE:SDLP) since commencing trading in October, 2012. Seadrill Partners has through the omnibus agreement with Seadrill the right to acquire any rig that receives a five-year contract or extension to five years. Through all the drop down candidates that exist in Seadrill and the appreciation from investors for Seadrill Partners, we are extremely confident in growing the distributions with double digits in the coming year.

Seadrill expects based on the current newbuilding orders to increase the operating fleet with a minimum of 10 units in 2013 , 4 units in 2014 and 4 units in 2015. A significant part of the newbuildings have already been chartered out. The Board expects the consolidated cashflow during the first to the third quarter 2013 to show a moderate positive development. A material increase in cashflow will come in the fourth quarter 2013 when 11 new units will be in operation compared to fourth quarter 2012. Based on good operational performance the Board expects to reach the initial target of a US$3 billion in annualized EBITDA run rate during the fourth quarter 2013. The new target of a consolidated EBITDA run rate of US$4 billion is based on no major move in market rates and satisfactory operational performance and projected to be reached during the first half of 2015 when all newbuilds are expected to be in operation.

The Board sees a strong underlying demand trend for all our assets classes, and expects the markets to remain strong for the coming years. The limited orderbook for deepwater assets for delivery in 2015 might create additional momentum, and interesting opportunities. Seadrill is with the most modern rig fleet in the world, a strong operation, a US$21 billion order backlog and a solid financial platform well positioned to benefit from these opportunities.

After two years with limited growth the Board is excited to enter a period where the Company's operational cashflow based on current market condition and operating efficencies is projected to increase more than 50 percent during the next two years.

The Board is confident that the Company will deliver strong growth in earnings with the potential to continue to grow the business and further increase dividend over the next years .

Forward-Looking Statements

This news release includes forward looking statements. Such statements are generally not historical in nature, and specifically include statements about the Company's plans, strategies, business prospects, changes and trends in its business and the markets in which it operates. In particular, statements include short list with general description of the forward looking statements in this release. These statements are made based upon management's current plans, expectations, assumptions and beliefs concerning future events impacting the Company and therefore involve a number of risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed or implied in the forward-looking statements, which speak only as of the date of this news release. Important factors that could cause actual results to differ material from those in the forward-looking statements include, but are not limited to offshore drilling market conditions, contract backlog, drydocking and other costs of maintenance of the drilling rigs in the Company's fleet, the cost and timing of shipyard and other capital projects, the performance of the drilling rigs in the Company's fleet, delay in payment or disputes with customers, fluctuations in the international price of oil, international financial market conditions including the international financial crises, changes in governmental regulations that affect the Company or the operations of the Company's fleet, increased competition in the offshore drilling industry, and general economic, political and business conditions globally . Consequently, no forward-looking statement can be guaranteed. When considering these forward-looking statements, you should keep in mind the risks described from time to time in the Company's filings with the SEC, including its Registration Statement on Form 20-F.

The Company undertakes no obligation to update any forward looking statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, the Company cannot assess the impact of each such factors on its business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward looking statement.

February 28, 2013
The Board of Directors
Seadrill Limited
Hamilton, Bermuda

Questions should be directed to Seadrill Management AS represented by:

Fredrik Halvorsen: Chief Executive Officer and President
Rune Magnus Lundetræ:Chief Financial Officer and Senior Vice President

Seadrill Limited

INDEX TO UNAUDITED FINANCIAL STATEMENTS

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
for the three month period and twelve month period ended December 31, 2012 and 2011

(In US$ millions)

	Three month period ended Dec 31,		**Twelve month period ended Dec 31,**	
	2012	2011	**2012**	2011
Operating revenues				
Contract revenues	**1,126**	1,040	**4,295**	4,095
Reimbursables	**85**	22	**180**	96
Other revenues	**3**	(3)	**3**	1
Total operating revenues	**1,215**	1,059	**4,478**	4,192
Gain on sale of assets	**0**	(1)	**0**	22
Operating expenses				
Vessel and rig operating expenses	**448**	406	**1,656**	1,585
Reimbursable expenses	**78**	21	**166**	90
Depreciation and amortization	**163**	139	**615**	563
General and administrative expenses	**84**	56	**250**	202
Total operating expenses	**774**	622	**2,687**	2,440
Net operating income	**441**	436	**1,791**	1,774
Financial items				
Interest income	**11**	4	**25**	21
Interest expenses	**(91)**	(75)	**(340)**	(295)
Share in results from associated companies net of tax	**(214)**	(482)	**(220)**	(420)
Gain/ (loss) on derivative financial instruments	**(12)**	33	**3**	(346)
Foreign exchange (loss)	**(19)**	14	**(70)**	(18)
Gain on loss of control in subsidiary	**0**	0	**0**	540
Gain on realization of marketable securities	**(1)**	0	**85**	416
Gain on decline in ownership interest	**0**	0	**169**	0
Impairment loss on marketable securities	**0**	0	**0**	(10)
Other financial items	**(9)**	0	**(6)**	9
Total financial items	**(335)**	(501)	**(354)**	(103)
Income/(loss) before income taxes	**106**	(65)	**1,437**	1,671
Income taxes	**(56)**	(41)	**(180)**	(189)
Net income/(loss)	**50**	(106)	**1,257**	1,482
Net income attributable to the parent	**17**	(127)	**1,146**	1,401
Net income attributable to the non-controlling interest	**33**	21	**111**	81
Basic earnings per share (US$)	**0.04**	0.27	**2.45**	3.05
Diluted earnings per share (US$)	**0.04**	0.27	**2.42**	2.96
Declared regular dividend per share (US$)	**0.00**	0.80	**2.51**	3.06
Declared extraordinary dividend per share (US$)	**0.00**	-	**1.00**	-

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

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the three and twelve month period ended December 30, 2012 and 2011

(In US$ millions)

	Three month period ended Dec 31,		**Twelve month period ended Dec 31,**	
	2012	2011	**2012**	2011
Net income/(loss)	**50**	(106)	**1,257**	1,482
Other comprehensive income/ (loss), net of tax:				
Change in unrealized gain/ (loss) on marketable securities	**87**	1	**205**	(291)
Change in unrealized foreign exchange differences	**1**	5	**13**	38
Change in unrealized gain/ (loss) relating to pension	**(24)**	(3)	**(25)**	(3)
Change in unrealized gain/ (loss) on interest rate swaps in subsidiaries	**0**	0	**0**	1
Deconsolidation of subsidiaries	**0**	0	**0**	(63)
Change in unrealized gain/ (loss) on interest rate swaps in VIEs	**3**	7	**20**	20
Other comprehensive income/ (loss):	**67**	10	**213**	(298)
Total comprehensive (loss)/income for the period	**117**	(96)	**1,470**	1,184
Comprehensive income attributable to the non-controlling interest	**9**	28	**77**	111
Comprehensive (loss)/income attributable to the parent	**108**	(124)	**1,393**	1,073

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

Seadrill Limited

UNAUDITED CONSOLIDATED BALANCE SHEET

(In US$ millions)

ASSETS	December 31, 2012	December 31, 2011
Current assets		
Cash and cash equivalents	**318**	483
Restricted cash	**184**	232
Marketable securities	**333**	24
Accounts receivables	**918**	720
Amount due from related party	**293**	185
Other current assets	**309**	323
Total current assets	**2,355**	1,967
Non-current assets		
Investment in associated companies	**509**	721
Newbuildings	**1,882**	2,531
Drilling units	**12,894**	11,223
Goodwill	**1,320**	1,320
Restricted cash	**218**	250
Deferred tax assets	**13**	33
Equipment, net	**40**	25
Other non-current assets	**402**	234
Total non-current assets	**17,278**	16,337
Total assets	**19,633**	18,304
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	**2,066**	1,419
Trade accounts payable	**72**	38
Short-term deferred taxes	**6**	10
Short-term debt to related party	**131**	19
Other current liabilities	**1,286**	1,285
Total current liabilities	**3,561**	2,771
Non-current liabilities		
Long-term interest bearing debt	**8,695**	8,574
Long-term debt to related party	**935**	435
Deferred taxes	**77**	34
Other non-current liabilities	**288**	188
Total non-current liabilities	**9,995**	9,231
Equity		
Common shares of par value US$2.00 per share: 800,000,000 shares authorized 469,178,074 outstanding at December 31, 2012 (December, 31 2011: 467,772,174)	**939**	935
Additional paid in capital	**2,174**	2,097
Contributed surplus	**1,956**	1,956
Accumulated other comprehensive income	**194**	(5)
Accumulated earnings	**121**	994
Equity attributable to the parent	**5,384**	5,977
Non-controlling interest	**693**	325
Total equity	**6,077**	6,302
Total liabilities and equity	**19,633**	18,304

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

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the twelve month period ended December 31, 2012 and 2011

(In US$ millions)

	Twelve month period ended December 31,	
	2012	**2011**
Cash Flows from Operating Activities		
Net income/ (loss)	**1,257**	1,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**615**	563
Amortization of deferred loan charges	**30**	31
Amortization of unfavorable contracts	**0**	(24)
Amortization of favorable contracts	**12**	23
Amortization of mobilization revenue	**(162)**	(96)
Impairment loss on marketable securities	**0**	10
Share of results from associated companies	**220**	420
Share-based compensation expense	**8**	10
Unrealized (gain)/ loss related to derivative financial instruments	**6**	261
Dividend received from associated company	**18**	57
Deferred income tax expense	**25**	(9)
Unrealized foreign exchange loss (gain) on long term interest bearing debt	**6**	(5)
Gain on disposal of fixed assets	**0**	(22)
Gain on disposal of other investments	**(86)**	0
Non cash gain recognized related to realization of marketable securities	**0**	(416)
Non cash gain recognized related to loss of control in subsidiary	**0**	(540)
Gain on decline in ownership interest	**(169)**	0
Changes in long term maintenance	**(133)**	(147)
Changes in operating assets and liabilities, net of effect of acquisitions		
Unrecognized mobilization fees received from customers	**238**	58
Trade accounts receivable	**(198)**	(52)
Trade accounts payable	**34**	(35)
Prepaid expenses/accrued revenue	**(64)**	79
Interest bearing note receivable with customers	**(76)**	0
Other, net	**9**	21
Net cash provided by operating activities	**1,590**	1,669

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the twelve month period ended December 31, 2012 and 2011

(In US$ millions)

	2012	2011
Cash Flows from Investing Activities		
Additions to newbuildings	**(1,343)**	(2,381)
Additions to rigs and equipment	**(214)**	(15)
Sale of rigs and equipment	**0**	245
Settlement of disputes with ship yard	**38**	0
Change in margin calls and other restricted cash	**102**	(43)
Purchase of marketable securities	**(19)**	(13)
Investment in subsidiaries, net of cash acquired	**0**	(26)
Cash deconsolidated upon loss of control in subsidiary	**0**	(127)
Investment in associated companies	**(153)**	(287)
Disposal of associated companies	**65**	0
Short term loan granted to related parties	**(55)**	0
Repayment of loan granted to related parties	**0**	0
Long term loan granted to related parties	**(20)**	0
Repayment from long term loan granted to related parties	**20**	0
Proceeds from realization of marketable securities	**219**	161
Net cash used in investing activities	**(1,360)**	(2,486)
Cash Flows from Financing Activities		
Proceeds from debt	**3,477**	5,929
Repayments of debt	**(2,752)**	(4,116)
Debt fees paid	**(37)**	(49)
Proceeds from debt to related party	**1,013**	0
Repayments of debt to related party	**(487)**	0
Contribution (to) / from non-controlling interests	**(50)**	(95)
Contribution from non-controlling interests related to private placement	**147**	418
Proceeds from issuance of equity in subsidiaries to non-controlling interest	**203**	0
Purchase of treasury shares	**0**	(130)
Proceeds from sale of treasury shares	**16**	21
Dividends paid	**(1,925)**	(1,440)
Net cash used by financing activities	**(395)**	538
Effect of exchange rate changes on cash and cash equivalents	**0**	7
Net increase / (decrease) in cash and cash equivalents	**(165)**	(272)
Cash and cash equivalents at beginning of the year	**483**	755
Cash and cash equivalents at the end of period	**318**	483
Supplementary disclosure of cash flow information		
Interest paid, net of capitalized interest	336	282
Taxes paid	179	188

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

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the twelve months ended December 31, 2012

(In US$ millions)

	Share Capital	Additional paid-in capital	Contributed surplus	Accumulated OCI	Retained earnings	NCI	Total equity
Balance at December 31, 2011	935	2,097	1,956	(5)	994	325	**6,302**
Sale of treasury shares	4	12					**16**
Purchase of treasury shares							**0**
Employee stock options issued		8					**8**
Private placement in subsidiary		84				66	**150**
Establishement of non-controlling interest		(24)				227	**203**
Costs related to capital increase in subsidiary		(3)					**(3)**
Other comprehensive income				199		14	**213**
Dividend payment					(2,018)	(50)	**(2,068)**
Net income					1,146	111	**1,257**
Balance at December 31, 2012	**939**	**2,174**	**1,956**	**194**	**121**	**693**	**6,077**

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the twelve months ended December 31, 2011

(In millions of US$)

	Share Capital	Additional paid-in capital	Contributed surplus	Accumulated OCI	Retained earnings	NCI	Total equity
Balance at December 31, 2010	886	1,217	1,956	323	1,016	539	**5,937**
Sale of treasury shares	1	20					**21**
Purchase of treasury shares	(5)	(120)				(5)	**(130)**
Employee stock options issued		10					**10**
Change in actuarial gain/losses relating to pension				(3)			**(3)**
Private placement in subsidiary		307				118	**425**
Costs related to capital increase in subsidiary		(7)					**(7)**
(Un)realized gain/(loss) on marketable securities				(291)			**(291)**
Foreign exchange differences				28		10	**38**
Change in unrealized (loss) on interest rate swaps in VIEs						20	**20**
Change in unrealized (loss) on interest rate swaps in subsidiaries				1			**1**
Dividend payment					(1,423)	(17)	**(1,440)**
Dividend paid to Non-controlling interests in VIE						(23)	**(23)**
Shares purchased from non controlling interests		(4)				(68)	**(72)**
Deconsolidation of subsidiary				(63)		(330)	**(393)**
Induced conversion of convertible bonds	53	674					**727**
Net income					1,401	81	**1,482**
Balance at December 31, 2011	**935**	**2,097**	**1,956**	**(5)**	**994**	**325**	**6,302**

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 as of December, 2012 we owned and operated 43 offshore drilling units, and have 19 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.

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 stated in accordance with generally accepted accounting principles in the United States of America (US GAAP). 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 annual financial statements as at December 31, 2011. The year-end condensed balance sheet data that was derived from our audited 2011 financial statements does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement have been included.

We have in 2012 and 2011 significantly expanded our fleet of drilling rigs and as a result of this our long term maintenance has increased correspondingly. In response to this, we have reviewed our presentation of Statement of cash flow, and this review has resulted in a change in our reporting of cash flows related to long term maintenance. Changes in long term maintenance are presented as a separate line item under Operating Activities and not as part of the line item Additions to Rigs and Equipment under Investing Activities. This change had effect from January 1, 2012, but the presentation has also been retrospectively reclassified to conform to the current year presentation.

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 audited consolidated financial statements for the year ended December 31, 2011.

Note 2 — Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Intangibles-goodwill and other—Effective January 1, 2012, we adopted the accounting standards update that amends the goodwill impairment testing requirements by giving an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount and whether the two-step impairment test is required. The update is effective for goodwill impairment tests performed for annual and interim periods beginning after December 15, 2011. Our adoption did not have a material effect on our condensed consolidated financial statements.

Fair value measurements—Effective January 1, 2012, we adopted the accounting standards update that requires additional disclosure about fair value measurements that involve significant unobservable inputs, including additional quantitative information about the unobservable inputs, a description of valuation techniques used, and a qualitative evaluation of the sensitivity of these measurements. Our adoption did not have a material effect on the disclosures contained in our notes to condensed consolidated financial statements.

Recently Issued Accounting Standards

Balance sheet—Effective January 1, 2013, we will adopt the accounting standards update that expands the disclosure requirements for the offsetting of assets and liabilities related to certain financial instruments and derivative instruments. The update requires disclosures to present both gross information and net information for financial instruments and derivative instruments that are eligible for net presentation due to a right of offset, an enforceable master netting arrangement or similar agreement. The update is effective for interim and annual periods beginning on or after January 1, 2013. We do not expect that our adoption will have a material effect on our condensed consolidated balance sheet or the disclosures contained in our notes to condensed consolidated financial statements.

Balance sheet—Effective January 1, 2013, we will adopt the accounting standards update that requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. We do not expect that our adoption will have a material effect on our condensed consolidated balance sheet or the disclosures contained in our notes to condensed consolidated financial statements

Note 3– 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 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 management reporting. The accounting principles for the segments are the same as for our consolidated financial statements.

Contract revenues

(In US$ millions)	**Three months ended December 31,**		**Twelve months ended December 31,**	
	2012	**2011**	**2012**	**2011**
Floaters	700	674	2,750	2,611
Jack-up rigs	233	199	821	781
Tender rigs	193	167	723	576
Well Services *	0	0	0	127
Total	1,126	1,040	4,295	4,095

* Represents the activity up to the time of deconsolidation in February 2011.

Depreciation and amortization

(In US$ millions)	**Three months ended December 31,**		**Twelve months ended December 31,**	
	2012	**2011**	**2012**	**2011**
Floaters	109	94	412	358
Jack-up rigs	38	33	146	135
Tender rigs	15	12	57	63
Well Services*	0	0	0	7
Total	163	139	615	563

* Represents the activity up to the time of deconsolidation in February 2011.

Operating income - net income

(In US$ millions)	Three months ended December 31, 2012	Three months ended December 31, 2011	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011
Floaters	304	328	1,250	1,328
Jack-up rigs	52	36	225	220
Tender rigs	85	72	318	221
Well Services*	0	0	0	5
Operating income	441	436	1,791	1,774
Unallocated items:				
Total financial items	(335)	(501)	(354)	(103)
Income taxes	(56)	(41)	(180)	(189)
Net income	50	(106)	1,257	1,482

* Represents the activity up to the time of deconsolidation in February 2011.

Total Assets

(In US$ millions)	December 31, 2012	December 31, 2011
Floaters	13,725	12,600
Jack-up rigs	4,211	4,200
Tender rigs	1,697	1,504
Total	19,633	18,304

Note 4 – 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:

(In US$ millions)	Three months ended December 31, 2012	Three months ended December 31, 2011	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011
Net (loss)/ income available to stockholders	17	(127)	1,146	1,401
Effect of dilution	9	9	37	45
Diluted net (loss)/ income available to stockholders	26	(118)	1,183	1,446

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

(In number of shares)	**Three months ended December 31,**		**Twelve months ended December 31,**	
	2012	**2011**	**2012**	**2011**
Basic earnings per share:				
Weighted average number of common shares outstanding	469	467	469	459
Diluted earnings per share:				
Weighted average number of common shares outstanding	469	467	469	459
Effect of dilutive share options	1	1	1	1
Effect of dilutive convertible bonds	21	19	20	28
	491	487	490	488

Note 5 – Taxation

Income taxes consist of the following:

(In millions of US dollar)	**Three month period ended December 31, 2012**	**Three month period ended December 31, 2011**
Current tax expense:		
Bermuda	-	-
Foreign	5	94
Deferred tax expense:		
Bermuda	-	-
Foreign	49	23
Deferred taxes acquired during the year	-	-
Tax related to internal sale of assets in subsidiary, amortized for group purposes	2	(76)
Total provision	56	41
Effective tax rate	52.8%	-63.1%

(In millions of US dollar)	**Twelve month period ended December 31, 2012**	**Twelve month period ended December 31, 2011**
Current tax expense:		
Bermuda	-	-
Foreign	115	328
Deferred tax expense:		
Bermuda	-	-
Foreign	58	24
Deferred taxes acquired during the year	-	-
Tax related to internal sale of assets in subsidiary, amortized for group purposes	7	(163)
Total provision	180	189
Effective tax rate	12.5%	11.3%

The Company, including its subsidiaries, is taxable in several jurisdictions based on its rig operations. A loss in one jurisdiction may not be offset against taxable income in another jurisdiction. Thus, the Company may pay tax within some jurisdictions even though it might have an overall loss at the consolidated level.

The income taxes for the three and nine months ended December 31, 2012 and 2011 differed from the amount computed by applying the statutory income tax rate of 0 % as follows:

(In millions of US dollar)	**Three month period ended December 31, 2012**	**Three month period ended December 31, 2011**
Income taxes at statutory rate	-	-
Effect of transfers to new tax jurisdictions	2	(74)
Effect of change in taxable currency	-	-
Effect of taxable income in various countries	54	115
Total	56	41

(In millions of US dollar)	**Twelve month period ended December 31, 2012**	**Twelve month period ended December 31, 2011**
Income taxes at statutory rate	-	-
Effect of transfers to new tax jurisdictions	7	(163)
Effect of change in taxable currency	-	-
Effect of taxable income in various countries	173	352
Total	180	189

Deferred Income Taxes

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

Deferred Tax Assets:

(In US$ millions)	**December 31, 2012**	**December 31, 2011**
Pension	8	11
Provisions	3	15
Property, plant and equipment	-	9
Other	95	8
Gross deferred tax asset	106	43

Deferred Tax Liability:

(In US$ millions)	**December 31, 2012**	**December 31, 2011**
Property, plant and equipment	5	-
Gain from sale of fixed assets	23	31
Other	148	13
Gross deferred tax liability	176	44
Net deferred tax	(70)	(1)

Net deferred taxes are classified as follows:

(In US$ millions)	**December 31, 2012**	**December 31, 2011**
Short-term deferred tax asset	-	10
Long-term deferred tax asset	13	33
Short-term deferred tax liability	6	10
Long-term deferred tax liability	77	34
Net deferred tax	70	1

Future taxable income justifies the inclusion of tax loss carry-forward in the calculation of net deferred taxes.

Uncertain tax positions

Management has performed an analysis for uncertain tax positions in the various jurisdictions in which the Company operates in accordance with ASC Topic 740 Income Taxes. Based on that analysis, we have recorded US$69 million of expense in 2012.

Note 6 – Marketable securities

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

Marketable securities held by us include now 81.1% of the partially redeemed Petromena NOK2,000 million bond (“Petromena”) and 6.38% of SapuraKencana Petroleum Bhd (“SapuraKencana”).

At the end of Q1 2012 Seadrill owned a 23.59% share in SapuraCrest Petroleum Bhd , which was accounted for using the equity method with income recorded on a quarter in arrears. On May 17, 2012 SapuraCrest Petroleum Bhd and Kencana Petroleum Bhd merged resulting in dilution of Seadrill shareholdings from 23.59% to 11.77% which resulted in a gain of US$169 million presented in the statement of operations. The investment was consequently transferred from an investment in associated companies to an investment accounted for at fair value as an available-for-sale security. The investment is mark to market each quarter with the difference between book value and market value of the investment recognized in OCI.

In the period between May 23 and 29 we purchased a total of 30.1 million shares in SapuraKencana. On May 30, 2012 Seadrill sold 300 million shares for total consideration of approximately US$200 million in SapuraKencana which resulted in a gain of US$84 million presented in the statement of operations. After this transaction Seadrill owns shares in SapuraKencana constituting 6.38% of the company.

Marketable securities and changes in their carrying value are as follows:

(In US$ millions)	Petromena	SapuraKencana	Golden Close	Ensco	Total
Historic cost at December 31, 2011	4	-	15	5	24
Fair Market value adjustments recognized via OCI or P&L as of December 31, 2011	-	-	1	(1)	-
Net book value at December 31, 2011	4	-	16	4	24
Additions		237	-	-	237
Fair market value adjustments recognized via OCI	-	84	-	-	84
Release of OCI into profit & loss	-	(84)	(1)	-	(85)
Realization of historic cost	-	(113)	(15)	(4)	(132)
Other than temporary impairments	-	-	-	-	-
Historic cost at December 31, 2012	4	124	-	-	128
Fair Market value adjustments recognized via OCI as of December 31, 2012	-	205	-	-	205
Fair Market value adjustments recognized via P&L	-	-	-	-	-
Net book value at December 31, 2012	4	329	-	-	333

Note 7 - Impairment loss on marketable securities and investments in associated companies

As at December 31, 2011, the Company owns a number of shares, share purchase agreements and bonds in companies including Archer Ltd., Asia Offshore Drilling Ltd., Varia Perdana Bhd., Tioman Drilling, Seahawk Drilling, Sevan Drilling, Seabras Sapura, Itaunas, Petromena and SapuraKencana Petroleum Berhad.

In 2012 the Company determined that the decline in fair value of the Archer investment was other than temporary based primarily upon its evaluation of the severity of the excess of its cost basis over the market price of the security and the prospects for recovery within 2013. As a result, an impairment loss was recognized reducing its cost basis of this associated company to the market price of the shares as of December 31, 2012, which was $121 million. The impairment loss amounted to $221 million and is presented as share of result from associated companies in the consolidated statements of operations**.**

Note 8 – Gain/ (loss) on derivative financial instruments

The year to date gain of US$3 million in our Statement of Operations consists of the following:

Total Return Swaps (TRS):
We have a TRS agreement with 2,000,000 Seadrill Limited shares as underlying security, with a reference price of NOK 220.32 and expiry on March 4, 2013. The total realized and unrealized gain related to the TRS agreements amounted to US$7 million for the twelve months ended December 31, 2012.

Interest-rate swap agreements and forward exchange contracts:
Total realized and unrealized loss on interest-rate swap agreements, not qualified for hedge accounting, and forward exchange contracts amounted to US$81 million for the twelve months ended December 31, 2012.

Other derivative instruments:
Total realized and unrealized gain on other derivative instruments amounted to US$77 million for the twelve months ended December 31, 2012, mainly due to realized gain on our Ensco forward contracts in the first quarter (US$63 million).

Note 9 – Newbuildings

(In US$ millions)	
Opening balance at December 31, 2011	2,531
Additions	1,343
Re-classified as drilling units	(1,992)
Closing balance at December 31, 2012	1,882

There have been no reclassifications from Newbuildings to Drilling units in Q4. The additions are primarily related to first instalment on T-15 and second instalment on West Mira.

In 2012, additions to newbuildings are principally related to acquisition of rigs and yard instalments, but also include capitalized interest expenses amounting to US$76 million.

Newbuildings as at December 31, 2012, are as follows:

Newbuildings	**Yard**	**Delivery date**	**Book Value as of December 31, 2012** **In US$ millions**	**Estimated total project price** **In US$ millions**
Jack-up rigs				
West Telesto	Dalian	3Q2013	31	190
West Tucana	Jurong	3Q 2013	50	200
West Castor	Jurong	3Q 2013	50	200
West Oberon	Dalian	4Q 2013	25	190
West Linus	Jurong	4Q 2013	124	530
Tender rigs				
T-15	Nantong	4Q 2012	112	113
T-16	Nantong	1Q 2013	50	113
T-17	Nantong	2Q 2013	44	115
T-18	Nantong	4Q 2013	23	135
West Esperanza	Keppel	2Q 2013	58	200
Semi-submersible rigs				
West Mira	Hyundai	1Q 2015	116	650
West Rigel	Jurong	1Q 2015	125	650
Drillships				
West Auriga	Samsung	1Q 2013	194	600
West Vela	Samsung	2Q 2013	164	600
West Tellus	Samsung	3Q 2013	151	600
West Neptune	Samsung	2Q 2014	163	600
West Jupiter	Samsung	3Q 2014	163	600
West Saturn	Samsung	2Q 2014	161	600
West Carina	Samsung	4Q 2014	78	600
Total			1,882	7,486

Refer also note 18 (commitments and contingencies) for an overview of the maturity schedule for remaining yard installments.

Note 10 – Drilling units

(In US$ millions)	December 31, 2012	December 31, 2011
Cost	15,177	12,898
Accumulated depreciation	(2,283)	(1,675)
Net book value	12,894	11,223

The increase in cost is mostly related to the transfer of West Capricorn and West Leo from Newbuildings in Q2 and West Elara in Q1.

Depreciation expense was US$608 million and US$547 million for the twelve months, and US$161 million and US$138 million for the three months ended December 31, 2012 and 2011, respectively.

Note 11– Equipment

Equipment consists of IT and office equipment, furniture and fittings.

(In US$ millions)	December 31, 2012	December 31, 2011
Cost	62	40
Accumulated depreciation	(22)	(15)
Net book value	40	25

Depreciation expense was US$7 million and US$16 million for the twelve months, and US$2 million and US$1 million for the three months ended December 31, 2012 and 2011, respectively.

Note 12 – Goodwill

In the three and twelve months ended December 31, 2012 there was no change in the carrying value of goodwill. The goodwill balance and changes in the carrying amount of goodwill are as follows:

(In US$ millions)	Year ended December 31, 2012	Year ended December 31, 2011
Net book balance at beginning of period	1,320	1,676
Goodwill acquired during the period	-	-
Goodwill derecognized related to loss of control in subsidiary	-	(356)
Impairment losses	-	-
Currency adjustments	-	-
Net book balance at end of period	1,320	1,320

Note 13 – Long-term interest bearing debt and interest expenses

(In US$ millions)	**December 31, 2012**	**December 31, 2011**
Credit facilities:		
US$800 facility	**227**	272
US$585 facility*	**0**	337
US$900 facility	**731**	-
US$100 facility	**69**	74
US$1,500 facility	**882**	1,059
US$1,200 facility	**867**	1,000
US$700 facility	**560**	630
US$1,121 facility	**1,019**	985
US$2,000 facility (North Atlantic Drilling)	**1,750**	1,917
US$170 facility	**83**	92
US$550 facility	**495**	550
US$400 facility	**360**	400
US$440 facility	**101**	0
Total Bank Loans + other	**7,144**	7,316
Debt recorded in consolidated VIE's:		
US$700 facility	**397**	470
US$1,400 facility	**822**	939
Total Ship Finance Facilities	**1,219**	1,409
Bonds and convertible bonds:		
Bonds	**1,567**	425
Convertible bonds	**561**	545
Total bonds	**2,128**	970
Other credit facilities with corresponding restricted cash deposits:	**270**	298
Total interest bearing debt	**10,761**	9,993
Less: current portion	**(2,066)**	(1,419)
Long-term portion of interest bearing debt	**8,695**	8,574

* Repaid when refinancing the new 900 facility

The outstanding debt as of December 31, 2012 is repayable as follows:

(In US$ millions) **Year ending December 31**	
2013	2,426
2014	1,721
2015	1,886
2016	1,000
2017 and thereafter	3,817
Effect of amortization of convertible bond	(89)
Total debt	10,761

On December 4, 2012 a US$440 million secured credit facility was entered which bears interest at LIBOR plus a margin and is repayable over a term of five years. At maturity a balloon payment of US$220 million is due.

Covenants- Credit facilities:

We have various covenants relating to credit facilities. These mainly consist of minimum liquidity requirements, interest coverage ratio, current ratio, equity ratio and leverage ratio - for more details see our Annual Report 2011.

Note 14 – Equity

All shares are common shares of US$2.00 par value each	**December 31, 2012** Shares	**December 31, 2012** US$ millions	**December 31, 2011** Shares	**December 31, 2011** US$ millions
Authorized share capital	800,000,000	1,600	800,000,000	1,600
Issued and fully paid share capital	469,250,933	938	469,250,933	938
Treasury shares held by Company	(72,859)	0	(1,478,759)	(3)
Shares issued and outstanding	469,178,074	938	467,772,174	935

Note 15 – Other comprehensive income

Accumulated other comprehensive income as per December 31, 2012 and December 31, 2011:

	December 31, 2012	December 31, 2011
The total balance of accumulated other comprehensive income is made up as follows:		
Unrealized gain on marketable securities	**206**	1
Unrealized gain on foreign exchange	**67**	54
Actuarial gain relating to pension	**(30)**	(11)
Unrealized gain/ (loss) on interest rate swaps in subsidiaries	**0**	0
Unrealized gain/ (loss) on interest rate swaps in VIEs	**(49)**	(49)
Accumulated other comprehensive income	**194**	(5)

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.

Note 16 – Related party transactions

We have entered into sale and leaseback 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 consolidated in our financial statements. The equity attributable to Ship Finance in the VIEs is included in non-controlling interests in our consolidated financial statements.

In the twelve month period ended December 31, 2012, we incurred the following lease costs on units leased back from Ship Finance subsidiaries:

Rig	
West Polaris	114
West Hercules	83
West Taurus	114
Total	**311**

These lease costs are eliminated at consolidation.

On July 1, 2011, 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 on December 31, 2012 and December 31, 2011.

On November 12, 2012 the Company granted Archer a short term unsecured loan of US$55 million. The loan bears interest of LIBOR + a margin and matures in February 2013.

On December 20, 2012, the Company sold it's North Atlantic Drilling Ltd unsecured bond of US$500 million to Metrogas plus accrued interest of US$8.7 million with a call option to repurchase the bond in full for a price equal to par plus unpaid accrued interest on the date of repurchase. The call option matures in June 2013. The obligation is recorded as a long term related party liability. In conjunction with this arrangement we also entered into a agreement to settle dividend payable to Metrogas in return for a short term unsecured loan of US$93 million. The loan bears interest of LIBOR + a margin and matures in March 2013. The net proceeds from these arrangements were US$415.3 million.

On December 21, 2012, the Company obtained a short term unsecured loan of US$93 million from Metrogas. The loan bears interest of LIBOR + a margin and matures in March 2013.

On December 31, 2012, the Company obtained a short term loan from Metrogas of NOK140 million. The loan bears interest of NIBOR + a margin and matures in March 2013.

Note 17 – Risk management and financial instruments

The majority of our gross earnings from rigs and vessels are receivable in US dollars and the majority of our other transactions, assets and liabilities are denominated in US dollars, the functional currency of the Company. However, the Company has operations and assets in a number of countries worldwide and incurs expenditures in other currencies, causing its results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the US dollar. The Company is also exposed to changes in interest rates on floating interest rate debt, and to the impact of changes in currency exchange rates on NOK denominated debt. There is thus a risk that currency and interest rate fluctuations will have a negative effect on the value of the Company's cash flows.

Interest rate risk management

The Company's exposure to interest rate risk relates mainly to its floating interest rate debt and balances of surplus funds placed with financial institutions. This exposure is managed through the use of interest rate swaps and other derivative arrangements. The Company's objective is to obtain the most favorable interest rate borrowings available without increasing its foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on overnight deposits in banks. Such deposits generally have short-term maturities, in order to provide the Company with flexibility to meet all requirements for working capital and capital investments. The extent to which the Company utilizes interest rate swaps and other derivatives to manage its interest rate risk is determined by the net debt exposure and its views on future interest rates.

Interest rate swap agreements not qualified as hedge accounting

At December 31, 2012, the Company had interest rate swap agreements with an outstanding principal of US$6,148 million (December 31, 2011: US$4,738 million). In addition, the Company had outstanding cross currency interest rate swaps at December 31, 2012 with a principal amount of US$216 million (December 31, 2011: US$34 million). These agreements do not qualify for hedge accounting, and accordingly any changes in the fair values of the swap agreements are included in the Consolidated Statement of Operations under "Gain/(loss) on derivative financial instruments". The combined total fair value of the interest rate swaps and cross currency interest swaps outstanding December 31, 2012 amounted to a liability of US$375 million (December 31, 2011: a liability of US$345 million). The fair value of the interest rate swaps are classified as other current liabilities and the cross currency interest swaps are classified as other current assets in the balance sheet.

During first quarter 2012 the Company has entered into one new cross currency interest rate swap in connection with the NOK 1,250 million bond. In September 2012 one cross currency interest rate swap agreement expired. In addition to this the only change to the notional amounts on these agreements from December 31, 2011 is the amortization of the notional amount on three interest rate swaps. The amortization for the twelve month period ended December 31, 2012 for these swaps amounts to US$40 million. The table below reflects the above mentioned changes. For a complete overview of the interest rate swap agreements please refer to the 2011 Annual Financial Statements on form 20-F.

Outstanding principal	Receive rate	Pay rate	Length of contract
(In US$ millions)			
79	6 month LIBOR	3.83%	Mar 2008 - Sep 2016
216 (NOK 1,250 mill)	3month NIBOR+3.2%	3 month LIBOR +3.8%	Feb 2012 – Feb 2014

Interest rate hedge accounting

Two of the Ship Finance subsidiaries consolidated by the Company as VIE's have entered into interest rate swaps in order to mitigate the Company's exposure to variability in cash flows for future interest payments on the loans taken out to finance the acquisition of West Polaris and West Taurus. These interest rate swaps qualify for hedge accounting and any changes in their fair value are included in "Other comprehensive income/loss". Below is a summary of the notional amounts, fixed interest rates payable and durations of these interest rate swaps.

Outstanding principal	Receive rate	Pay rate	Length of contract
(In US$ millions)			
0 (*West Polaris*)	1 month LIBOR	3.89%	July 2008 - Oct 2012
450 (*West Taurus*)	1 month LIBOR	2.17%	Dec 2008 - Aug 2013

In the twelve month period ended December 31, 2012 the above two VIE Ship Finance subsidiaries recorded fair value gains of $20 million on their interest rate swaps. These gains were recorded by those VIEs in "Other comprehensive income" but due to their ownership by Ship Finance these losses are allocated to "Non-controlling interest" in our equity statement.

Any change in fair value resulting from hedge ineffectiveness is recognized immediately in earnings. The two VIEs and therefore the Company, did not recognize any gain or loss due to hedge ineffectiveness in the consolidated financial statements during the twelve month period ended December 31, 2012 and 2011 relating to derivative financial instruments.

Foreign currency risk management

The Company uses foreign currency forward contracts and other derivatives to manage its exposure to foreign currency risk on certain assets, liabilities and future anticipated transactions. Such derivative contracts do not qualify for hedge accounting treatment and are recorded in the balance sheet under receivables if the contracts have a net positive fair value, and under other short-term liabilities if the contracts have a net negative fair value. At December 31, 2012, the Company had forward contracts and cross currency interest rate swaps to sell approximately US$516 million between January 2013 and May 2013 at exchange rates ranging from NOK5.63 to NOK5.77 per US dollar. The total fair value of currency forward contracts December 31, 2012 amounted to US$4 million (December 31, 2011: minus US$3 million).

Total Return Swap Agreements

In December 2012, the Company entered into a TRS agreement with 2,000,000 Seadrill Limited shares as underlying security. This agreement expires in March 2013 and the agreed reference price was NOK 220.32 per share.

The total realized and unrealized gain relating to TRS agreements in 2012 amounted to US$7 million (December 31, 2011 US$5 million).

Fair values of financial instruments

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2012 and December 31, 2011 are as follows:

(In US$ millions)	**December 31, 2012** Fair value	**December 31, 2012** Carrying value	December 31, 2011 Fair value	December 31, 2011 Carrying value
Cash and cash equivalents	318	318	483	483
Restricted cash	394	394	482	482
Current portion of long-term debt	2,066	2,066	1,419	1,419
Long-term portion of floating rate debt	6,287	6,287	7,711	7,711
Long term portion of fixed rate CIRR loans	218	218	250	250
Fixed interest convertible bonds	872	561	735	545
Fixed interest bonds	1,369	1,342	333	350
Floating interest bonds	220	220	75	75

The carrying value of cash and cash equivalents and restricted cash, which are highly liquid, is a reasonable estimate of fair value and categorized at level 1 on the fair value measurement hierarchy.

The fair value of the current and long-term portion of floating rate debt is estimated to be equal to the carrying value since it bears variable interest rates, which are reset regularly and usually in the range between every 1 to 6 months. This debt is not freely tradable and cannot be purchased by the Company at prices other than the outstanding balance plus accrued interest. We have categorized this at level 2 on the fair value measurement hierarchy.

The fair value of the long-term portion of the fixed rate CIRR loans is equal to the carrying value, as they are matched with equal balances of restricted cash. We have categorized this at level 2 on the fair value measurement hierarchy.

The convertible bonds are freely tradable and their fair value has been set equal to the price at which they were traded at on December 31, 2012 and December 31, 2011. We have categorized this at level 1 on the fair value measurement hierarchy.

The fixed interest rate bonds are freely tradable and their fair value has been set equal to the price at which they were traded at on December 31, 2012 and December 31, 2011. We have categorized this at level 1 on the fair value measurement hierarchy.

Financial instruments that are measured at fair value on a recurring basis:

(In US$ millions)	**Fair value** **December 31, 2012**	**Fair value measurements at reporting date using** **Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Marketable securities	**333**	329	-	4
Other derivative instruments – short term receivable	**11**	-	11	-
Total assets	**344**	329	11	4
Liabilities:				
Interest rate swap contracts – short term payable	**397**	-	397	-
Other derivative instruments – short term payable	**-**		-	
Total liabilities	**397**	-	397	-

(In millions of US dollar)	**Fair value** **December 31, 2011**	**Fair value measurements at reporting date using** **Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Marketable securities	24	4	-	20
TRS equity swap contracts	11	-	11	-
Other derivative instruments – short term receivable	3	1	2	-
Total assets	38	5	13	20
Liabilities:				
Interest rate swap contracts – short term payable	372	-	372	-
Currency forward contracts – short term payable	3		3	
Other derivative intruments – short term payable	39		39	
Total liabilities	414		414	-

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

(In US$ millions)	
Beginning balance January 1, 2012	20
Realization	-16
Purchase	-
Changes in fair value of bonds	-
Closing balance December 31, 2012	4

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

Note 18 – Commitments and contingencies

Purchase Commitments

At December 31, 2012, we had nineteen contractual commitments under newbuilding contracts. The contracts are for the construction of two semi-submersible rigs, seven drillships, five jack-up rigs, and five tender rigs. The units are scheduled to be delivered in 2013, 2014 and 2015. As of December, we have paid $1,882 million related to these rigs, including payments to the construction yards and other payments, and are committed to make further payments amounting to $5,604 million. These amounts include contract variation orders, spares, accrued interest expenses, construction supervision and operation preparation.

The maturity schedule for the remaining payments is as follows:

Maturity schedule for remaining newbuild payments as of December 31, 2012 *(In US$ millions)*	
2013	2,711
2014	1,834
2015	1,059
Total	5,604

Legal Proceedings

We are a party, as plaintiff or defendant, to a few lawsuits in various jurisdictions for demurrage, damages, off-hire and other claims and commercial disputes arising from the construction or operation of our drilling units, in the ordinary course of business or in connection with our acquisition activities. We believe that the resolution of such claims will not have a material impact individually or in the aggregate 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 December 31, 2012.

Note 19 – Variable Interest Entities (VIEs)

As of December 31, 2012, the Company leased a drillship and two semi-submersible rigs from VIEs under finance leases. Each of the units had been sold by the Company to single purpose subsidiaries of Ship Finance Ltd and simultaneously leased back by the Company on bareboat charter contracts for a term of 15 years. The Company has several options to repurchase the units during the charter periods, and obligations to purchase the assets at the end of the 15 year lease period. The following table gives a summary of the sale and leaseback arrangements, as of December 31, 2012:

Unit	Effective from	Sale value (In US$ millions)	First repurchase option (In US$ millions)	Month of first repurchase option	Last repurchase option * (In US$ millions)	Month of last repurchase Option *
West Polaris	July 2008	850	548	September 2012	178	June 2023
West Taurus	Nov 2008	850	418	February 2015	149	Nov 2023
West Hercules	Oct 2008	850	580	August 2011	135	Aug 2023

* For the unit *West Polaris,* Ship Finance has a put option exercisable at the end of the lease terms by which the vessel may be sold to Seadrill for a fixed price of $75 million. For *West Taurus* and *West Hercules* repurchase obligations at the end of the lease terms have been agreed, at $149 million and $135 million, respectively.

The Company has determined that the Ship Finance subsidiaries, which own the units, are variable interest entities (VIEs), and that the Company is the primary beneficiary of the risks and rewards connected with the ownership of the units and the charter contracts. Accordingly, these VIEs are fully consolidated in the Company's consolidated accounts. The Company did not record any gains from the sale of the units, as they continued to be reported as assets at their original cost in the Company's balance sheet at the time of each transaction. The equity attributable to Ship Finance in the VIEs is included in non-controlling interests in the Company's consolidated accounts. At December 31, 2012 (as well as at December 31, 2011) the units are reported under drilling units in the Company's balance sheet.

The bareboat charter rates are set on the basis of a Base LIBOR Interest Rate for each bareboat charter contract, and thereafter are adjusted for differences between the LIBOR fixing each month and the Base LIBOR Interest Rate for each contract. A summary of the bareboat charter rates per day for each unit is given below. The amounts shown are based on the Base LIBOR Interest Rate, and reflect average rates for the year.

	Base LIBOR Interest Rate	2013 (In US$ thousands)	2014 (In US$ thousands)	2015 (In US$ thousands)	2016 (In US$ thousands)	2017 (In US$ thousands)
West Polaris	2.85%	222.3	176.5	175.4	170.0	170.0
West Taurus	4.25%	316.2*	320.7	165.0	158.8	157.5
West Hercules	4.25%	250.0	238.5	180.0	172.5	170.0

* For a period the interest rates *West Taurus* have been fixed 2.17% and the bareboat charter rate for West Taurus is fixed regardless of movements in LIBOR interest rates. The fixed charter rate is reflected in the above table.

The assets and liabilities in the statutory accounts of the VIEs as at December 31, 2012 and as at December 31, 2011 are as follows:

	December 31,2012		December 31, 2011	
(In US$ millions)	**SFL West Polaris Limited**	**SFL Deepwater Ltd.**	**SFL West Polaris Limited**	**SFL Deepwater Ltd.**
Name of unit	***West Polaris***	***West Taurus West Hercules***	West Polaris	West Taurus West Hercules
Investment in finance lease	534	1,120	611	1,240
Other assets	7	20	12	23
Total assets	541	1,140	623	1,263
Long term debt	360	0	398	822
Other liabilities	107	989	174	326
Total liabilities	467	989	572	1,148
Equity	74	151	51	115
Book value of units in the Company's consolidated accounts	594	1,140	614	1,021

Note 20 – Equity offerings of subsidiaries

On October 24, 2012 Seadrill Partners LLC completed its IPO of 10,062,500 common units representing limited liability company interests in Seadrill Partners LLC at a price of US$22.00 per unit, for gross proceeds of US$221.4 million and expenses of US$18.7 million (including 1,312,500 common units issued in connection with the exercise of the over-allotment option). Seadrill Partners LLC is listed on the New York stock exchange (“NYSE”) under the symbol “SDLP”. Upon completion of the offering, Seadrill Limited owned approximately 75.7% of the limited liability company interests in Seadrill Partners LLC. Seadrill Partners’ only cash generating assets are its ownership interest in Seadrill Operating LP and Seadrill Capricorn Holdings LLC (collectively, “OPCO”). OPCO’s fleet consists of two ultra-deepwater semi-submersible rigs (the West Aquarius and the West Capricorn), one ultra-deepwater drillship (the West Capella), and one semi-tender rig. (the West Vencedor), all of which operate under long-term contracts.

Note 21 – Subsequent Events

On November 15, 2012 a subsidiary of Seadrill Ltd entered into an agreement with Songa Eclipse Ltd to acquire the ultra-deepwater semi-submersible drilling rig, “Songa Eclipse” for cash consideration of US$590 million. The cash consideration also includes the acquisition of the drilling contract with Total Offshore Angola that is fixed and ending in December 2013 with three one year options to extend the contract. This acquisition is in line with our strategy of building a modern fleet through selective acquisitions and organic growth giving us an increased exposure to the ultra-deepwater market. A prepayment of $59 million was made before the end of 2012 and the physical delivery and final payment took place January 3, 2013 which is considered to be the acquisition date. This purchase is considered to constitute a business combination for accounting purposes. The Company is still in the process of determining the allocation of the purchase price to the identified assets and liabilities acquired due to the acquisition being recently completed.

On January 16, 2013 - Tullow plc has exercised its contractual option to extend the contract for the ultra-deepwater semi-submersible rig West Leo by two years from May 2016 to May 2018. The West Leo is expected to carry out operations in West Africa until the end of its contract in May 2018. The potential contract revenue for the extension is estimated to approximately US$450 million based on 97 percent utilization and includes a performance bonus arrangement. This brings the total estimated contract value to US$1.13 billion. In line with the omnibus agreement terms and conditions between Seadrill and Seadrill Partners, Seadrill is obligated to offer the West Leo to Seadrill Partners at a fair market price.

On January 30, 2013 – the Company received and accepted an attractive offer from a commercial bank to finance its current exposure to Sevan Drilling ASA ("Sevan") through a forward agreement. The Company sold in connection with this its existing 96,000,000 shares and received a forward agreement with exposure to the same number of shares. The shares have been sold at NOK 3.95 per share. The forward agreement runs until 30 April 2013 and has a strike price of NOK 3.9851. Following the new agreement Seadrill are not longer directly owners of any shares in Sevan, but are exposed though forward agreements to 96,000,000 shares or 28,52 percent of the outstanding shares. The total ownership percentage has been calculated based on an issued share capital in Sevan of 336,625,000 shares and do not include the issuance of the new planned private placement.

On January 31, 2013 – the Company entered into an agreement for the construction of two high specification jack-up drilling rigs with Dalian Shipbuilding Industry Offshore Inc in China. The new units are scheduled for delivery during the first and second quarter 2015, and the estimated total project price is approximately US$230 million (including project management, capitalized interest, drilling and handling tools, spares and operation preparations) per rig, with tail-heavy payment terms.

On February 7, 2013 - reference is made to the stock exchange notice from Sevan Drilling ASA, dated 15 January, 2013, where the Company in a private placement was allocated and subscribed for 81,828,500 shares in Sevan Drilling ASA at a subscription price of NOK 3.95. Subsequently, Seadrill received and accepted an offer from a commercial bank to finance these shares. In connection to this, Seadrill has transferred its entire allocation to the same commercial bank and entered into a forward agreement to buy the same number of shares. The forward agreement runs until May 6, 2013 and has a strike price of NOK 3.9815 per share.
Following this transaction, Seadrill will not directly hold any shares in Sevan, but will be exposed through forward agreements to 177,828,500 shares or 30.31 percent of the outstanding shares following completion of the private placement.

On February 11, 2013 –the Company and SapuraKencana Petroleum Berhad ("SapuraKencana") have entered into a conditional sale and purchase agreement in relation to the proposed transaction. SapuraKencana will acquire all the tender rigs in Seadrill's fleet except for the West Vencedor, T15, and T16. These three rigs are either owned or planned to be owned by Seadrill Partners LLC. Seadrill will in a transition period in co-operation with SapuraKencana retain the management of all tender rigs that are in operation outside Asia.

The agreed acquisition price is for an enterprise value of US$2.9 billion less adjustments and includes future capital commitments for newbuildings T17, T18, and West Esperanza. The Company will furthermore continue to manage and supervise the construction of the current new building program on behalf of SapuraKencana. The enterprise value includes all the debt in the tender rig business which is estimated at US$780 million as of February 6, 2013. Seadrill has agreed to pay US$75 million to SapuraKencana at closing to compensate for cash flow from the tender rig business from February 8, 2013 to closing, netted off for lost interest income. The transaction is expected to close by the end of April 2013.

The Company has considered whether the tender rigs asset group should be presented as "held for sale" on the balance sheet as of year-end and have concluded that we do not meet all of the criteria for such a presentation. We have further concluded that as long as we do not meet the criteria for assets held for sale and the sale has not been closed, we do not qualify for discontinued operations presentation as of year-end.

On February 11, 2013 – the Company have been allocated 82,003,000 shares in the private placement of Archer Limited. The shares were acquired at price US$1.20 per share. Furthermore, Seadrill will receive 2,811,793 shares in Archer as compensation for underwriting parts of the private placement. Following this purchase and the receipt of the underwriting commission, Seadrill will be the owner of 231,053,239 shares in the Company, corresponding to 39.9% of the total number of outstanding shares in the Company.