seadrill Limited (SDRL) - Third quarter 2013 results

Highlights

- seadrill reports third quarter 2013 EBITDA* of US$663 million
- seadrill reports third quarter 2013 net income of US$315 million and earnings per share of $0.61
- seadrill increases the ordinary quarterly cash dividend by 4 cents to 95 cents per share
- Economic utilization for floaters was 94% in Q3 2013 in-line 94% in Q2 2013
- Economic utilization for the jack-up fleet in Q3 2013 was 97%, down from 98% in Q2 2013
- seadrill ordered four ultra-deepwater drillships for an estimated project price below US$600 million per rig, with deliveries scheduled for the second half of 2015
- seadrill ordered two jack-ups for an estimated project price of US$230 million per rig, with deliveries in the second and third quarters of 2016, respectively
- seadrill reached 50.1% ownership in Sevan Drilling and launched a mandatory offer for all outstanding shares which closed on August 22, 2013
- seadrill secured a 180 day contract for the newbuild ultra-deepwater drillship West Tellus with a total estimated revenue potential of US$150 million
- seadrill secured a 2.5 year contract for the jack-up rig West Freedom with a total estimated revenue potential of US$222 million
- seadrill secured a one year contract extension with Talisman in Malaysia for the jack-up rig West Vigilant with a total estimated revenue potential of US$61 million
- North Atlantic Drilling awarded an extension of the current drilling contract, in addition to a new drilling contract for West Navigator, securing employment to December 2014 with a total estimated revenue potential of US$98 million
- seadrill completes placement of US$500 million unsecured senior notes maturing in 2020

Subsequent events

- seadrill Partners announces settlement agreement and 18 month contract extension for the West Aquarius with a total estimated revenue potential of US$337 million
- Total S.A. exercised their option with seadrill Partners to convert the contract extension for the West Capella from 5 years to 3 years. As a result of this change in contract terms the dayrate has increased from US$580,000 per day to US $627,500 per day
- seadrill executes a one year contract extension for the West Leda with ExxonMobil in Malaysia with a total estimated revenue potential of US$60 million
- North Atlantic Drilling suspends partnership discussions and proceeds with NYSE listing process
- seadrill Limited sells the tender rig T-16 to seadrill Partners for US$200 million
- North Atlantic Drilling completes placement of NOK1.5 billion unsecured bond issue maturing in 2018
- seadrill acquires high specification jack-up rig, Prospector 3, for US$235 million
- seadrill enters into a Heads of Agreement with PEMEX for 5 potential jack-up contracts beginning in the first half of 2014. Cumulative duration of the contract is more than 30 rig years with a total revenue potential in excess of US$1.8 billion
- Orderbacklog currently at US$19.5 billion excluding PEMEX Heads of Agreement and West Aquarius extension

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

Consolidated financial information

Third quarter 2013 results
Consolidated revenues for the third quarter of 2013 were US$1,280 million compared to $1,268 million in the second quarter of 2013. The increase is primarily due to the inclusion of Sevan Drilling and jack-up rigs AOD II and West Tucana, and tender rigs T-15 and T-16 entering the fleet, offset by the disposal of the tender rig fleet.

Operating profit for the quarter was US$471 million compared to US$507 million in the preceding quarter. The decrease is a result of higher operating expenses due to new rigs entering the fleet and higher general and administrative expenses due to the consolidation of Sevan Drilling.

Net financial and other items for the quarter showed a loss of US$96 million compared to a gain of US$1,292 million in the previous quarter. The loss is primarily related to negative impacts from interest rate swap movements (a non-cash effect) and the exclusion of the gain on sale of the tender rig business.

Income taxes for the third quarter were US$60 million, an increase of US$11 million from the previous quarter.

Net income for the quarter was US$315 million representing basic and diluted earnings per share of $0.61 and $0.60, respectively.

Balance sheet
As of September 30, 2013, total assets were US$24,979 million, an increase of US$3,178 million compared to June 30, 2013.

Total current assets decreased to US$2,562 million from US$2,978 million over the course of the quarter, primarily driven by a decrease in short term marketable securities, offset by an increase in cash and cash equivalents and other current assets.

Total non-current assets increased to US$22,417 million from US$18,823 million primarily due to the inclusion of the Sevan Louisiana and rig no. 4 into newbuildings and the inclusion of the Sevan Driller, Sevan Brasil into drilling units, and the inclusion of certain marketable securities classified as long term.

Total current liabilities increased to US$5,639 million from US$4,397 million largely due to an increase in other current liabilities associated with the consolidation of Sevan Drilling.

Long-term interest bearing debt increased to US$10,087 million from US$8,521 million over the course of the quarter and total net interest bearing debt increased to US$13,613 million from US$12,024 million. The increase is primarily due to the US$500 million bond issuance, drawdown on credit facilities for rig deliveries and the consolidation of US$795 million of Sevan debt.

Total equity decreased to US$7,766 million from US$7,840 million as of September 30, 2013, primarily driven by net income for the quarter and dividends paid.

Cash flow
As of September 30, 2013, cash and cash equivalents were US$551 million, an increase of US$114 million compared to the previous quarter.

Net cash from operating activities for the nine month period ended September 30, 2013 was US$1,204 million and net cash used in investing activities for the same period was US$1,497 million. Net cash provided by financing activities was US$526 million.

Outstanding shares
As of September 30, 2013 common shares outstanding in seadrill Limited totaled 469,111,217 adjusted for our holding of 139,716 treasury shares. Additionally, we had stock options for 3.4 million shares outstanding under various share incentive programs for management, of which approximately 1.1 million are vested and exercisable. The Company held a TRS agreement with exposure to 1.7 million shares in seadrill which matures on December 4, 2013, with a TRS strike price of NOK 291.27 per share.

Operations

Offshore drilling units

During the third quarter, seadrill had 19 floaters, 18 jack-up rigs and 3 tender rigs in operation in Northern Europe, US Gulf of Mexico, Mexico, South America, Canada, West Africa, Middle East and Southeast Asia.

Our floaters (drillships and semi-submersible rigs) achieved an economic utilization rate of 94% in the third quarter compared to 94% in the second quarter. We are pleased with the stable operating performance. The main issues affecting our third quarter performance were related to a total of 26 days downtime for planned 5-year classing yardstays for the West Polaris and West Sirius and unplanned downtime on the West Taurus and West Aquarius.

Average economic utilization was 97% for our jack-up rigs in the third quarter compared to 98% in the preceding quarter. The tender rig fleet had an average economic utilization of 98% in the third quarter, an increase from the second quarter economic utilization of 92%.

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, Russia	Sep-12	Jul-16
West Venture **	Statoil	Norway	Aug-10	Jul-15
West Phoenix **	Total	UK	Jan-12	Jun-15
West Hercules **	Statoil	Norway	Jan-13	Jan-17
West Sirius	BP	USA	Jul-08	Jul-19
West Taurus	Petrobras	Brazil	Feb-09	Feb-15
West Eminence	Petrobras	Brazil	Jul-09	Jul-15
West Aquarius ****	ExxonMobil	Canada	Jan-13	Oct-15
West Orion	Petrobras	Brazil	Jul-10	Jul-16
West Pegasus	PEMEX	Mexico	Aug-13	Aug-16
West Capricorn ****	BP	USA	Jul-12	Sep-17
West Eclipse	Total	Angola	Jan-13	Jan-15
West Leo	Tullow Oil	Ghana, Ivory Coast, Guinea	June-13	Jun-18
West Mira (NB*)	Husky	South Korea - Hyundai Shipyard	Jun-15	Jun-20
West Rigel (NB*) **		Singapore - Jurong Shipyard		
Sevan Driller *****	Petrobas	Brazil	May-10	May-16
Sevan Brasil *****	Petrobas	Brazil	Jul-12	Jul-18
Sevan Louisiana (NB*) *****	LLOG	USA	Feb-14	Jan-17
Sevan Rig 4 (NB*) *****		China - COSCO Shipyard		
Drillships				
West Navigator **	Shell - Centrica Enegi NUF	Norway	Jan-13	Dec-14
West Polaris	ExxonMobil	Angola	Mar-13	Mar-18
West Capella ****	Total	Nigeria	Apr-09	Apr-17
West Gemini	Total	Angola	Oct-13	Oct-17
West Auriga	BP	USA	Oct-13	Oct-20
West Vela	BP	USA	Nov-13	Nov-20
West Tellus	Chevron	China, Liberia	Nov-13	Jul-14
West Neptune (NB*)	LLOG	South Korea - Samsung Shipyard / USA	Oct-14	Oct-17
West Saturn (NB*)		South Korea - Samsung Shipyard		

West Jupiter (NB*)		South Korea - Samsung Shipyard		
West Carina (NB*)		South Korea - Samsung Shipyard		
West Aquila (NB*)		South Korea - Samsung Shipyard		
West Libra (NB*)		South Korea - Samsung Shipyard		
West Draco (NB*)		South Korea - DMSE Shipyard		
West Dorado (NB*)		South Korea - DMSE Shipyard		
HE Jack-up rigs				
West Epsilon **	Statoil	Norway	Dec-10	Dec-16
West Elara **	Statoil	Norway	Mar-12	Mar-17
West Linus (NB*) **	ConocoPhillips	Singapore - Jurong Shipyard / Norway	Apr-14	Apr-19
BE Jack-up rigs				
West Defender	Shell	Brunei	Aug-12	Jan-14
West Resolute	KJO	Saudi Arabia, Kuwait	Oct-12	Oct-15
West Prospero	Vietsovpetro	Vietnam	Jul-13	Mar-14
West Courageous	Hess	Malaysia	Feb-13	Feb-14
West Triton	KJO	Saudi Arabia, Kuwait	Aug-12	Aug-15
West Vigilant	Talisman	Malaysia	Nov-13	Nov-14
West Intrepid	In Transit	In Transit		
West Ariel	Vietsovpetro	Vietnam	Jul-13	Mar-14
West Cressida	PTTEP	Thailand	Nov-10	Aug-14
West Freedom	Cardon IV	Venezuela	Nov-13	May-16
West Callisto	Saudi Aramco	Saudi Arabia	Nov-12	Nov-15
West Leda	ExxonMobil	Malaysia	Oct-13	Mar-15
West Mischief	ENI	Republic of Congo	Dec-12	Dec-14
AOD-1 ***	Saudi Aramco	Saudia Arabia	May-13	May-16
AOD-2 ***	Saudi Aramco	Saudia Arabia	Jul-13	Jun-16
AOD-3 ***	Saudi Aramco	Saudia Arabia	Oct-13	Oct-16
West Tucana	PVEP	Vietnam	Sep-13	Oct-14
West Telesto (NB*)	Premier	Vietnam	Dec-13	May-14
West Castor (NB*)	Shell	Brunei	Dec-13	May-16
West Oberon (NB*)	In Transit	In Transit		
Prospector 3 (NB*)		China - Dalian Shipyard		
West Titan (NB*)		China - Dalian Shipyard		
West Proteus (NB*)		China - Dalian Shipyard		
West Rhea (NB*)		China - Dalian Shipyard		
West Tethys (NB*)		China - Dalian Shipyard		
West Hyperion (NB*)		China - Dalian Shipyard		
West Umbriel (NB*)		China - Dalian Shipyard		
West Dione (NB*)		China - Dalian Shipyard		
West Mimas (NB*)		China - Dalian Shipyard		
Tender rigs				
T15 ****	Chevron	Thailand	Jul-13	Jul-18
T16 ****	Chevron	Thailand	Aug-13	Aug-18

West Vencedor ****	Cabina Gulf Oil Company / Chevron	Angola	Mar-10	Mar-15

* 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.

*** Owned by Asia Offshore Drilling in which we own 66 percent of the outstanding shares.

**** Owned by seadrill Partners in which we own 77.5 percent of the outstanding shares.

***** Owned by Sevan Drilling in which we own 50.11 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 listed on the Oslo Stock Exchange. We currently own 231,053,239 shares in Archer, which represents a gross value of US$198 million based on the closing share price of NOK5.19 on November 22, 2013. Archer is estimated to contribute a loss of US$8.5 million to our third quarter net income. Archer is reported as part of investment in associated companies under other financial items. For more information on Archer please see their quarterly report which will be reported on November 28, 2013..

Sevan Drilling ASA ("Sevan Drilling")
Sevan Drilling is an offshore drilling company listed on the Oslo Stock Exchange. Sevan Drilling owns and operates three ultra-deepwater rigs of the cylindrical Sevan design in Brazil and the US GoM and has one additional rig of similar design under construction. Delivery of the final newbuild is scheduled for the second quarter 2014.

In July we increased our ownership interests from 29.9% to 50.1% and subsequently launched a tender offer for the remaining shares. Upon expiration of the tender offer on August 22, 2013 seadrill's stake in Sevan was 50.11%, representing a gross value of US$305 million based on the closing share price of NOK6.2 on November 22, 2013. We have consolidated Sevan's results as of the July 2, 2013.

For more information on Sevan Drilling, see their separate quarterly report published on www.sevandrilling.com.

Other investments

SapuraKencana Petroleum Bhd.("SapuraKencana")
SapuraKencana is a fully integrated Malaysian oil service provider listed on the Malaysian Stock Exchange.

As of April 30, seadrill had sold all tender rigs apart from the West Vencedor, T-15 and T-16 to SapuraKencana. seadrill's 12% stake in SapuraKencana will continue to be included in other marketable securities, both long and short term (please refer to Note 7 for additional detail). After the transaction seadrill is the third largest equity holder in SapuraKencana.

Based on the closing share price of MYR4.28 on November 22, 2013 the total value of our shares is US$960 million. We continue to invest in our Brazilian joint project in support of its PLSV newbuild program, continue to manage and supervise the current tender rigs under construction, manage three tender rigs outside of Asia, and provide management administration and support services.

seadrill, as an equity investor, will continue to support SapuraKencana's strategy of growing its' broad offshore service portfolio. We believe in SapuraKencana's strong position in the Asian market and see significant international growth opportunities for the company. On October 22, 2013 SapuraKencana acquired oil and gas exploration and production assets from Newfield Exploration for US$898 million. This comes in addition to the E&P assets the Company already controls . The increased focus on the E&P business includes the need for drilling and opens up further cooperation opportunities between seadrill and SapuraKencana. We continue to support the company's strategic goal of becoming a global offshore services company and to be the leading offshore service provider in Asia. We are pleased to see that based on the Company's performance, SapuraKencana has received an award from Forbes magazine as one of the 50 Fabulous Asian Companies.

Newbuilding program

Since our last quarterly report in August 2013, we have taken delivery of one ultra-deepwater drillship, the West Tellus, one ultra-deepwater semi-submersible, the Sevan Louisiana, three high specification jack-up units, the West Castor, West Oberon, and West Telesto, and one tender rig, the T-16.
We currently have 21 rigs under construction.

In total, 3 out of the 21 rigs under construction have already secured long-term contracts upon delivery. Total remaining yard installments for our newbuilds are approximately US$6.5 billion and US$1.5 billion has been paid to the yards in pre-delivery installments.

New contracts and contract extensions

Since we reported our second quarter earnings on August 28, 2013, we have entered into the following contracts and contract extensions.

In October seadrill Partners entered into contract negotiations on the West Aquarius for an 18 month extension for operations off the east coast of Canada, subject to partner approval, thereby extending operations through April 2017. The necessary partner approvals for the extension have since been received. The total revenue potential for the extension is estimated to be approximately US$337 million. In conjunction with the commencement of negotiations, seadrill Partners reached a settlement for non-payment for 37 days during the recent mobilization period as a result of the time required to complete modifications for operations in Canadian waters. The total EBITDA reduction that was part of the settlement totaled US$22 million which was recognized in the third quarter.

Additionally during the quarter Total S.A. exercised their option with seadrill Partners to convert the contract extension for the West Capella from 5 years to 3 years. As a result of this change in contract terms the dayrate has increased from US$580,000 per day to US$627,500 per day. The use of the option to convert to a shorter contract with a higher dayrate reflects to a transfer of operatorship for the license and the wish for the new operator to retain flexibility. Lastly, seadrill executed a one year contract extension for the West Leda with ExxonMobil in Malaysia with a total estimated revenue potential of US$60 million.

In November, seadrill entered into a Heads of Agreement with PEMEX for 5 potential jack-up contracts beginning in the first half of 2014. Cumulative duration of the contracts is more than 30 rig years with a total revenue potential in excess of US$1.8 billion. The agreement will include three Le Tourneau Super 116C design rigs, the West Defender, West Intrepid and West Courageous, as well as two newbuild Friede & Goldman JU2000E design rigs, West Oberon and Prospector 3. In connection with the contract seadrill may divest a percentage of these assets at current market prices in order to bring in a local partner. The goal is to strengthen local content in the operation and to have a more efficient and cost effective operation that comes with with better access to a skilled local workforce.

Total order backlog as of November 22 is US$19.5 billion excluding the PEMEX Heads of Agreement and West Aquarius extension. seadrill is currently in advanced negotiations for several new long term contracts for deepwater rigs as well as jack ups. Several of these opportunities have been recommended by the operators but need to be approved by the field partners as well as government agencies. Based on successful conclusion of these negotiations it is likely that order backlog will continue to build during the next quarters.

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 fundamental outlook for the offshore drilling industry remains firm. Exploration and production companies continue to view deep and ultra-deepwater acreage as attractive areas to invest capital. Several oil companies are however encountering a period in which cash flows are challenged and budgets must be re-examined. It is typical during these periods for project commencements in all regions to slow on the margin before growth capital is deployed in the most impactful projects that will replace reserves and grow free cash flow.

As a result of the pause in upstream spending we have observed a decline in the overall number of fixtures, lead times and contract duration. We also expect to see a number of sublets adding to near term available supply. Contrasting with 2012 when the market was under supplied, based on these observations it is clear that the market is adequately supplied currently and may encounter some challenges in 2014. Importantly, these challenges will be acutely felt by lower specification assets while seadrill is positioned in the high end of asset classes where utilization is likely to remain at 100%. In terms of expected near term contract duration, there is a significant work obligation required to retain licenses that expire in 2014 and 2015 and it is likely to lead to more coordination of rig capacity from oil companies and somewhat shorter and more flexible work programs for rig operators. The current contract for the West Tellus is an example of this trend.

Ultra-deepwater floaters (>7,500 ft water)
Since the middle of 2012, ultra-deepwater drilling rigs have benefited from stable dayrates. However, bifurcation has led to lower rates for non-premium deepwater units. E&P companies remain comfortable with rates in the range of US$550,000-US$650,000 per day for the highest end asset classes due to the unique efficiency and safety enhancements they provide. Based on the number of new ultra-deepwater units entering the market over the next 3 years it is apparent that pricing for lower specification units is likely to continue to experience downside and more rigs will likely be stacked or retired.

Customers are increasingly interested in units that can provide dual BOP's, increased deck space and high variable deck load capacity. As discussed in the prior quarter, there is no remaining 2013 availability for newbuild ultra-deepwater units and the number of 2014 units available which are not under specific discussions has been reduced from 10 to 7 over the course of the third quarter. We continue to be confident that these available units will be contracted at dayrates in-line with the current market.

The US GoM continues to be a strong driver of activity as normal contracting activity returns following the Macondo incident in 2010, especially for development projects. We are increasingly receiving proposals for 6th generation units only. The competitive environment is disciplined and although there are many rigs chasing opportunities, there is continued strong support for current dayrates. This is due to the global fungibility of the asset class and many employment opportunities available worldwide.

Activity in Africa is an important driver in the global demand for ultra-deepwater units. Development opportunities are working through the approval process and should result in fixtures late in 2013.

The market for drilling units in Brazil has experienced the most volatility of all offshore markets globally. The uncertainty in the second quarter has been replaced by clarity on Petrobras' tendering strategy for high specification units. Additionally, OGX has released rigs as they work through revised spending plans in light of recent company specific developments. As Petrobras returned to contracting conversations it has become clear to market participants that rigs leaving the region will be lower specification units. The recent sale of part of the Libra field to foreign partners will accelerate the need for high specification units in the years to come. The progression of the bifurcation trend in Brazil is likely to continue once the next round of contract discussions is concluded.

Premium jack-up rigs (>350 ft water)
The market for high specification jack-up units has undergone a shift as operators experience the improved performance of newer, more capable assets. E&P companies have come to appreciate that newer, more capable jack-up units will provide the capability required to efficiently increase production on shallow water projects. The ability to drill horizontally and provide more deck space for well service equipment is contributing to a distinct bifurcation amongst old and new jack-up units. Additionally, due to the shortage of newer units, oil companies are beginning to grow concerned about their ability to contract these assets and the average length of the contracts concluded are showing a strong upward trend. The premium (350 feet in water depth and built post 2005) fleet continues to operate at greater than 95% utilization rates for the 4th successive quarter. The demand gap continues to grow as evidenced by the increase in number of open tenders, upward pressure on dayrates and increased contract durations worldwide. On the supply side, the pace of retirements continues to accelerate with more than 30 rigs leaving the market over the past two years, well in excess of the number scrapped in the prior 10 years. With approximately 50% of the global contracted fleet or approximately 200 units more than 30 years old we see a positive outlook for employment of newbuild jack-ups being built by established contractors.

The strong demand can be shown by the fact that seadrill has been forced to terminate specific contract discussions to free up capacity for the long term work in Mexico. These operators, in several cases, have been left without available rig capacity and had to push their drilling programs out in time.

Asia and the Middle East continue to be the primary source of demand for high specification jack-up rigs and demand for increased capabilities in other markets such as West Africa, Australia and South America promises additional growth. Mexico's requirements to increase production and a desire to high grade its operating fleet present a particularly interesting opportunity.

Arctic Regions
Arctic regions are estimated to contain approximately 13% of the world's undiscovered oil and approximately 30% of undiscovered gas. Additionally, E&P spending in the region has grown at 11% annually over the last decade and expected to increase by 8% annually through 2018. Coupled with an aging fleet and few assets suitable to operate in the harsh environment, the fundamentals are solid. The arctic represents one of the few frontier exploration regions and drilling activity is expected to be amongst the most active globally.

Corporate strategy, dividend and outlook

Growth and Investments
seadrill has the highest percentage of its assets in premium classes amongst all drillers. 94% of our floater fleet is 6th generation ultra-deepwater and 100% of our jack-up fleet is high specification. We seek to keep this high exposure to premium asset classes intact with our investments and strategic M&A. This portfolio mix provides through-cycle outperformance by maintaining a higher utilization and stronger net cash flow.

Our strategic investment in Sevan Drilling ASA reached 50.11% in August 2013 following the conclusion of the mandatory tender offer for all remaining shares outstanding. We continue to evaluate opportunistic acquisitions alongside our newbuild decisions in order to maintain our position as a global operator focused on premium asset classes and superior shareholder returns. As stated in our second quarter earnings announcement and as demonstrated by our sponsorship of Sevan's US$1.75 billion secured credit facility, seadrill stands behind improving the operating and financial standards of Sevan whilst executing the integration plan. We continue to progress on the integration of Sevan and are working diligently to implement seadrill standards throughout the organization.

During the third quarter, seadrill invested an additional US$93 million into seadrill Partners in order to finance the dropdown of the tender rig T-16. seadrill is committed to supporting seadrill Partners during this transitional period. As of November 12, 2013, seadrill Partners is a "Well Known Seasoned Issuer", permitting the usage of a shelf filing for future equity and debt issues. The Board of seadrill Partners has set high targets for growth and dividend distribution. The Board of seadrill is comfortable that such high growth can be achieved based on dropdowns from seadrill's existing fleet and by accessing the public equity market. The increased length of jack-up contracts and high operational utilization of these assets create an additional opportunity for dropdowns which was not anticipated when seadrill Partners was established last year.

In November we acquired the high specification jack-up rig, Prospector 3, for US$235 million. In addition, seadrill will provide drilling and handling tools, spares and operations preparations resulting in a total cost for this rig, ready to drill, of approximately US$250 million. The Prospector 3 is scheduled to be delivered from Dalian Shipbuilding Industry Offshore Co., Ltd. (DSIC Offshore) in China during the first quarter of 2014. The new unit is based on the F&G JU2000E design, with water depth capacity of 400ft and drilling depth of 35,000ft.

Revenue backlog
As of November 22, 2013, our orderbacklog was US$19.5 billion, excluding the PEMEX Heads of Agreement and West Aquarius extension. Order backlog for our floater fleet is US$16 billion, US$3 billion for our jack-up fleet, and US$500 million for our tender units. Our order backlog provides clarity for future earnings as well as generates visibility for dividend capacity.

During the fourth quarter three ultra-deepwater drillships will begin operations, the West Auriga, West Vela, and West Tellus, converting a significant amount of backlog into revenues. We expect to grow the backlog again based on the advanced discussions we are currently engaged in for our 2014 deliveries, the West Saturn, West Jupiter, and West Carina. Additionally during 2014 we expect the have a follow on contract in West Africa for the West Tellus and clarity around a contract for the West Navigator which is completing its current contract in December 2014 and is positioned where several interesting opportunities exist. The average contract duration for contracted floaters is 28 months, excluding the West Aquarius extension.

Most capacity has been firmed up for our jack-up fleet. We are engaged in specific discussions regarding our remaining 2014 availability and a number of 2015 deliveries. Assuming conclusion of the PEMEX contracts, the average contract length for our contracted jack-up units will be 25 months.

Financial flexibility
Since our last quarterly report in August 2013 we have secured US$2.75 billion in new financing commitments. We successfully closed a US$500 million unsecured bond issue maturing in 2020 in the US market and secured a US$1,750 million credit facility for Sevan Drilling, saving approximately US$30 million annually over their independently arranged financing plan. Additionally, North Atlantic Drilling completed their inaugural Norwegian bond issuance, raising approximately US$250 million, further advancing the strategy of NADL becoming an independently financed entity. Lastly, we raised approximately US$250 million secured by a portion of our SapuraKencana shares. During the remainder of the fourth quarter we expect to refinance the loans for the West Eminence (freeing up approximately US$270 million) and West Eclipse, are in advanced discussions with Korean and Norwegian ECA's for financing our Newbuilds to be delivered in 2014 and will begin discussions on ECA financing for our remaining newbuild program in China and Korea.

seadrill has been forced to provide an additional US$120 million guarantee to Sevan's banks in addition to the existing US $100 million revolver to Sevan Drilling. This shortfall is mainly linked to the capital need created by pre-start up costs on the Sevan Louisiana, operational downtime, and maintaining the current delivery schedule for rig number 4. In order for Sevan to have a proper and independent capital structure, seadrill is of the opinion that a significant part of these US$220 million in overdrafts will need to be replaced by equity. seadrill will be prepared to accept equity payment for its prorata part any new equity issue in Sevan up to US$220 million.

seadrill has taken delivery and financed a total of 13 newbuilds so far this year and expect to take delivery of 7 in 2014, 11 in 2015, and 3 in 2016.

In October we completed the dropdown of the tender rig T-16 to seadrill Partners for a total transaction value of US$200 million. seadrill elected to support the equity component of the offering in order to demonstrate our support of seadrill Partners and provide distribution growth to existing shareholders. We expect additional dropdowns going forward at an accelerated pace after achieving seasoned issuer status in November. seadrill will continue to support future offerings however expects more participation from new and existing shareholders. seadrill Partners provides significant financial flexibility at an attractive cost of capital and is an important part of the seadrill Group going forward.

seadrill Partners is actively exploring debt structures that are more suited for their strategy of maximizing distributable cash flow. The current back-to-back loans with seadrill Limited have an amortization profile that can likely be significantly improved and thereby increase funds available for distribution. We are currently reviewing opportunities in numerous markets that would serve to refinance current debt outstanding and provide seadrill Partners with a more manageable amortization schedule and maturity profile. In addition to evaluating debt structures, seadrill Partners is in the process of exploring a rating. seadrill Partners' rating process will be linked to the requirements of the debt structure that best fits the Company.

The share price of seadrill Partners has continued its positive development since the IPO in October of last year. The share price as of November 22 is US$32.2 and values the drilling units in seadrill Partners at a significant premium to seadrill's current valuation.

The Board continues to be of the opinion that a rating of the Company's credit may improve the margins obtained in the unsecured bond market. We intend to have the rating process concluded during the first quarter of 2014. Based on our discussions with credit investors and the successful pricing of the US$500 bond in the US market, we do not at this time think that being unrated is affecting our ability to access the unsecured bond market at attractive prices. We continue to evaluate the potential of this market but consider access to the rated bond market to be important to retaining seadrill's desired financial flexibility.

seadrill's US$650 million convertible bond due in October 2017 is currently trading at 161% of par. The Bond is convertible to shares at a conversion price of US$29.8751. Based on the current seadrill share price it is likely that the Bond will be converted to equity and thereby reduce the Company's debt level and increase equity by US$650 million. The global convertible bond market has shown strong performance lately with interest and conversion premiums at record levels. The Board considers convertible securities to be an attractive and flexible financing vehicle. However, considering the current share price, the high dividend payout and the strong expected growth in the coming years, the Board has decided to seek other financing alternatives.

The strong improvement in seadrill's credit continues to be appreciated by the bank market where we have experienced significant new lending capacity with margins being reduced further. In connection with a short term bridge financing for one of our new build jack-ups we have secured financing with a margin less than 100 basis points above Libor. The level for longer term financing has been reduced from approximately 3-3.50% above Libor a year ago to a level between 2-2.50% today. We see the banks' increased confidence as supportive to our strategy of concentrating on modern assets supported by a strong backlog from first class customers.

Other Significant Investments
We have investments in other listed offshore drillers and oil service companies. As of today our portfolio includes a 39.9 percent holding in Archer Limited and a 12.02 percent holding in SapuraKencana. In addition we hold 77.5 percent in seadrill Partners,73.18 percent in North Atlantic Drilling, and a 50.11 percent in Sevan Drilling. All three companies are consolidated in seadrill's financial statements.

At current market prices, the total net value of these investments is approximately US$3.7 billion.

Quarterly Cash Dividend
The Board has in connection with the disclosure of third quarter results evaluated the current dividend level and prospects and has resolved to increase the regular quarterly dividend by 4 cents to US$0.95 per share. The dividend increase reflects seadrill's strong operational results, positive market outlook, solid orderbacklog and strong support received from the financing markets. The Board believes that the new dividend is sustainable long-term and can be further increased as EBITDA is expected to grow significantly over the next eight quarters. The ex-dividend date has been set to December 3, 2013, record date is December 5, 2013 and payment date is on or about December 20, 2013.

Outlook
seadrill has embarked on another phase in its growth during 2013 with orders for high specification drillships and jack-ups and the acquisition of a majority stake in Sevan drilling. Throughout our history we have employed a consistent methodology when evaluating opportunities for new investments. There are clear times to invest and clear times to show restraint. The current environment for high specification assets is an ideal time to be investing for our future growth. We estimate the market will

demand approximately 450 floating units in 2020. Taking into account current newbuild and expected retirements, it is likely that the market will be able to absorb 25-30 newbuild floating units per year. Considering that the industry is only able to deliver approximately 20-25 rigs per year, largely due to bottlenecks for rig equipment, there is an element of tightness expected going forward.

seadrill has responded to these supply chain issues by building an inventory of key equipment components. This inventory can provide spares to our existing fleet or rigs coming out of yard in order to reduce our exposure to tightness in the supply chain. We look to continue our track record of on-time and on-budget deliveries by working closely with yards and our suppliers. We have over 200 employees working closely with yards and suppliers to ensure our performance thresholds are met.

The decision to order four new drillships during the quarter for delivery in 2015 was taken after a thorough review of the demand side. We were also of the opinion that yard prices had reached a bottom and had limited downside. The trend afterwards has confirmed this. Yard prices for drilling units are up approximately 5% in the last month driven by price increases from equipment manufacturers as well as a better order situation for the yards due to the increased shipbuilding demand. The Board continues to believe that seadrill will be able to execute on this growth program and support its dividend without the need to issue equity.

seadrill's investments are only as good as its ability to take delivery of assets and operate them. We have employed a consistent methodology to our operations and have worked since the Company's inception to instill a culture of safe and efficient operations throughout our organization. seadrill's operational excellence is reflected in industry leading uptime and our customers' satisfaction with our people and assets.

The pace of contract additions has undoubtedly slowed from the pace seen in 2012 as customers re-evaluate spending plans. The Board is confident, based on our management teams' bottom up analysis and conversations with customers, that this is a momentary pause before oil companies restart their spending in the most impactful projects offshore. Any meaningful reduction in capex by oil companies in the years to come will reduce production and likely lead to significantly higher oil prices. Our customers are acutely aware of the damage done by under investment in past cycles and are determined to replace reserves and grow production and avoid losing a generation of engineers. The fact that the major oil companies even in a reduced capex growth environment are still increasing spending in ultra-deepwater areas illustrates the attractiveness of our positioning. A positive outcome of the new exploration program coming up in Angola with between 10-15 exploration wells to be drilled in 2014 can easily be the factor that creates strong momentum in the ultra-deepwater market.

The Board continues to believe that seadrill's high specification fleet profile is the right strategic positioning for a drilling company. It is apparent that these units are the only units in the market with the ability to command pricing power and maintain 100% utilization through the cycle. Older 5th generation units will continue to be forced to work on lower specification projects and at lower dayrates.

We consistently work with our customers to understand their requirements going forward and use this to execute our opportunistic newbuild strategy. We intend to always employ an opportunistic newbuild strategy as it maximizes returns for our investors. De-risking newbuilds by having a contract to hand only reduces returns for our shareholders.

The Board is pleased with the progress of North Atlantic Drilling in becoming an independently financed entity. The completion of the sale leaseback for the West Linus and the Norwegian bond issue were two important steps toward this end. With strategic partnering discussions on hold we intend to complete the listing of NADL during the first quarter of 2014. The board continues to be positive on the outlook for harsh environment drilling as it is one of the few remaining frontier areas and requires highly specialized equipment to serve it.

Thus far in the fourth quarter we have achieved a technical utilization of more than 95% for our floater units and in excess of 97% for our jack-up fleet. We expect our operational uptime to be in-line with third quarter performance going forward.

In total 10 of our floaters have now completed or are in the process of completing their first special survey. With the exception of the West Hercules, where significant challenges were caused by the fact that the unit was mobilized to Norway and upgraded for full year drilling in the Barents Sea, the work on the special surveys has been shorter and under budget. This confirms the fact that seadrill has solid control over their operations, costs, and the downtime linked to these surveys.

seadrill Partners has performed well since the Company was introduced to the market in October 2012. seadrill's stake in seadrill Partners has a current market value of US$1.1 billion based on the closing price as of November 22. We see large opportunities to aggressively grow seadrill Partners and its dividend distribution by dropping down some of seadrill's long term contracted assets. We are pleased with the execution of the T-15 and T-16 dropdowns and after having achieved seasoned issuer status this month we expect to finance further dropdowns in the public markets.

The Board is pleased with the strategic position of the Company. We feel there is a unique opportunity to continue our high growth trajectory with a strong and increasing dividend which is funded with existing cash flow and supported by a well over 50% increase in operating results between 2013 and 2016.

The Board expects seadrill, assuming current market rates, to reach a fully consolidated annualized EBITDA of US$4.5 billion in 2016.

The operating results for Q4 will be impacted by three ultra-deepwater units, the West Auriga, West Vela and West Tellus which will come into operation. The Auriga and Tellus have already commenced operation and have achieved strong technical utilization from day one. In addition 2 new jack-up units will commence operation. The new contract for West Gemini commenced in October, 2013 and gives approximately US$193,000 higher revenue contribution per day. The earnings from the West Capella will also increase in the quarter due to the new and higher rate. Based on the performance so far in the quarter and with a solid operation for the remainder of the quarter we anticipate EBITDA growth for Q4 in excess of 15% vs Q3. This strong growth creates a solid cash flow foundation for further organic growth as well as strong support for continued dividend increases.

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, dry-docking 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 crisis, 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.

November 25, 2013
The Board of Directors
seadrill Limited
Hamilton, Bermuda

Questions should be directed to seadrill Management Ltd represented by:

Per Wulff: Chief Executive Officer and President
Rune Magnus Lundetræ: Chief Financial Officer and Senior Vice President

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seadrill Limited

INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS
for the three and nine months ended September 30, 2013 and 2012
(In US$ millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
Operating revenues				
Contract revenues	**1,188**	1,056	**3,528**	3,168
Reimbursable revenues	**55**	33	**229**	95
Other revenues	**37**	2	**56**	1
Total operating revenues	**1,280**	1,092	**3,813**	3,264
Gain on sale of assets	**—**	—	**61**	—
Operating expenses				
Vessel and rig operating expenses	**491**	423	**1,412**	1,207
Reimbursable expenses	**48**	30	**207**	88
Depreciation and amortization	**192**	161	**511**	452
General and administrative expenses	**78**	65	**214**	166
Total operating expenses	**809**	679	**2,344**	1,913
Net operating income	**471**	413	**1,530**	1,351
Financial items and other income				
Interest income	**6**	5	**16**	14
Interest expense	**(107)**	(102)	**(311)**	(249)
Share in results from associated companies	**(10)**	(38)	**(34)**	(5)
Gain/ (loss) on derivative financial instruments	**(5)**	20	**131**	15
Foreign exchange gain/ (loss)	**—**	(43)	**27**	(51)
Gain on realization of marketable securities	**—**	—	**—**	85
Gain on re-measurement of previously held equity interest	**8**	—	**18**	169
Other financial items	**(5)**	—	**(7)**	3
Gain on bargain purchase	**17**	—	**32**	—
Gain on sale of tender rig business	**—**	—	**1,256**	—
Total financial items and other income	**(96)**	(158)	**1,128**	(20)
Income before income taxes	**375**	255	**2,658**	1,331
Income tax expense	**(60)**	(39)	**(153)**	(124)
Net income	**315**	216	**2,505**	1,207
Net income attributable to the parent	**286**	189	**2,422**	1,129
Net income attributable to non-controlling interests	**29**	27	**83**	78
Basic earnings per share (US$)	**0.61**	0.40	**5.16**	2.41
Diluted earnings per share (US$)	**0.60**	0.40	**4.98**	2.37
Declared regular dividend per share (US$)	**0.95**	0.85	**2.74**	2.51
Declared extraordinary dividend per share (US$)	**—**	0.85	**—**	1.00

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

seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the three and nine months ended September 30, 2013 and 2012
(In US$ millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
Net income	**315**	216	**2,505**	1,207
Other comprehensive income, net of tax:				
Change in unrealized gain on marketable securities	**(116)**	20	**71**	118
Change in unrealized gain on foreign exchange differences	**—**	12	**—**	12
Change in unrealized loss relating to pension	**(9)**	(1)	**(4)**	(1)
Change in unrealized loss on interest rate swaps in VIEs	**(2)**	6	**2**	17
Other comprehensive (loss)/income:	**(127)**	37	**69**	146
Total comprehensive income for the period	**188**	253	**2,574**	1,353
Comprehensive income attributable to non-controlling interests	**24**	33	**84**	146
Comprehensive income attributable to the parent	**164**	220	**2,490**	1,207

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

seadrill Limited

UNAUDITED CONSOLIDATED BALANCE SHEET
as of September 30, 2013 and December 31, 2012
(In US$ millions)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	**551**	318
Restricted cash	**244**	184
Marketable securities	**316**	333
Accounts receivables, net	**1,043**	917
Amount due from related party	**73**	293
Deferred tax assets	**—**	—
Other current assets	**335**	309
Total current assets	**2,562**	2,354
Non-current assets		
Investment in associated companies	**325**	509
Marketable securities long-term	**504**	—
Newbuildings	**4,900**	1,882
Drilling units	**14,778**	12,894
Goodwill	**1,200**	1,320
Restricted cash	**171**	218
Deferred tax assets	**22**	13
Equipment	**40**	40
Other non-current assets	**477**	402
Total non-current assets	**22,417**	17,278
Total assets	**24,979**	19,632
LIABILITIES AND EQUITY		
Current liabilities		
Short-term interest bearing debt	**2,645**	2,066
Trade accounts payable	**131**	72
Deferred tax liabilities	**41**	6
Short-term debt to related party	**254**	131
Other current liabilities	**2,568**	1,338
Total current liabilities	**5,639**	3,613
Non-current liabilities		
Long-term interest bearing debt	**10,087**	8,695
Long-term debt due to related parties	**630**	935
Deferred tax liabilities	**19**	77
Other non-current liabilities	**838**	288
Total non-current liabilities	**11,574**	9,995
Equity		
Common shares of par value US$2.00 per share: 800,000,000 shares authorized 469,111,217 outstanding at September 30, 2013 (December 31, 2012, 469,178,074)	**938**	938
Additional paid in capital	**2,318**	2,332
Contributed surplus	**1,956**	1,956
Accumulated other comprehensive income	**262**	194
Retained earnings	**1,664**	83
Non-controlling interest	**628**	521
Total equity	**7,766**	6,024
Total liabilities and equity	**24,979**	19,632

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

seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended September 30, 2013 and 2012
(In US$ millions)

	Nine Months Ended September 30, 2013	2012
Cash Flows from Operating Activities		
Net income	**2,505**	1,207
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**511**	452
Amortization of deferred loan charges	**32**	22
Amortization of unfavorable contracts	**(40)**	—
Amortization of favorable contracts	**2**	9
Amortization of mobilization revenue	**(94)**	(115)
Share of results from associated companies	**34**	5
Share-based compensation expense	**5**	4
Unrealized (gain)/loss related to derivative financial instruments	**(195)**	8
Dividend received from associated company	**15**	17
Deferred income tax (benefit) / expense	**(32)**	—
Unrealized foreign exchange (gain)/loss on long-term interest bearing debt	**(24)**	4
Gain on disposal of fixed assets	**(61)**	—
Gain on decline in ownership interest	**(18)**	(169)
Gain on disposal of other investments	**—**	(86)
Gain recognized related to bargain purchase	**(32)**	—
Gain on sale of tender rig business	**(1,256)**	—
Changes in long-term maintenance	**(166)**	(78)
Changes in operating assets and liabilities, net of effect of acquisitions and disposals		
Unrecognized mobilization fees received from customers	**161**	203
Trade accounts receivable	**(207)**	(115)
Trade accounts payable	**12**	24
Prepaid expenses/(accrued revenue)	**53**	(9)
Other, net	**(1)**	(112)
Net cash provided by operating activities	**1,204**	1,271
Cash Flows from Investing Activities		
Additions to newbuildings	**(2,204)**	(1,091)
Additions to rigs and equipment	**(494)**	(165)
Settlement of disputes with ship yard	**—**	38
Business combinations	**(531)**	—
Sale of rigs and equipment	**48**	—
Proceeds from sale of tender rigs	**1,991**	—
Change in margin calls and other restricted cash	**32**	116
Purchase of marketable securities	**—**	(19)
Investment in associated companies	**(224)**	(74)
Disposal of associated companies	**—**	65
Loan granted to related parties	**(125)**	(20)
Repayment of loan granted to related parties	**10**	20
Proceeds from realization of marketable securities	**—**	219
Net cash used in investing activities	**(1,497)**	(911)

seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three and nine months ended September 30, 2013 and 2012
(In US$ millions)

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Financing Activities		
Proceeds from debt	**2,958**	3,160
Repayments of debt	**(1,753)**	(2,365)
Debt fees paid	**(46)**	(29)
Proceeds from debt to related party	**756**	487
Repayments of debt to related party	**(930)**	(487)
Contribution from non-controlling interests related to private placement	**—**	147
Paid to non-controlling interests	**(51)**	(36)
Proceeds relating to share forward contracts	**453**	—
Purchase of treasury shares	**(25)**	—
Proceeds from sale of treasury shares	**5**	15
Dividends paid	**(841)**	(1,217)
Net cash provided by (used by) financing activities	**526**	(325)
Effect of exchange rate changes on cash and cash equivalents	**—**	—
Net increase in cash and cash equivalents	**233**	35
Cash and cash equivalents at beginning of the year	**318**	483
Cash and cash equivalents at the end of period	**551**	518
Supplementary disclosure of cash flow information		
Interest paid, net of capitalized interest	**(214)**	(245)
Taxes paid	**(116)**	(127)

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

seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three and nine months ended September 30, 2013 and 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	3	12					15
Employee stock options issued		4					4
Private placement in subsidiary		84				66	150
Costs related to capital increase in subsidiary		(3)					(3)
Other comprehensive income				129		17	146
Dividend payment					(1,217)	(36)	(1,253)
Net income					1,129	78	1,207
Balance at September 30, 2012	938	2,194	1,956	124	905	450	6,567
Balance at December 31, 2012	**938**	**2,332**	**1,956**	**194**	**83**	**521**	**6,024**
Sale of treasury shares		6					6
Purchase of treasury shares		(25)					(25)
Employee stock options issued		5					5
Establishment of non-controlling interest						297	297
Other comprehensive income				68		1	69
Dividend payment					(841)	(51)	(892)
Dividend to non-controlling interests in VIEs						(223)	(223)
Net income					2,422	83	2,505
Balance at September 30, 2013	**938**	**2,318**	**1,956**	**262**	**1,664**	**628**	**7,766**

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – General information

seadrill Limited was incorporated in Bermuda in May 2005 and is a publicly listed company on the New York Stock Exchange and the Oslo Stock Exchange. Through the acquisition of other companies and investment in newbuildings, we have developed into one of the largest international offshore drilling contractors. As of September 30, 2013 we owned and operated 40 offshore drilling units and had 28 units under construction. Our 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, 2012. The year-end condensed balance sheet data that was derived from our audited 2012 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. The amounts are presented in United States dollar (US dollar) rounded to the nearest million, unless stated otherwise.

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 accordingly. In response to this, we determined that we had incorrectly classified payments related to long term maintenance as an investing activity rather than as an operating activity in the consolidated statement of cash flows for the period ended September 30, 2012. We concluded that such classification was not material to cash flows from operating activities and investing activities for previously reported periods. Accordingly, the presentation of the consolidated statement of cash flows for the period ending September 30, 2012 has been revised. This resulted in a decrease in cash provided by Operating Activities and a decrease in cash used by Investing Activities, of US$78 million.

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, 2012 unless otherwise included in these unaudited interim financial statements as separate disclosures.

Note 2 – Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Balance sheet—Effective January 1, 2013, we adopted 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. The effect of this to our interim consolidated financial statements is included in Note 18.

Balance sheet—Effective January 1, 2013, we adopted 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 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. The adoption did not have an effect on our interim consolidated financial statements.

Note 3 – Segment information

Operating segments

The company provides 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 for this segment 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 for this segment relate to jack-up rigs for operations in harsh and benign environments.

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 for this segment 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 September 30,**		**Nine Months Ended September 30,**	
	2013	2012	**2013**	2012
Floaters	**867**	675	**2,429**	2,050
Jack-up rigs	**283**	203	**801**	588
Tender rigs	**38**	178	**298**	530
Total	**1,188**	1,056	**3,528**	3,168

Depreciation and amortization

(In US$ millions)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2013	2012	**2013**	2012
Floaters	**146**	107	**381**	303
Jack-up rigs	**42**	39	**117**	107
Tender rigs	**4**	15	**13**	42
Total	**192**	161	**511**	452

Operating income - net income

(In US$ millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
Floaters	**354**	282	**1,041**	945
Jack-up rigs	**99**	47	**340**	173
Tender rigs	**18**	84	**149**	233
Net operating income	**471**	413	**1,530**	1,351
Unallocated items:				
Total financial items and other income	**(96)**	(158)	**1,128**	(20)
Income taxes	**(60)**	(39)	**(153)**	(124)
Net Income	**315**	216	**2,505**	1,207

Total Assets

(In US$ millions)	**As of September 30, 2013**	**As of December 31, 2012**
Floaters	**18,329**	13,725
Jack-up rigs	**5,889**	4,210
Tender rigs	**761**	1,697
Total	**24,979**	19,632

Goodwill

(In US$ millions)	**As of September 30, 2013**	**As of December 31, 2012**
Floaters	**890**	890
Jack-up rigs	**281**	281
Tender rigs	**29**	149
Total	**1,200**	1,320

Total liabilities

(In US$ millions)	**As of September 30, 2013**	**As of December 31, 2012**
Floaters	**12,631**	9,514
Jack-up rigs	**4,058**	2,918
Tender rigs	**524**	1,176
Total	**17,213**	13,608

Capital expenditures – Newbuildings and Drilling units

(In US$ millions)	Nine Months Ended September 30,	
	2013	2012
Floaters	**2,514**	1,097
Jack-up rigs	**905**	105
Tender rigs	**129**	95
Total	**3,548**	1,297

Note 4 – Gain / (loss) on derivative financial instruments

The year to date gain of US$131 million in our Statement of Operations consists of the following:

Total Return Swaps (TRS):

On June 4, 2013, we settled a TRS agreement for 2,000,000 seadrill Limited shares at a price of NOK 213.17. We subsequently entered into a new TRS agreement with exposure to 2,000,000 seadrill Limited shares with an expiry date September 4, 2013, and reference price NOK 241.88 per share.

On August 28, 2013, we repurchased 300,000 of seadrill Limited shares at an average price of NOK 273.50 per share, and at the same time our outstanding TRS agreement was reduced from 2,000,000 to 1,700,000 shares.

On September 4, 2013, we settled a TRS agreement for 1,700,000 seadrill Limited shares at a price of NOK 241.88. We subsequently entered into a new TRS agreement with exposure to 1,700,000 seadrill Limited shares with an expiry date December 4, 2013, and reference price NOK 291.28 per share.

The total realized and unrealized gain related to the TRS agreements amounted to US$12 million and US$25 million for the three months and nine months ended September 30, 2013 (US$3 million and US$10 million gain for the three months and nine months ended September 30, 2012).

Interest-rate swap agreements, cross currency swaps, and forward exchange contracts:

Total realized and unrealized gains and losses on interest-rate swap agreements, cross currency swaps, and forward exchange contracts not qualified for hedge accounting, amounted to a loss of US$34 million and a gain of US$70 million for the three months and nine months ended September 30, 2013 (US$4 million loss and US$88 million loss the three months and nine months ended September 30, 2012).

Other derivative instruments:

Total realized and unrealized gain on other derivative instruments amounted to gain of US$17 million and a gain of US$36 million for the three months and nine months ended September 30, 2013 (US$14 million loss and US$94 million gain for the three months and nine months ended September 30, 2012).

Note 5 – Taxation

Income taxes consist of the following:

(In US$ millions)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2013	2012	**2013**	2012
Current tax expense:				
Bermuda	**—**	—	**—**	—
Foreign	**63**	23	**185**	110
Deferred tax expense:				
Bermuda	**—**	—	**—**	—
Foreign	**(3)**	14	**(36)**	9
Tax related to internal sale of assets in subsidiary, amortized for group purposes	**—**	2	**4**	5
Total tax expense	**60**	**39**	**153**	124
Effective tax rate	**16.0%**	15.3%	**5.8%**	9.3%

The effective tax rate for the three months and nine months ended September 30, 2013 is 16.0% and 5.8% respectively. Excluding the gain on sale of tender rigs the effective tax rate for the nine months ended September 30, 2013 is 10.9%.

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.

Income taxes for the three and nine months ended September 30, 2013 and 2012 differed from the amount computed by applying the statutory income tax rate of 0% as follows:

(In US$ millions)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2013	2012	**2013**	2012
Income taxes at statutory rate	**—**	—	**—**	—
Effect of transfers to new tax jurisdictions	**—**	2	**4**	5
Effect of taxable income in various countries	**60**	37	**149**	119
Total	**60**	39	**153**	124

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 asset (liability) consists of the following:

Deferred Tax Assets:

(In US$ millions)	**September 30, 2013**	**December 31, 2012**
Pension	**3**	8
Provisions	**4**	3
Property, plant and equipment	**—**	—
Other	**15**	2
Gross deferred tax asset	**22**	13

Deferred Tax Liability:

(In US$ millions)	**September 30, 2013**	**December 31, 2012**
Property, plant and equipment	**39**	5
Gain from sale of fixed assets	**—**	23
Foreign exchange	**19**	54
Other	**2**	1
Gross deferred tax liability	**60**	83
Net deferred tax liability	**(38)**	(70)

Net deferred taxes are classified as follows:

(In US$ millions)	**September 30, 2013**	**December 31, 2012**
Short-term deferred tax asset	**—**	—
Long-term deferred tax asset	**22**	13
Short-term deferred tax liability	**(41)**	(6)
Long-term deferred tax liability	**(19)**	(77)
Net deferred tax liability	**(38)**	(70)

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

Uncertain Tax Positions

Certain of our Norwegian subsidiaries are party to an ongoing dispute to a tax reassessment issued in October 2011 by the Norwegian tax authorities in regards to the transfer of certain legal entities to a different tax jurisdiction and the related tax treatment. This dispute was previously set to be heard in the Oslo District Court on October 14, 2013. The court date has been postponed and is now set to be heard in May 2014.

Note 6 – 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 September 30,**		**Nine Months Ended September 30,**	
	2013	2012	**2013**	2012
Net income available to stockholders	**286**	189	**2,422**	1,129
Effect of dilution	**9**	9	**28**	28
Diluted net income available to stockholders	**295**	198	**2,450**	1,157

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

(In US$ millions)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2013	2012	**2013**	2012
Basic earnings per share:				
Weighted average number of common shares outstanding	**469**	469	**469**	468
Diluted earnings per share:				
Weighted average number of common shares outstanding	**469**	469	**469**	468
Effect of dilutive share options	**2**	1	**2**	1
Effect of dilutive convertible bonds	**21**	20	**21**	20
	492	490	**492**	489

Note 7 – 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 81.1% of the partially redeemed Petromena NOK 2,000 million bond ("Petromena") and 12.02% of SapuraKencana Petroleum Bhd ("SapuraKencana").

On April 30, 2013, as part of the consideration for the sale of certain tender rigs to SapuraKencana, we received 400.8 million shares in SapuraKencana, increasing our shareholding from 6.38% to 12.02%. Refer to Note 10.

On September 18, 2013, we entered into a financing arrangement whereby a proportion of our holding of SapuraKencana shares have been pledged as security for the contractual period which extends beyond the next 12 months. Accordingly, these pledged shares have been reclassified as long term marketable securities in the balance sheet. Refer to Note 18.

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

(In US$ millions)	**Petromena**	**SapuraKencana**	**Total**
Historic cost at December 31, 2012	4	124	128
Fair Market value adjustments recognized in the statement of other comprehensive income for the year ended December 31, 2012	—	205	205
Net book value at December 31, 2012	**4**	**329**	**333**
Marketable securities short-term	4	329	333
Marketable securities long-term	—	—	—
Market value of shares acquired on disposal of tender rig division	**—**	**416**	**416**
Fair market value adjustments recognized in the statement of other comprehensive income	**—**	**71**	**71**
Net book value at September 30, 2013	**4**	**816**	**820**
Marketable securities short-term	4	312	316
Marketable securities long-term	—	504	504

Note 8 – Associated companies

Sevan Drilling ASA

On January 30, 2013, we sold 96,000,000 shares of Sevan Drilling and entered into a forward share purchase agreement with exposure to the same number of shares. The shares were sold at NOK 3.95 per share. The forward agreement ran until May 6, 2013 and had a strike price of NOK 3.9815. On April 30, 2013, this forward agreement for 96,000,000 shares was rolled to August 9, 2013, with a new forward price of NOK 4.0204. On August 6, 2013, this forward agreement for 96,000,000 shares was rolled to November 11, 2013, with a new forward price of NOK 4.0537.

On February 7, 2013, we were allocated and subscribed for 81,828,500 shares in Sevan at a subscription price of NOK 3.95 as part of private placement. Subsequently, we sold these shares and entered into a forward share purchase agreement with exposure to the same number of shares. The forward agreement ran until May 6, 2013 and had a strike price of NOK 3.9851 per share. On May 6, 2013, this forward agreement for 81,828,500 shares was rolled to August 6, 2013, with a new forward price of NOK 4.0117. On August 6, 2013, this forward agreement for 81,828,500 shares was rolled to November 11, 2013, with a new forward price of NOK 4.0428.

On June 26 and 27, 2013 we entered into agreements with a commercial bank to acquire a total of 120,065,464 shares in Sevan at an average price of NOK 3.9311 for 20.2% of Sevan Drilling's outstanding shares. As of June 30, 2013, we had a commitment to pay US$78 million that was settled on July 2, 2013 in accordance with the agreement. On August 28, 2013 we sold our holding of 120,065,464 shares to DNB at a price of NOK 3.95 per share and simultaneously we entered into a forward agreement with DNB to purchase 120,065,464 shares at a strike price of NOK 3.9737 on November 6, 2013.

As a result of these transactions our total ownership interests in Sevan Drilling increased to 50.1% as of July 2, 2013. In accordance with US GAAP we have obtained a controlling financial interest in Sevan Drilling as of July 2, 2013 and therefore we have consolidated the results of Sevan Drilling into our financial statements prospectively with effect from July 2, 2013. Accordingly, Sevan Drilling has been derecognized from associated companies. Refer to Note 9 – Business Acquisitions.

Archer Limited

On February 8, 2013, we were allocated 82,003,000 shares in the private placement of Archer Limited ("Archer"), amounting to a value of 98.4 million. In addition, as consideration for acting as an underwriter to the placement, we received another 2,811,793 shares, amounting to a value of US$3.4 million. As of September 30, 2013 we held 39.9% of the outstanding shares of Archer.

Varia Perdana and Tioman Drilling

Varia Perdana Sdn Bhd. ("Varia Perdana") and Tioman Drilling Company Sdn Bhd ("Tioman Drilling") are companies incorporated in Malaysia, which own and operate a fleet of five tender rigs. The companies were 49% owned by seadrill, and 51% owned by SapuraCrest Bhd (a subsidiary of SapuraKencana). Our holdings in these companies were disposed on April 30, 2013, through SapuraKencana's acquisition of our tender rig business. Refer to Note 10.

Note 9 – Business Acquisitions

Acquisition of Songa Eclipse

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 US$59 million was made before the end of 2012 and the physical delivery and final payment took place on January 3, 2013 which is considered to be the acquisition date. This purchase is considered to constitute a business combination for accounting purposes. The fair value of the net assets acquired have been determined using independent broker valuations and estimated market prices for similar contracts. The unfavorable contract acquired is amortized over the estimated length of the contract, including extension periods, and is presented in the Statement of Operations within other revenues. Subsequent to the acquisition, the drilling rig has been renamed the *West Eclipse*.

The preliminary fair values of net assets acquired were as follows:

(In US$ millions)	**January 3, 2013**
Fair value of net assets acquired:	
Drilling units	698
Unfavorable contract – Other current liabilities	(27)
Unfavorable contract – Other non-current liabilities	(81)
Net assets acquired	**590**
Fair value of consideration	**590**

Consolidation of Asia Offshore Drilling Ltd

On March 25, 2013, we and the other major shareholder in AOD, Mermaid Maritime Plc, signed a shareholder resolution that changed the board composition in favor of the Company. Based on this change as of March 25, 2013 we control the Board and own 66.18% of the outstanding shares. As a result of obtaining control we must consolidate the results and financial position of AOD. 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 high specification jack-up market.The acquisition is considered to constitute a business combination achieved in stages for accounting purposes. The estimated fair values of the net assets acquired have been determined based on independent broker valuations for drilling rigs and newbuilds and estimated remaining contractual payments for newbuilds under construction. The estimated fair value of the non-controlling interest has been determined based on the quoted share price for AOD at the time of the acquisition.

The preliminary fair values of net assets acquired, the remeasurement of our previously held equity interest, measurement of the non-controlling interest and associated bargain purchase gain are as follows:

(In US$ millions)	**March 25, 2013**
Cash and cash equivalents	1
Current assets	**1**
Drilling units	633
Non-current assets	**633**
Construction obligation	(316)
Other current liabilities	(8)
Current liabilities	**(324)**
Non-current liabilities	—
Net assets acquired	**310**
Net book value of equity investment	185
Fair value of previously held equity investment	195
Gain on re-measurement of previously held equity investment	**10**
Fair value of establishment of non-controlling interest	**100**
Bargain purchase	
Fair value of establishment of non-controlling interest	100
Fair value of previously held equity investment	195
Total	**295**
Net assets acquired	310
Gain on bargain purchase	**15**

Consolidation of Sevan Drilling

On June 26 and 27, 2013 we entered into arrangements to purchase an additional 120,065,464 shares in Sevan Drilling ASA ("Sevan") at an average price of NOK 3.9311, a total of US$78 million. This transaction was settled on July 2, 2013. This acquisition allows us to expand our fleet of deepwater units. Following these additional share acquisitions we obtained control of 50.1% of the total outstanding shares of Sevan through direct ownership and our forward share purchase agreements which result in a controlling financial interest. As a result of obtaining a controlling financial interest, we have consolidated the results and financial position of Sevan from July 2, 2013 which has been determined to be the acquisition date. The acquisition is considered to constitute a business combination achieved in stages.

The estimated fair values of the net assets acquired have been determined based on independent broker valuations for drilling rigs and newbuildings and estimated remaining contractual payments for newbuildings under construction. The fair value of the unfavorable contracts are estimated by the same independent brokers by applying the income approach using estimated market rates and a assumed weighted average cost of capital (WACC). These unfavorable contracts are amortized over the remaining contract periods for Sevan Driller, Sevan Brasil and Sevan Louisiana with approximately $20 million per quarter.

The fair value of the non-controlling interest has been determined based on the quoted share price for Sevan at the time of the acquisition. seadrill recognized a gain of $8 million as a result of measuring at fair value its 29.9% equity interest in Sevan Drilling held before the business combination. The gain is reported as a separate line "Gain on re-measurement of previously held equity interest" in the Consolidated Statement of Operations for the period ended September 30, 2013.

The fair value of trade and other receivables is $49 million and includes trade receivables with a fair value of $24 million. This amount is also the gross contractual amount for trade receivables and the whole balance is expected to be collected.

All other assets and liabilities book values have been estimated to equal fair values at the date of acquisition.

seadrill recognized a bargain purchase gain of $17 million as a results of the acquisition. The gain is reported as a separate line "Gain on bargain purchase" in the Consolidated Statement of Operations for the period ended September 30, 2013. The bargain purchase gain is mainly a result of the fact that the market capitalization of Sevan Drilling was lower than the net assets at the time of the acquisition.

In the Consolidated Statement of Operations $66 million of Sevan Drilling revenue and a loss of $15 million have been included since the acquisition date up until September 30, 2013.

The preliminary fair values of net assets acquired including the remeasurement of our previously held equity interest, measurement of the non-controlling interest and associated bargain purchase gain are as follows:

(In US$ millions)	**July 2, 2013**
Cash and cash equivalents	54
Restricted cash	63
Trade and other receivables	49
Current assets	**166**
Drilling units	1,246
Newbuildings	1,227
Deferred income tax asset	76
Valuation allowance income tax asset	(76)
Other non-current assets	1
Non-current assets	**2,474**
Total assets	**2,640**
Current portion of long-term debt	(112)
Trade and other payables	(115)
Construction obligation	(923)
Unfavorable contracts	(79)
Other current liabilities	(26)
Current liabilities	**(1,255)**
Long-term interest bearing debt	(703)
Unfavorable contracts	(257)
Other non-current liabilities	(16)
Non-current liabilities	**(976)**
Total liabilities	**(2,231)**
Net assets acquired	**409**
Net book value of equity investment	109
Fair value of previously held equity investment	117
Gain on re-measurement of previously held equity investment	**8**
Fair value of establishment of non-controlling interest	**197**
Bargain purchase	
Fair value of consideration transferred	78
Fair value of establishment of non-controlling interest	197
Fair value of previously held equity investment	117
Total	**392**
Net assets acquired	409
Gain on bargain purchase	**17**

As a result of our increased ownership interests in Sevan during the quarter, we were required to make a mandatory offer in accordance with the Oslo Stock Exchange rules for the remaining outstanding shares in Sevan for NOK 3.95. This is mandatory offer period expired on August 23, 2013. We obtained an additional 47,394 shares, bringing our total interest in Sevan to 297,941,358 shares, or 50.11% of the total outstanding shares.

Note 10 – Disposal of Tender rigs

As of March 31, 2013 the assets and liabilities associated with the tender rig business disposed to SapuraKencana were classified as held for sale in our interim financial statements.

On April 30, 2013 we completed the sale of the entities which owned and operated the following tender rigs: T-4, T-7, T-11, T-12, West Alliance, West Berani, West Jaya, West Menang, West Pelaut, West Setia, and the newbuilds T-17, T-18, and West Esperanza. In addition our 49% ownership in Varia Perdana and Tioman Drilling was sold as part of this transaction, which included the following rigs: T-3, T-6, T-9, T-10, and the Teknik Berkat. This is collectively referred to as the "tender rig businesses".

The agreed upon price was for an enterprise value of US$2.9 billion. The enterprise value price is comprised of US$1.2 billion in cash, US$416 million in new shares in SapuraKencana (at MYR3.18 per share), US$760 million related to all the debt in the tender rigs business, future estimated non recognized capital commitments of US$320 million and deferred consideration of US $187 million. The deferred consideration consists of non-contingent consideration of US$145 million payable in three years and contingent consideration of US$42 million depending on certain specified future performance conditions. Total consideration of $2.5 billion received was the estimated enterprise value reduced by the future non recognized estimated capital commitments, an EBITDA contribution of approximately US$75 million and an adjustment for working capital balances and other miscellaneous items. The fair values recognized for the deferred consideration are US$135 million and US$nil for the non-contingent and contingent consideration respectively. The total recognized gain on this transaction was US$1.3 billion, which has been presented in our Consolidated Statement of Operations, under "Gain on disposal of tender rig business".

In conjunction with the sale agreement, seadrill entered into an arrangement to continue to manage and supervise at seadrill's risk, the construction of three tender rig newbuilds; T-17, T-18, and West Esperanza. Under this arrangement seadrill will incur and be reimbursed for all associated costs in accordance within an agreed upon budget to complete the construction of these rigs, except for the yard installment payments, which are paid by SapuraKencana. These rigs will be delivered in 2013 and 2014. seadrill will also provide operational management, administration and support services for the three tender rigs: West Jaya, West Setia, and West Esperanza which are located outside of Asia until the client contract expiry date. seadrill will be reimbursed for all costs and expenses incurred and earn an agreed upon margin for these rig management services. Additionally, seadrill will provide transition and separation services for certain administrative and IT functions for the tender rig business for a period of one year following the sale in which costs and expenses are reimbursed in addition to earning an agreed upon margin. While we have retained the ownership of the tender rigs T-15 and T-16, also as part of the sale agreement, SapuraKencana will be responsible for the operational management, administration and support services for the tender rig T-15 and T-16 effective from November 1, 2013 subject to similar terms for the rigs we will continue to manage as noted above.

After this transaction, seadrill has ownership of 720,329,691 shares in SapuraKencana, a holding of 12.02%, representing a gross value of US$932 million based on the closing share price of MYR4.09 on September 30, 2013. This is currently held as a Marketable Security on the Balance Sheet, refer to Note 7. Additionally as a result of the sale transaction, seadrill obtained board representation for SapuraKencana.

We have determined that we have significant continuing involvement in the ongoing tender rig business with SapuraKencana and therefore, we have concluded that the results of the tender rig business sold should not be presented as a discontinued operation in our Consolidated Statement of Operations.

Note 11 – Newbuildings

(In US$ millions)	**September 30, 2013**	**December 31, 2012**
Opening balance at the beginning of the period	**1,882**	2,531
Additions	**4,085**	1,343
Re-classified as drilling units	**(914)**	(1,992)
Disposal of tender rigs	**(153)**	—
Closing balance at the end of the period	**4,900**	1,882

The additions are primarily related to the consolidation of AOD and Sevan drilling together with West Auriga and West Vela. The transfer to drilling units relates to AOD I, AOD II, West Tucana, T-15 and T-16. The disposal of tender rigs to SapuraKencana was completed on April 30, 2013, refer to Note 10.

Note 12 – Drilling units

(In US$ millions)	**September 30, 2013**	**December 31, 2012**
Cost	**18,366**	15,177
Accumulated depreciation	**(2,788)**	(2,283)
Disposals	**(800)**	—
Net book value	**14,778**	12,894

The increase in cost is primarily due to the purchase of Songa Eclipse (renamed West Eclipse) from Songa Offshore SE and the consolidation of Sevan Drilling. In addition AOD I , AODII, West Tucana, T-15 and T-16 have been reclassified from Newbuildings to Drilling units during the period. Disposals include the sale of West Janus in the first quarter, and the disposal of tender rigs to SapuraKencana that closed on April 30, 2013. Refer to Note 10.

The depreciation expense was US$505 million and US$447 million for the nine months, and US$190 million and US$159 million for the three months ended September 30, 2013 and 2012, respectively.

Note 13 – Equipment

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

(In US$ millions)	**September 30, 2013**	**December 31, 2012**
Cost	**68**	62
Accumulated depreciation	**(28)**	(22)
Net book value	**40**	40

The depreciation expense was US$6 million and US$5 million for the nine months, and US$2 million and US$2 million for the three months ended September 30, 2013 and 2012, respectively.

Note 14 – Goodwill

The goodwill balance and changes in the carrying amount of goodwill are as follows:

(In US$ millions)	September 30, 2013	December 31, 2012
Net book value at beginning of period	**1,320**	1,320
Disposal of tender rig business	**(120)**	—
Net book value at end of period	**1,200**	1,320

Note 15 – Long-term interest bearing debt and interest expenses

(In US$ millions)	September 30, 2013	December 31, 2012
Credit facilities:		
US$800 facility	**194**	227
US$900 facility	**—**	731
US$100 facility	**—**	69
US$1,500 facility	**750**	882
US$1,200 facility	**767**	867
US$700 facility	**508**	560
US$1,121 facility	**842**	1,019
US$2,000 facility (North Atlantic Drilling)	**1,625**	1,750
US$170 facility	**—**	83
US$550 facility	**454**	495
US$400 facility	**330**	360
US$440 facility	**310**	101
US$450 facility	**450**	—
US$1,450 facility	**936**	—
US$360 facility (Asia Offshore Drilling)	**354**	—
US$300 facility	**120**	—
USD$480 Sevan Driller facility	**317**	—
USD$525 Sevan Brazil facility	**478**	—
Total credit facilities	**8,435**	7,144
Debt recorded in consolidated VIE's:		
US$420 facility*	**396**	397
US$1,400 facility	**389**	822
US$375 facility	**368**	—
Total debt recorded in consolidated VIE's	**1,153**	1,219
Bonds and convertible bonds:		
Bonds	**2,352**	1,567
Convertible bonds	**573**	561
Total bonds and convertible bonds	**2,925**	2,128
Other credit facilities with corresponding restricted cash deposits:	**219**	270
Total interest bearing debt	**12,732**	10,761
Less: current portion	**(2,645)**	(2,066)
Long-term portion of interest bearing debt	**10,087**	8,695

* On December 28, 2012, the US$700 million facility with SFL West Polaris Limited as borrower was refinanced and replaced with a new US$420 million facility with a consortium of banks and financial institutions. As at December 31, 2012 the facility

had an outstanding balance of US$397.5 million. In January 2013 a further US$22.5 million was drawn down. The new facility has a term of five years and bears an interest of LIBOR plus a margin of 3%.

The outstanding debt as of September 30, 2013 is repayable as follows:

(In US$ millions)	**As at September 30, 2013**
Twelve months ended September 30, 2014	**2,645**
Twelve months ended September 30, 2015	**1,505**
Twelve months ended September 30, 2016	**1,635**
Twelve months ended September 30, 2017	**3,730**
Twelve months ended September 30, 2018 and thereafter	**3,294**
Effect of amortization of convertible bond	**(77)**
Total debt	**12,732**

In January 2013, we drew down on the new US$450 million Eclipse facility, which was entered into with a syndicate of banks and financial institutions. The facility is secured over the *West Eclipse* semi-submersible rig, which has a net book value of US $697 million. The facility matures within one year and bears interest of LIBOR plus 3%.

On March 5, 2013 we issued a NOK 1,800 million senior unsecured bond with maturity in March 2018. The bond bears interest of NIBOR plus a margin of 3.75%. The financial covenants related to this bond require us to maintain a market adjusted equity ratio of at least 30%.

On April 10, 2013, our subsidiary Asia Offshore Drilling entered into a US$360 million senior secured credit facility with ABN AMRO Bank N.V. as the coordinating bank. The facility is available in three equal tranches of US$120 million, with each tranche relating to the three AOD rigs. The loan has a five year maturity from the initial borrowing date, and bears interest of LIBOR plus 2.75%. The first drawdown of US$205 million was made on April 15, 2013, relating to AOD I and AOD II. On July 17, 2013, a further drawdown of US$155 million was made relating to AOD II and the delivery of AOD III.

On April 25, 2013, we drew down US$98 million relating to the T16 tender rig, which is part of the existing US$440 million credit facility. On September 19, 2013, we drew down US$121 million relating to the *West Telesto*, which is also part of this credit facility.

On April 30, 2013, the US$900 million facility and US$100 million facility were repaid in full as part of the disposal of our tender rigs to SapuraKencana. Refer to note 10.

On May 1, 2013 we drew down the first tranche of the US$1,450 million facility, relating to the *West Auriga*, and on June 28, 2013 we drew down the second tranche relating to the *West Vela*. The facility has a maturity in 2025 and bears an interest of LIBOR plus a margin in the range of 1.2% to 3%. The facility is secured on the *West Auriga*, *West Vela*, and *West Tellus*. The net book values of the *West Auriga*, *West Vela*, and *West Tellus* are US$668 million, US$621 million, and US$186 million respectively.

On May 24, 2013, Ship Finance International Limited (“Ship Finance”, a related party) and SFL Hercules refinanced the Hercules tranche of the US$1,400 million facility, which was replaced by a new US$375 million facility, with a syndicate of banks and financial institutions. The Taurus tranche of the US$1,400 million facility remains with SFL Deepwater. The new facility is secured over the *West Hercules*, which has a net book value of US$607 million. The facility matures in six years and bears interest of LIBOR plus 2.75%.

On June 27, 2013, we repaid in full all amounts outstanding relating to the US$170 million facility, which was secured over the *West Prospero*.

On July 16, 2013, we signed a new $300 million facility with DNB as the coordinating bank. The facility is secured over the *West Tucana* and *West Castor*, bears an interest of LIBOR plus a margin in the range of 1.76% to 2.01%, and matures in 2023. On August 23, 2013 we drew down US$120 million on delivery of the *West Tucana*.

On September 20, 2013, we completed a US$500 million senior unsecured bond issue. The bond matures in September 2020 and bears interest of 6.13% p.a.

On October 17, 2013, North Atlantic Drilling successfully completed a NOK 1,500 million senior unsecured bond issue with maturity in October 2018, and an interest of NIBOR plus a margin of 4.4% p.a. An application will be made for the bonds to be listed on the Oslo Stock Exchange.

On October 31, 2013, subsequent to the period end, the existing US$1,400 million facility with SFL Deepwater Limited as borrower, which is secured on the *West Taurus*, was refinanced and replaced with a new US$390 million facility with a consortium of banks and financial institutions. The new facility has a term of five years and bears an interest of LIBOR plus a margin of 2.5%.

Sevan facilities

As a result of our acquisition of Sevan drilling, the following facilities are now included:

USD$525 million facility secured on the Sevan Brazil. This facility was signed December 23, 2010. The facility had an interest of LIBOR plus a margin of 4.75% and maturity date in July 2018.

USD$480 million facility secured on the Sevan Driller. This facility was signed March 8, 2011. The facility had an interest of LIBOR plus a margin of 4.30% and maturity date in July 2016.

The two facilities noted above had the following covenants as at September 30, 2013: (i) Debt service cover ratio of not less than 1.1:1.0; (ii) Minimum liquidity of USD$25 million; (iii) Equity ratio of minimum 30%; and (iv) Leverage on a forward looking basis of 5.25:1.

Subsequent to September 30, 2013, on October 23, 2013, as part of Sevan's refinancing plan, the USD$480 million facility and USD$525 million facility were repaid full, and replaced by a new USD$1,750 million facility. Refer to note 22.

Note 16 – Share capital

	September 30, 2013		**December 31, 2012**	
All shares are common shares of US$2.00 par value each	**Shares**	**US$ millions**	Shares	US$ millions
Authorized share capital	**800,000,000**	**1,600**	800,000,000	1,600
Issued and fully paid share capital	**469,250,933**	**939**	469,250,933	938
Treasury shares held by Company	**(139,716)**	**(1)**	(72,859)	—
Shares outstanding	**469,111,217**	**938**	469,178,074	938

Note 17 – Accumulated other comprehensive income

Accumulated other comprehensive income as at September 30, 2013 and December 31, 2012 was as follows:

(In US$ millions)	**September 30, 2013**	**December 31, 2012**
The total balance of accumulated other comprehensive income is made up as follows:		
Unrealized gain on marketable securities	**277**	206
Unrealized gain on foreign exchange	**67**	67
Actuarial loss relating to pension	**(33)**	(30)
Unrealized loss on interest rate swaps in VIEs	**(49)**	(49)
Accumulated other comprehensive income	**262**	194

With the exception of actuarial loss relating to pension, income taxes associated with each component of other comprehensive income is $0. The income tax benefit on actuarial loss relating to pension is US$14.3 million as of September 30, 2013 and US $8 million as of December 31, 2012.

Note 18 – 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, we have operations and assets in a number of countries worldwide and incur expenditures in other currencies, causing results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the US dollar. We are 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. Therefore there is a risk that currency and interest rate fluctuations will have a negative effect on the value of our cash flows.

Interest rate risk management

Our exposure to interest rate risk relates mainly to 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 financial derivative arrangements. Our objective is to obtain the most favorable interest rate borrowings available without increasing foreign currency exposure. Surplus funds are used for prepayment of revolving facilities or 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 us with flexibility to meet all requirements for working capital and capital investments. The extent to which we utilize interest rate swaps and other derivatives to manage interest rate risk is determined by the net debt exposure and our views on future interest rates.

Interest rate swap agreements not qualified as hedge accounting

At September 30, 2013 we had interest rate swap agreements with an outstanding principal of US$9,529 million (December 31, 2012: US$6,148 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 total fair value of the interest rate swaps outstanding at September 30, 2013 amounted to a gross liability of US $291 million and a net liability of US$182 million due to master netting agreements with our counterparties (December 31, 2012: a gross and net liability of US$384 million). The fair value of the interest rate swaps are classified as other current liabilities in the balance sheet.

During the nine months to September 30, 2013 we entered into the following new interest rate and cross currency interest rate swaps:

Outstanding principal *(In US$ millions)*	Receive rate	Pay rate	Length of contract
250	3 month LIBOR	1.36%	Jan 2013 – Jan 2020
250	3 month LIBOR	1.39%	Jan 2013 – Jan 2020
250	3 month LIBOR	1.45%	Jan 2013 – Jan 2020
250	3 month LIBOR	1.45%	Jan 2013 – Jan 2020
250	3 month LIBOR	1.47%	Jan 2013 – Jan 2020
250	3 month LIBOR	1.47%	Jan 2013 – Jan 2020
450	3 month LIBOR	1.10%	Feb 2013 – Jul 2018
250	3 month LIBOR	1.52%	Feb 2013 – Feb 2020
200	3 month LIBOR	1.39%	Mar 2013 – Mar 2020
300	3 month LIBOR	1.57%	Mar 2014 – Mar 2020
95	3 month LIBOR	1.11%	May 2013 – Jun 2020
93	3 month LIBOR	1.93%	Aug 2013 - Dec 2020
93	3 month LIBOR	2.15%	Mar 2011 - Jun 2016
65	3 month LIBOR	2.21%	Mar 2011 - Jun 2016
64	3 month LIBOR	0.95%	Jun 2012 - Mar 2016
35	3 month LIBOR	2.21%	Mar 2011 - Jun 2016
173	3 month LIBOR	2.98%	Sep 2012 - Jul 2018
176	3 month LIBOR	2.00%	Apr 2013 - Jul 2018

Cross currency interest rate swaps not qualified as hedge accounting

At September 30, 2013 we had outstanding cross currency interest rate swaps with a principal amount of US$532 million (December 31, 2012: US$216 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 total fair value of cross currency interest swaps outstanding at September 30, 2013 amounted to a liability of US$26 million (December 31, 2012: asset of US$7 million). The fair value of the cross currency interest swaps are classified as other current liabilities in the balance sheet.

Interest rate hedge accounting

The Ship Finance subsidiaries consolidated by the Company as a VIEs (refer to Note 19 – Variable Interest Entities) have entered into interest rate swaps in order to mitigate its exposure to variability in cash flows for future interest payments on the loans taken out to finance the acquisition of *West Taurus* and *West Linus*. These interest rate swaps qualify for hedge accounting and any changes in its fair value are included in "Other Comprehensive Income". The interest rate swap relating to the *West Taurus* matured in the quarter, whereas the interest rate swaps relating to the *West Linus* have been entered into during the quarter. Below is a summary of the notional amount, fixed interest rate payable and duration of the interest rate swaps during the period.

Variable interest entity	Outstanding principal *(In US$ Millions)*	Receive rate	Pay rate	Length of contract
SFL Deepwater Limited (West Taurus)	450	1 month LIBOR	2.17%	Dec 2008 - Aug 2013
SFL Linus Limited (West Linus)	4	1 month LIBOR	2.01%	Mar 2014 - Oct 2018
SFL Linus Limited (West Linus)	4	2 month LIBOR	2.01%	Mar 2014 - Nov 2018
SFL Linus Limited (West Linus)	238	3 month LIBOR	1.77%	Dec 2013 - Dec 2018

In the nine month period ended September 30, 2013, the above VIE Ship Finance subsidiaries recorded fair value gains of US$2 million on interest rate swaps. These gains were recorded by the VIEs in "Other comprehensive income" but due to their ownership by Ship Finance the gains are allocated to "Non-controlling interest" in our statement of changes in equity.

Any change in fair value resulting from hedge ineffectiveness is recognized immediately in earnings. The VIEs, and therefore seadrill, did not recognize any gain or loss due to hedge ineffectiveness in the consolidated financial statements during the three and nine month periods ended September 30, 2013.

Foreign exchange risk management

The Company and the majority of its subsidiaries use the U.S. dollar as their functional currency because the majority of their revenues and expenses are denominated in U.S. dollars. Accordingly, the Company's reporting currency is also U.S. dollars. We do, however, earn revenue and incur expenses in other currencies and there is thus a risk that currency fluctuations could have an adverse effect on the value of our cash flows.

Foreign currency forwards not qualified as hedge accounting

We use foreign currency forward contracts and other derivatives to manage 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 current receivables if the contracts have a net positive fair value, and under other current liabilities if the contracts have a net negative fair value. At September 30, 2013, we had forward contracts to sell approximately US$508 million between October 2013 and December 2013 at exchange rates ranging from NOK5.95 to NOK6.09 per US dollar. The total fair value of NOK currency forward contracts as at September 30, 2013 amounted to a asset of US$1 million (December 31, 2012: asset of US$4 million), and are classified as other current assets in the balance sheet.

During the quarter, we also entered into British Pounds Sterling (GBP) swap contracts to sell approximately GBP20 million up until November 2013 at an exchange rate of GBP1.55 per US dollar. The total fair value of GBP currency swaps outstanding at September 30, 2013 amounted to a asset of US$1 million (December 31, 2012: NIL), and are classified as other current assets in the balance sheet.

Total Return Swap Agreements

On June 4, 2013, we settled a TRS agreement for 2,000,000 seadrill Limited shares at a price of NOK 213.17. We subsequently entered into a new TRS agreement with exposure to 2,000,000 seadrill Limited shares with an expiry date September 4, 2013, and reference price NOK 241.88 per share.

On August 28, 2013, we repurchased 300,000 of seadrill Limited shares at an average price of NOK 273.50 per share, and at the same time our outstanding TRS agreement was reduced from 2,000,000 to 1,700,000 shares.

On September 4, 2013, we settled a TRS agreement for 1,700,000 seadrill Limited shares at a price of NOK 241.88. We subsequently entered into a new TRS agreement with exposure to 1,700,000 seadrill Limited shares with an expiry date December 4, 2013, and reference price NOK 291.27 per share.

The fair value of the TRS agreements at September 30, 2013 was an liability of US$3 million (December 31, 2012: liability of US$2 million). The fair values of the TRS agreements are classified as other current liabilities in the balance sheet as at September 30, 2013, and classified as current liabilities as at December 31, 2012.

Other derivative agreements

On September 18, 2013, we entered into two derivative contract arrangements with a bank to finance a portion of our equity investment in SapuraKencana in which seadrill received $250 million upfront as prepayment for one of the agreements. The agreements have a settlement date three years from the inception date and include an interest component which is based on the prepaid amount received and LIBOR plus 1.9% per annum. As part of these agreements, a number of shares in SapuraKencana were pledged as security, the value of which as at September 30, 2013 amounted to $504 million, and is presented as a long term marketable security on the balance sheet (refer Note 7 - Marketable Securities). The unrealized gains and losses resulting from measuring the fair value of these contracts at September 30, 2013 are a gross asset of $2 million, and a gross liability of $2 million which have been offset in the balance sheet and income statement as these agreements meet the criteria for offsetting. The $250 million received as a prepayment to seadrill is included in other long term liabilities.

Credit risk

The Company has financial assets, including cash and cash equivalents, marketable securities, other receivables and certain amounts receivable on derivative instruments, mainly forward exchange contracts and interest rate swaps. These assets expose the Company to credit risk arising from possible default by the counterparty. The Company considers the counterparties to be creditworthy financial institutions and does not expect any significant loss to result from non-performance by such counterparties. The Company, in the normal course of business, does not demand collateral. The credit exposure of interest rate swap agreements, currency option contracts and foreign currency contracts is represented by the fair value of contracts with a positive fair value at the end of each period, reduced by the effects of master netting agreements. It is the Company's policy to enter into master netting agreements with the counterparties to derivative financial instrument contracts, which give the Company the legal right to discharge all or a portion of amounts owed to counterparty by offsetting them against amounts that the counterparty owes to the Company.

Fair values of financial instruments

The carrying value and estimated fair value of the Company's financial instruments at September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013		**December 31, 2012**	
(In US$ millions)	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Cash and cash equivalents	**551**	**551**	318	318
Restricted cash	**415**	**415**	402	402
Current portion of long-term debt	**2,962**	**2,645**	2,066	2,066
Long-term portion of floating rate debt	**6,885**	**6,885**	6,287	6,287
Long term portion of fixed rate CIRR loans	**171**	**171**	218	218
Fixed interest loans	**—**	**—**	70	69
Fixed interest convertible bonds	**705**	**573**	872	561
Fixed interest bonds	**1,837**	**1,842**	1,360	1,342
Floating interest bonds	**302**	**301**	224	224

The carrying value of cash and cash equivalents and restricted cash, which are 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, usually every one to six 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 September 30, 2013 and December 31, 2012. 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 September 30, 2013 and December 31, 2012. 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)	**Total Fair value** **September 30, 2013**	**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 - short and long term	**820**	**816**	**—**	**4**
Interest rate swap contracts – short term receivable	**4**		**4**	
Foreign exchange forwards – short term receivable	**2**		**2**	
Other derivative instruments – short term receivable	**10**	**—**	**10**	**—**
Total assets	**836**	**816**	**16**	**4**
Liabilities:				
Interest rate swap contracts – short term payable	**186**	**—**	**186**	**—**
Cross currency swap contracts – short term payable	**26**	**—**	**26**	**—**
Other derivative instruments – short term payable	**3**	**—**	**3**	**—**
Total liabilities	**218**	**—**	**218**	**—**

(In US$ millions)	Total 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	388	—	388	—
Other derivative instruments – short term payable	8	—	8	—
Total liabilities	396	—	396	—

ASC Topic 820 Fair Value Measurement and Disclosures 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.

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

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

The fair values of interest rate swaps and forward exchange contracts are calculated using well-established independent valuation techniques applied to contracted cash flows and LIBOR and NIBOR interest rates as of September 30, 2013.

The fair value of other derivative instruments is calculated using the closing prices of the underlying securities, dividends paid since inception and the interest charged by the counterparty.

Note 19 – Variable Interest Entities (VIEs)

As of September 30, 2013, the Company leased a drillship, two semi-submersible rigs, and a newbuild jack-up 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.

On June 19, 2013, SFL Deepwater Ltd sold the West Hercules to SFL Hercules Ltd. This transaction under common control has no net effects on our consolidated financial statements, and we will continue to consolidate all relevant VIEs.

On June 28, 2013, our subsidiary North Atlantic Drilling sold the entity that owns the newbuild jack-up, the *West Linus*, to Ship Finance Limited. The purchase consideration for this transfer should reflect the market value of the rig as of the delivery date. This shall not exceed US$600 million. Upon closing North Atlantic Drilling received US$195 million and will receive the remaining balance on the delivery date. This rig was simultaneously chartered back over a period of 15 years. If the rig has not been successfully delivered from the shipyard and unconditionally accepted by the charterer by February 28, 2014, Ship Finance will have an option to sell the shares back to the North Atlantic with immediate effect for an amount equal to all cash payments by Ship Finance plus interest and expenses. seadrill has granted a guarantee in the principal amount of up to US$525 million issued in favor of Ship Finance, which will become payable in the event that the *West Linus* is not unconditionally accepted by the charterer by June 30, 2014.

The following table gives a summary of the sale and leaseback arrangements, as of September 30, 2013:

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	Jul 2008	850	548	Sep 2012	178	Jun 2023
West Taurus	Nov 2008	850	418	Feb 2015	149	Nov 2023
West Hercules	Oct 2008	850	580	Aug 2011	135	Aug 2023
West Linus	Jul 2013	600	370	June 2018	170	June 2028

* 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 US$75 million. For *West Taurus* and *West Hercules* repurchase obligations at the end of the lease terms have been agreed, at US$149 million and US$135 million, respectively. For West Linus the put option is US$100 million.

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 financial statements. 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 September 30, 2013 and at December 31, 2012 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.

Unit	Base LIBOR interest rate	2013		*(In US$ thousands)* 2014	2015	2016	2017
West Polaris	2.85%	223.3		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
West Linus	1.00%	85.0	**	222.0	222.0	222.0	222.0

* For a period the interest rates for *West Taurus* have been fixed at 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.

** For West Linus, the charter rate is US$85,000 per day from the date of delivery from the shipyard up until the date of commencement of the Drilling Contract:

The assets and liabilities in the accounts of the VIEs as at September 30, 2013 and as at December 31, 2012 are as follows:

	September 30, 2013				December 31, 2012	
(In US$ millions)	**SFL West Polaris Limited**	**SFL Deepwater Limited**	**SFL Hercules Limited**	**SFL Linus Limited**	SFL West Polaris Limited	SFL Deepwater Limited
Name of unit	***West Polaris***	***West Taurus***	***West Hercules***	***West Linus***	*West Polaris*	*West Taurus West Hercules*
Investment in finance lease	**497**	**535**	**490**	**195**	534	1,120
Other assets	**10**	**9**	**10**	**—**	7	20
Total assets	**507**	**544**	**500**	**195**	541	1,140
Long term debt - Current portion	**36**	**73**	**28**	**—**		
Long term debt	**360**	**315**	**340**	**195**	360	822
Other liabilities - current	**108**	**134**	**130**	**—**	107	167
Other liabilities - non-current	**—**	**—**	**—**	**3**	—	—
Total liabilities	**504**	**522**	**498**	**198**	467	989
Equity	**3**	**22**	**2**	**(3)**	74	151
Book value of units in the Company's consolidated accounts	581	460	625	142	594	1,035

Note 20 – Related party transactions

We have entered into a number of sale and leaseback contracts for several drilling units with 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. The shares of Hemen are held 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 nine month period ended September 30, 2013 and 2012, we incurred the following lease costs on units leased back from Ship Finance subsidiaries:

(In US$ millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
West Polaris	**19**	28	**56**	90
West Hercules	**19**	19	**57**	56
West Taurus	**28**	28	**85**	85
West Linus	**—**	—	**—**	—
Total	**66**	75	**198**	231

These lease costs are eliminated on consolidation.

On July 1, 2010, the VIE companies SFL Deepwater and SFL Polaris declared and paid a dividend of US$290 million and US $145 million respectively to Ship Finance International Limited (SFIL). SFIL simultaneously granted loans to SFL Deepwater and SFL Polaris of the same amounts with an interest rate of 4.5%. These loans are presented as long term debt to related parties in our balance sheet on September 30, 2013 and December 31, 2012.

On November 12, 2012 we granted Archer a short term unsecured loan of US$55 million. The loan had an interest of LIBOR + a margin and was settled in February 2013.

On December 20, 2012, we sold our 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 an agreement to settle dividend payable to Metrogas in return for a short-term unsecured loan of US$93 million. The net proceeds from these arrangements were US$415.3 million. On May 31, 2013, seadrill exercised the option to repurchase the bond from Metrogas, and the bond eliminates in the consolidated seadrill financial statements as at September 30, 2013.

On December 21, 2012, we obtained a short-term unsecured loan of US$93 million from Metrogas. The loan had an interest of LIBOR + a margin and was repaid on May 2, 2013.

On December 31, 2012, we obtained a short-term loan from Metrogas of NOK140 million. The loan had an interest of NIBOR + a margin and was repaid on January 2, 2013.

On February 8, 2013, in conjunction with the private placement of Archer (see Note 8) seadrill provided a guarantee to Archer on its payment obligations on a certain financing arrangements. The maximum liability to seadrill is limited to US$100 million with a guarantee fee of 1.25%.

On February 20, 2013, we obtained a short-term unsecured loan of US$43 million from Archer. The loan had an interest of LIBOR + a margin of 5% and was repaid on February 27, 2013.

On February 27, 2013, we obtained a short-term loan from Metrogas of NOK300 million. The loan had an interest of NIBOR + a margin and was repaid on March 12, 2013.

On March 27, 2013, we obtained a short-term loan from Metrogas of NOK700 million. The loan had an interest of NIBOR + a margin, and was repaid after the period end on April 3, 2013.

On March 27, 2013 we granted Archer a short term unsecured loan of US$10 million. The loan had an interest of LIBOR + a margin of 5%, and was repaid after the period end on April 2, 2013.

On June 28, 2013, our subsidiary North Atlantic Drilling sold the entity that owns the newbuild jack-up, the *West Linus*, to Ship Finance Limited. The purchase consideration for this transfer should reflect the market value of the rig as of the delivery date. This shall not exceed US$600 million. Upon closing North Atlantic Drilling received US$195 million and will receive the remaining balance on the delivery date. This rig was simultaneously chartered back over a period of 15 years.

On July 19, 2013, we entered into a loan agreement with Metrogas of NOK1,500 million. The loan had an interest of NIBOR plus a margin of 3.5% and was repaid subsequent to the period end on October 9, 2013.

On July 31, 2013, we provided Archer with an additional guarantee of $100 million, which was provided as part of Archer's divestiture of a division, to support Archers existing bank facilities. The guarantee fee is 1.25% per annum.

On September 20, 2013, we obtained a short-term loan from Metrogas of US$90 million. The loan had an interest of LIBOR + 3.0%, and was repaid on September 30, 2013.

Frontline provides certain management support and administrative services for the Company, and charged the Company fees of US$3.5 million and US$2.1 million for the nine months ended September 30, 2013 and 2012 respectively. These amounts are included in "General and administrative expenses".

Note 21 – Commitments and contingencies

Purchase Commitments

At September 30, 2013, we had twenty-three contractual commitments under newbuilding contracts. The contracts are for the construction of two semi-submersible rigs, seven drillships, twelve jack-up rigs, and two tender rigs. The units are scheduled to be delivered in 2013, 2014, 2015 and 2016. As of September 30, 2013 we have paid $3,867 million related to these rigs, including payments to the construction yards and other payments, and are committed to make further payments amounting to US$8,024 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:

(In US$ millions)	**As of September 30, 2013**
2013	1,206
2014	2,310
2015	3,856
2016	652
Total	**8,024**

Legal Proceedings

From time to time we are a party, as plaintiff or defendant, to 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 September 30, 2013.

Note 22 – Subsequent Events

On October 23, 2013, in connection with the delivery of Sevan Louisiana, our consolidated subsidiary, Sevan Drilling closed and drew USD $1,400 million of its new USD $1,750 million bank facility. These funds have been used to repay and settle the existing bank facilities related to Sevan Driller and Sevan Brasil and to settle the remaining installment for Sevan Louisiana and other payables to Cosco. The facility has a maturity in September 2018 and bears an interest of LIBOR plus a margin of 2.9%.