Seadrill Limited (SDRL) - Fourth quarter and preliminary 2011 results

Highlights

- Seadrill generates fourth quarter 2011 EBITDA*) of US$575 million
- Seadrill takes a US$463 million non-cash mark-to-market impairment of its shareholding in Archer Limited
- Seadrill reports fourth quarter 2011 net loss of US$82 million and loss per share of US$0.23
- Seadrill increases the quarterly cash dividend by 5% to US$0.80 per share
- Seadrill secures contracts for the ultra-deepwater rigs West Capricorn, West Leo and West Aquarius with an aggregated revenue potential of US$1.6 billion
- Seadrill secures contracts for the jack-up rigs West Ariel, West Callisto and West Prospero with an aggregated revenue potential of US$115 million
- Seadrill secures contract for the semi-tender rig under construction West Esperanza with a total revenue potential of US$127 million
- Seadrill raises US$950 million in debt through two new secured credit facilities
- Seadrill acquires a 28.5 percent ownership stake in Sevan Drilling ASA
- Seadrill subsidiary Seabras completes the initial filing for its potential listing on the BM&F BOVESPA stock exchange in Brazil

Subsequent events

- Seadrill secures contracts for the jack-up rigs Offshore Mischief, Offshore Defender, and West Leda with an aggregated revenue potential of US$311 million
- Seadrill completes a NOK1,250 million unsecured bond at Nibor plus a 3.25 percent margin
- Seadrill orders two ultra-deepwater drillships at Samsung in Korea with a total project price of US$1.2 billion
- Seadrill's 77 percent owned subsidiary North Atlantic Drilling Ltd (NADL) secures an 18 months contract for the harsh environment ultra-deepwater drillship West Navigator with a total revenue potential of US$320 million
- Seadrill updates the process of listing of its Seabras subsidiary on the stock exchange in Brazil with new filing expected in March and listing anticipated in April 2012

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

Condensed consolidated income statements

Fourth quarter 2011 results

Consolidated revenues for the fourth quarter of 2011 amounted to US$1,059 million as compared to US$1,029 million in the third quarter.

Operating profit for the quarter was US$436 million compared to US$480 million in the preceding quarter. The third quarter included a US$23 million gain on sale of West Juno, while the fourth quarter includes a non-recurring US$16 million expense related to termination of a third party management agreement for two jack-up rigs in the Middle East. Termination of the management contract will provide for cost savings more than offsetting the non- recurring expense during the remaining contract period for the two rigs.

Net financial items for the quarter showed a loss of US$501 million compared to a loss of US$372 million in the previous quarter. This loss includes a US$463 million non-cash impairment charge on the Company's 39.9 percent ownership in Archer. The investment is written down to reflect the share price as of December 31, 2011. This loss is partly offset by a gain of US$33 million on other derivative financial instruments for the quarter whereas we the previous quarter had a loss of US$330 million on such instruments.

Income taxes for the fourth quarter were US$17 million, down from US$50 million in the previous quarter.

Net loss for the quarter was US$82 million or a basic loss per share of US$0.23.

Balance sheet

As of December 31, 2011, total assets amounted to US$18,265 million, a decrease of US$56 million compared to September 30, 2011.

Total current assets increased from US$1,883 million to US$1,964 million over the course of the quarter primarily related to an increase in accounts receivables and cash and cash equivalents.

Total non-current assets decreased from US$16,438 million to US$16,301 million mainly due to the impairment loss recorded on the investment in associated company Archer, which is partly offset by installments paid on newbuilds.

Total current liabilities increased from US$2,459 million to US$2,708 million mainly due to an increase in current portion of long-term debt.

Long-term interest bearing debt increased from US$8,378 million to US$8,574 million over the course of the quarter and net interest bearing debt increased from $8,879 million to US$9,463 million.

Total equity decreased from US$6,772 million to US$6,326 million as of December 31, 2011. The decrease is mainly due to paid dividends and the impairment of our Archer shareholding.

Cash flow

As of December 31, 2011, cash and cash equivalents amounted to US$483 million, which corresponds to an increase of US$19 million as compared to the previous quarter. Net cash from operating activities for the period was US$427 million whereas net cash used in investing activities for the same period amounted to US$601 million, primarily related to payment of yard installments on new rigs and investments in associated companies. Net cash provided from financing activities was US$193 million mainly due to proceeds from debt but partly offset of cash dividend of US$360 million.

Preliminary results 2011

Consolidated revenues for 2011 totalled US$4,192 million up from US$4,041 million in 2010.

Operating profit for the same period was US$1,774 million, an increase of US$149 million compared to the previous year. The increase in operating profit is mainly related to a full year of contribution for the fleet of ultra-deepwater units and the jack-up rigs, somewhat offset by the deconsolidation of Archer Limited in February 2011.

Net financial items amounted to a loss of US$103 million compared to a loss of US$294 million in the previous year. The 2010 accounts were impacted by a US$145 million loss on debt extinguishment while the 2011 accounts were positively impacted by a US$416 million gain on realization of the Pride investment.

Income taxes increased from US$159 million in 2010 to US$165 million in 2011.

Net income in 2011 was US$1,506 million compared to US$1,172 million in the preceding year.

Outstanding shares

As of December 31, 2011, the issued common shares in Seadrill Limited totaled 467,772,174 adjusted for our holding of 1,478,759 treasury shares. In addition, we had stock options for 5.4 million shares outstanding under various share incentive programs for management, out of which approximately 1.6 million had vested and are exercisable.

Operations

Offshore drilling units

Seadrill had 44 offshore drilling units in operation during the fourth quarter (including five tender rigs owned by Varia Perdana) in North Europe, US Gulf of Mexico, Mexico, South Americas, West Africa, Middle East and Southeast Asia.

For our floaters (drillships and semi-submersible rigs) the economical utilization rate in the fourth quarter averaged 93 percent compared to 97 percent in the third quarter. The utilization rate was adversely impacted by the downtime in connection with BOP retrievals and repairs as reported in the third quarter report. For our jack-up rigs, the economical utilization in the fourth quarter increased to 96 percent from 91 percent in the third quarter due to Offshore Resolute completing a rig move and commencing operations under a new contract. For our tender rigs, the average economic utilization for the fourth quarter increased to 97 percent compared to 94 percent in the third quarter as the semi-tender West Menang had a full quarter in operation.

Table 1.0 Contract status offshore drilling units

Unit	Client	Area of location	Contract start	Contract expiry
Semi-submersible rigs				
West Alpha **	BG Consortium	Norway	May 2009	Nov 2013
West Aquarius	ExxonMobil	Southeast Asia	Feb 2009	Jun 2015
West Capricorn (NB*)	BP	In transit to USA	May 2012	May 2017
West Eminence	Petrobras	Brazil	Jul 2009	Jul 2015
West Hercules	Husky/Statoil	China	Nov 2011	Sep 2016
West Leo (NB*)	Tullow Oil	In transit to Ghana	Apr 2012	Apr 2013
West Orion	Petrobras	Brazil	Jul 2010	Jul 2016
West Pegasus	PEMEX	Mexico	Aug 2011	Aug 2016
West Phoenix **	Total	Norway	Jan 2012	Jan 2015
West Sirius	BP	USA	Jul 2008	Jul 2014
West Taurus	Petrobras	Brazil	Feb 2009	Feb 2015
West Venture **	Statoil	Norway	Aug 2010	Jul 2015
Drillships				
West Capella	Total	Nigeria	Apr 2009	Apr 2014
West Gemini	Total	Angola	Sep 2010	Sep 2012
West Navigator **	Shell	Norway	Jan 2009	Jun 2014
West Polaris	ExxonMobil	Nigeria	Nov 2011	Oct 2012
West Auriga (NB*)		South Korea – Samsung Shipyard		
West Tellus (NB*)		South Korea – Samsung Shipyard		
West Vela (NB*)		South Korea – Samsung Shipyard		
West Neptune (NB*)		South Korea – Samsung Shipyard		
West Jupiter (NB*)		South Korea – Samsung Shipyard		
HE Jack-up rigs				
West Elara (NB*) **	Statoil	Norway	Mar 2012	Mar 2017
West Epsilon **	Statoil	Norway	Dec 2010	Dec 2014

Unit	Client	Area of location	Contract start	Contract expiry
West Linus (NB*) **	ConocoPhillips	Singapore – Jurong Shipyard	Jan 2014	Dec 2018
BE Jack-up rigs				
Offshore Courageous	Shell	Malaysia	Jan 2012	Jan 2013
Offshore Defender	Petrobras/Shell	Brazil/Brunei	Mar 2010	May 2016
Offshore Freedom	KJO	Saudi Arabia / Kuwait	Jun 2009	May 2013
Offshore Intrepid	KJO	Saudi Arabia / Kuwait	May 2009	Nov 2012
Offshore Mischief	Equion	In transit to Colombia	Mar2012	Sep 2012
Offshore Resolute	Santos/KJO	Bangladesh	Aug 2011	May 2015
Offshore Vigilant	BHP Biliton	Trinidad & Tobago	Jun 2011	Apr 2012
West Ariel	VSP	Vietnam	Jan 2012	Dec 2012
West Callisto	Premier Oil	Indonesia	Aug 2010	Aug 2012
West Cressida	PTTEP	Thailand	Nov 2010	May 2014
West Leda	PTTEP/ExxonMobil	Thailand	Jun 2011	Oct 2013
West Prospero	VSP	Vietnam	Jan 2012	Dec 2012
West Triton	CPOC/KJO	Malaysia Thailand JDA	Dec 2010	May 2015
West Castor (NB*)		Singapore – Jurong Shipyard		
West Tucana (NB*)		Singapore – Jurong Shipyard		
West Telesto (NB*)		China – Dalian Shipyard		
West Oberon (NB*)		China – Dalian Shipyard		
Tender rigs				
T4	Chevron	Thailand	Jul 2008	Jun 2013
T7	Chevron	Thailand	Nov 2006	Mar 2013
T11	Chevron	Thailand	May 2008	May 2013
T12	Chevron	Thailand	Apr 2011	Apr 2014
T15 (NB*)	Chevron	China – COSCO Shipyard	Mar 2013	Mar 2018
T16 (NB*)	Chevron	China – COSCO Shipyard	Jun 2013	Jun 2018
T17 (NB*)		China – COSCO Shipyard		
West Alliance	Shell	Malaysia	Jan 2010	Jan 2015
West Berani	ConocoPhillips/ Chevron	Indonesia	Jan 2009	Mar 2013
West Jaya	BP	Trinidad & Tobago	Nov 2011	Jun 2014
West Esperanza (NB*)	Amerada Hess	Singapore - Keppel FELS	Jul 2013	Dec 2014
West Menang	Murphy	Malaysia	Aug 2011	Feb 2013
West Pelaut	Shell	Brunei	Apr 2009	Mar 2015
West Setia	Chevron	Angola	Aug 2009	Aug 2012
West Vencedor	Chevron	Angola	Mar 2010	Mar 2015

* Newbuilding under construction or in mobilization to its first drilling assignment.
** Owned by our subsidiary NADL in which we own 77 percent of the outstanding shares.
*** Seadrill has entered into an agreement to sell the unit, a transaction currently expected to be completed during the first quarter 2012.

Next quarter operational events

Our first quarter 2012 earnings are expected to be favorably impacted by a full quarter in operations for the new tender rig West Jaya that commenced operations for BP in late November 2011. The start-up of operations for the harsh environment jack-up rig West Elara for Statoil in Norway that was initially planned in the fourth quarter has been further postponed due to weather. The jack-up rig, which has been commissioned and is ready to drill, is currently on stand-by waiting for a suitable weather window to be towed out to the drilling location. The first quarter results have so far been adversely affected by a total of approximately 50 days off-hire on three deepwater rigs linked to maintenance of the BOP equipment. The tender rig West Berani is expecting a 30 days yard-stay in order to complete customer requirements. The yard-stay is paid for by the customer but will be taken to income over the contract term and not during the quarter. We also have the harsh environment semi-submersible rig West Phoenix that commenced a new contract in January at a lower daily rate. Operating expenses on this rig is, however, expected to decrease significantly as a function of a new geographical area of operation. In addition, there are several rig moves for and start-up on new contracts for our jack-up fleet that will impact earnings for the quarter.

Newbuild program

We currently have 14 units under construction following the completion of construction for the ultra-deepwater semi-submersible rigs West Capricorn and West Leo, and the new order for two ultra-deepwater drillships from Samsung. West Capricorn and West Leo that were delivered in December 2011 and January 2012 are currently in transit to their first drilling assignments in the US Gulf of Mexico and Ghana for BP and Tullow, respectively and are expected to commence operations in the second quarter. The remaining newbuild program includes five ultra-deepwater drillships, one harsh environment jack-up rig, four premium benign environment jack-up rigs, three tender rigs and one semi-tender rig. The delivery schedule for the newbuilds under construction is during the period fourth quarter 2012 to third quarter 2014, with the majority of deliveries in 2013. The total remaining payable yard installments are approximately US$3.1 billion.

In 2009, Seadrill initiated arbitration proceedings against Daewoo Shipbuilding & Marine Engineering related to claims for liquidated damages due to late delivery of the ultra-deepwater semi-submersible drilling rigs West Hercules and West Aquarius delivered from the yard in October 2008 and January 2009, respectively. In December 2011, the arbitration panel released their decision, according to which Daewoo had to pay Seadrill a compensation of US$32.7 million. In January 2012, Seadrill received a US$22.9 million payment of the compensation, recognized on our balance sheet in the fourth quarter as reduction in cost price for the rigs as the claims were established prior to commencement of first operation for the rigs. Daewoo has filed an appeal against the remaining US$9.8 million of the court award.

Operations in associated companies

Archer Limited ("Archer")

Archer is an international oilfield service company listed on the Oslo Stock Exchange. We currently own 146,238,446 shares in Archer, which represents a gross value of US$385 million based on the closing share price of NOK14.75 on February 24, 2012. Our Archer position contributed a loss of US$34 million to our fourth quarter net income (excluding the US$463 million impairment) compared to a US$13 million gain in the third quarter. For the full year of 2011, the net profit and loss effect of Seadrill's investment in Archer, including deconsolidation profits of US$540 million, equity pick-up and the impairment charge, is a net profit contribution of US$44 million.

Seadrill is as a major long-term shareholder clearly disappointed in the recent developments in Archer. However, the Board of Seadrill sees fundamental strength in the Archer business model, and expects that recent changes in management will increase the Company's operational focus and make it possible for the stock to recover all or a significant part of the decrease in share price experienced in the second part of 2011.

Contribution from Archer is reported under other financial items as part of investment in associated companies. For more information on Archer, see their separate quarterly report published on www.archerwell.com.

Asia Offshore Drilling Ltd ("AOD")

AOD is an offshore drilling company listed on Oslo Stock Exchange that has three MOD-V B-Class jack-up rigs under construction at Keppel FELS in Singapore. Seadrill has a 33.75 percent ownership stake in AOD, which represents a gross value of US$65 million based on the closing share price of NOK27.00 on February 24, 2012. Seadrill is responsible for the construction supervision, project management, as well as corporate and commercial management of the AOD rigs. For the fourth quarter, the impact of our AOD holding excluding the management fees was zero, which was reported under other financial items as part of investment in associated companies. For more information on AOD, see their separate quarterly report published on www.aodrilling.com.

Sevan Drilling ASA ("Sevan Drilling")
Seadrill has a 28.5 percent ownership stake in Sevan Drilling that was acquired in December 2011 for a consideration of US$65 million. Based on a closing share price of NOK7.33 on February 24, 2012, the shareholding represents a market value of some US$126 million. Sevan Drilling is an offshore drilling company listed on Oslo Stock Exchange that owns and operates one ultra-deepwater rig of the cylindrical Sevan design and expects to take delivery of its second rig in the first quarter 2012. Both rigs have long-term charter contracts in Brazil. Furthermore, the company has ordered two additional newbuilds scheduled for delivery in fourth quarter 2013 and second quarter 2014, respectively. Contribution from Sevan Drilling is reported as part of investment in associated companies under other financial items. For the fourth quarter, the contribution to net income was US$0 million. For more information on Sevan Drilling, see their separate quarterly report published on www.sevandrilling.com

Varia Perdana Bhd.("Varia Perdana")
We have a 49 percent ownership interest in Varia Perdana, which owns and operates five self-erecting tender rigs. During the fourth quarter, the tender barge T3 worked for PTTEP in Thailand and T10 worked for Chevron in Thailand. The tender barge T6 worked for Carigali Hess in the Malaysia - Thailand Joint Development Area while the Teknik Berkat worked for Petronas Carigali and T9 worked for Exxon Mobil Exploration & Production Malaysia. Varia Perdana contributed US$10 million to our fourth quarter earnings compared to US$8 million in the third quarter. Contribution from Varia Perdana is reported as part of investment in associated companies under other financial items.

SapuraCrest Bhd.("SapuraCrest")
We have an ownership interest of 23.6 percent or 301,132,020 shares in the Malaysian oil service provider SapuraCrest that is listed on the Malaysian Stock Exchange. The company contributed US$6 million to our performance in the fourth quarter in line with the preceding quarter. Contribution from SapuraCrest is reported as part of investment in associated companies under other financial items.

SapuraCrest owns among other things 51 percent of Varia Perdana Bhd and has a strong foothold in the deepwater construction market in the Asia Pacific region. The company is currently establishing a foothold in the Brazilian offshore construction market. SapuraCrest, through a wholly owned subsidiary, recently entered into agreements with Petrobras for five-year charters of three pipe laying support vessels (PLSVs) to be built for operations in Brazil. Two of the PLSVs are to be built outside Brazil, while one PLSV will be built in Brazil in compliance with applicable local content requirements. Commencement of operations for the PLSVs is planned to start by October 2014. Seadrill, through its subsidiaries, will have a 50 percent equity participation in entities, which has entered into charter and services agreements with Petrobras with respect to the three PLSVs. This investment should be seen in connection with Seadrill ambition to offer a wider range of oilfield services in Brazil through its Seabras subsidiary. It is the intention that such expansion could include a joint investment with SapuraCrest Petroleum Bhd, or SapuraCrest. The joint investment is dependent among other factors on approval by the SapuraCrest shareholders.

Furthermore, the offer made last year by Integral Key Sdn Bhd ("IKSB") to acquire SapuraCrest for a total consideration of RM5.87 billion, equivalent to RM4.60 per share was approved by Extraordinary General Meeting in SapuraCrest on November 30, 2011. The acquisition is expected to be completed on March 30, 2012. The consideration to SapuraCrest shareholders will be satisfied by issuance of new shares in IKSB and a cash payment with split of 80 percent shares and 20 percent cash. Seadrill will own approximately 11.8 percent of IKSB and is expected to receive US$70 million in cash subsequent to completion of the acquisition. Seadrilll is pleased with the investment in SapuraCrest, which have an historic cost of US$133 million and a current market value as of February 24, 2012 of US$496 million.

For more information on SapuraCrest, see their separate quarterly report published on www. sapuracrest.com.

Other investments in offshore drilling companies

Ensco plc ("Ensco")

As of December 31, 2011, we directly and indirectly controlled 3.5 percent in the NYSE listed offshore drilling company Ensco through forward contracts for 7,788,139 shares and direct ownership of 95,560 shares. The income statements for the fourth quarter 2011 included an unrealized gain of US$53 million. In February 2012, we disposed of Ensco holdings and will post a gain of US$68 million in the first quarter 2012 accounts. Furthermore, the sale of the Ensco holdings released US$15 million in cash plus US$63 million, which was classified as restricted cash as of year end 2011.

New contracts and contract extensions

Subsequent to the filing of our third quarter 2011 report, we have entered into the following new contracts and contract extensions:

In December, we agreed an 18 months contract with Amerada Hess for operation in Equatorial Guinea for the semi-tender rig under construction, the West Esperanza. The agreed daily rate is US$235,000. In addition, there is a mobilization fee for the transit from Singapore to drilling location in Equatorial Guinea.

In January, we through our majority owned subsidiary North Atlantic Drilling Ltd. secured an 18 months contract with Shell for the harsh environment drillship West Navigator. The agreed daily rate of for the contract period is estimated to US$587,000.

In early February, we secured new contracts for the three jack-up rigs Offshore Mischief, Offshore Defender, and West Leda. Offshore Mischief was awarded a 180-days contract by Equion Energia Limited for operations in Colombia with commencement of operations scheduled for late first quarter 2012 in direct continuation of the rig's existing contract. The agreed daily rate of for the contract period is US$172,000.

West Leda was awarded an eighteen-month contract by ExxonMobil E&P Malaysia Inc. for development drilling offshore Malaysia. The agreed daily rate of for the contract period is US$133,500.

Offshore Defender was awarded a four-year contract by Brunei Shell Petroleum Company Sdn Bhd for drilling offshore Negara Brunei Darussalam. The four-year contract is expected to commence in the second quarter of 2012 following relocation of the rig from its current operation in Brazil. The agreed daily rate of for the contract period is US$130,000. In addition, there is a mobilization fee for the transit from Brazil to drilling location in Brunei.

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 web site www.seadrill.com.

Corporate management

In early February 2012, it was announced that Chief Financial Officer in Seadrill Management AS, Esa Ikäheimonen has decided to leave the Company during the second half of 2012 to pursue other career opportunities. Seadrill has in this context resolved to restructure its finance organization and reporting by dividing the CFO responsibilities in two by introducing a new role of Chief Accounting Officer (CAO). The CFO and CAO will be part of the executive management team and report to the Chief Executive Officer (CEO). The CFO role will focus on managing Treasury, Tax and Risk and Insurance and Investor Relations, whereas the CAO role will focus on Accounting, Controlling and External reporting. Robert Hingley-Wilson has been appointed to the CAO role and Rune Magnus Lundetræ has been appointed as the designated CFO to succeed Esa Ikäheimonen as CFO later this year. Until his departure, Esa Ikäheimonen will continue to work as CFO to ensure a smooth transit and to assist the new organization to be effective as well as working on strategic projects for the CEO.

Market development

The demand for offshore drilling services has over the last few months showed considerable strength. As a result, daily rates and contract length have continued to improve for all asset classes. The spike in rates have however been most noticeable for ultra-deepwater rigs, a market that has seen most of its near term available capacity being absorbed at record pace. In the same period our customers has continued to report significant new offshore oil and gas discoveries in mature as well as frontier areas. This success coincides with continued growth in exploration and production spending in offshore regions by oil and gas companies. In a favorable oil price environment, this underpins the long-term demand and visibility for our industry and supports further growth especially in the deepwater area.

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

The global demand for ultra-deepwater drilling services has continued to increase over the last months. This is due to the number of active floaters in the US Gulf of Mexico gradually reverting to historic high activity levels and a strong demand growth in Africa as well as in Brazil. The significant exploration successes by several oil companies like for instance the recent finds in pre-salt Angola and Mozambique have led research analysts to doubling their predictions of the number of wells needed to be drilled in the coming two years compared to predictions that were made a year ago. This development has accelerated demand and led to a significant increase in contract activity bringing the contract backlog for ultra-deepwater rigs to a historic record level and driving daily rates towards US$600,000. The number of rigs available for employment in 2012 has shrunk materially and market sources indicate that with a few exceptions the available capacity is already being assigned to specific customers. This leads the focus to 2013, which is also starting to look tight from a rig availability perspective due to the new demand that is coming on stream. In addition to the international deepwater demand, there has also been a push for more advanced rigs in harsh environment in response to renewed focus from oil companies on activities in such areas, which have been absorbing some of the international ultra-deepwater capacity as well as created opportunities to build new units against long-term contracts. We expect continued contracting activity and the corresponding reduction in available supply to continue to place significant upward pressure on daily rates for rigs available in 2012 and 2013.

In this environment, Seadrill have substantially improved its contract backlog with several fixtures over the last six months. However, we are pleased to have one unit available in the fourth quarter this year, five units available next year (excluding the market rate adjustment for of the West Pegasus) and five units available in 2014 including the two latest newbuilds. We believe this creates a unique opportunity to secure attractive assignments in terms of daily rate levels and contract length. There is a secular trend in offshore drilling in favor of new and modern technically advanced units.

Premium jack-up rigs (>350 ft water)

The overall demand for jack-ups rigs globally has improved and the global utilization rate for jack-up rigs has increased to 82 percent based on increased incremental demand in West Africa, Mexico and the Middle East. As a result, the number of warm stacked and cold stacked jack-up rigs has been reduced significantly. For newer jack-up rigs, built after 2000 and with more than 350ft water depth capacity, the market balance remain sound with a utilization rate of 97 percent supported by strong demand for premium rigs in most regions. In light of this development, daily rates for older jack-up rigs have improved to cater for reactivation cost for such units. For newer jack-up rigs we have seen modest increase in daily rates but significant increases in contract length as the number of term contracts that has been offered and entered into by market participants developed positively. The observed market development suggests a positive trend in terms of rig demand, utilization rates, contract length and levels for daily rates. In this environment oil companies continues to show a preference for newer equipment due to their superior technical capacities and operational flexibility. Seadrill has significantly increased the earnings visibility for our jack-up fleet during the last quarters. We believe the current market environment will offer further opportunities for both term contracts and improved levels for daily rates. This development is a good match with the availability of the uncontracted part of our jack-up fleet of existing units and newbuilds under construction. For our JU2000E jack-ups currently under construction, we see potential for contracts also in the southern part of the North Sea. In response, we have decided to make certain outfitting adjustments to one of the JU2000Es under construction in order to prepare the unit for operation in that environment.

We are closely watching the development in the jack-up newbuilding market. Several smaller companies have taken on commitments that by far exceed their balance sheet capabilities. If the bank market for financing of speculative jack-up rigs does not improve materially before completion of construction of these rigs, there will be need for significant new equity in order to take delivery of these rigs. Seadrill will consider such opportunities on an opportunistic basis. However, it is clear that the overall return for ultra-deepwater and tender rig projects are significantly higher than for jack-up rigs for the time being.

Tender Rigs

We have recently seen a surge in daily rates for our tender rigs based on limited availability of premium equipment. Our customers have a strong focus on operational efficiency something that favors newer equipment and experienced operators. We also see an increasing awareness from oil companies for the tender rig concept and its benefits in term of efficiency and operability. The contract with Amerada Hess in Equatorial Guinea for our newbuild West Esperanza is a good example of a customer that has recognized such benefits. The contract in Equatorial Guinea also increases our operational footprint in West Africa and the size of our fleet in that region.

We have a strong contract backlog and visibility for our tender rigs with only limited short-term availability in our fleet. For the units that have open positions near term we are already in advanced discussions. Such discussions included both the newbuild under construction T17 and West Setia, which is coming of its current contract later this year. We expect to secure contracts for these units shortly and believe that this market environment will continue to provide attractive returns for experienced drillers with a successful operational track-record. We continue to evaluate opportunities to build additional tender barges/semi-tenders.

Corporate strategy, dividend and outlook

Seadrill is one of the leading offshore drilling companies in the global oil and gas industry with presence in all the important offshore regions. We are the second largest owner and operator of ultra-deepwater units in the industry, the largest owner and operator of self-erecting tender rigs and the largest owner and operator of modern premium jack-up rigs. Seadrill also has the most modern fleet of offshore drilling rigs among the major rig operators.

Growth and Investments

We have since our incorporation followed a strategy to develop a fleet of new premium offshore drilling units through newbuild orders and targeted acquisitions of modern assets.

We have rapidly built a significant fleet of such rigs. Last year we continued our growth by adding three ultra-deepwater units, four tender rigs and one harsh environment jack-up rig to our fleet, which equals a total of US$2.9 billion in new investments. We have lately seen a continued improvement in the outlook for our business. This is represented by strong growth in demand for modern equipment by our customers. In response to this development and in line with our strategy, we have resolved to increase our investment program by ordering two new ultra-deepwater drillships for the total amount of US$1.2 billion. We believe that the new units, which represent the latest in drilling technologies, are rigs that will meet the future requirements and specifications of our customers. In line with what we have predicted in our recent quarterly reports, the market improvement that we have seen over the last few months is very encouraging regarding future return on these investments. Since September last year, Seadrill has entered into new contracts with revenue potential of US$3.1 billion bringing its revenue backlog to a historic high level of US$13.4 billion. We believe the prevailing market conditions will offer significant opportunities to build revenue backlog at increasingly attractive terms and conditions.

Seabras

In our previous report, we addressed the issue of a potential future listing of our activities in Brazil. In December 2011, we announced that our subsidiary Seabras Serviços de Petróleo S.A. ("Seabras") had made an initial filing of a Reference Form ("Formulário de Referência") with the Brazilian Securities and Exchange Commission ("Comissão de Valores Mobiliários" or "CVM"). In January 2012, we informed that the second filing would be based on the fourth quarter 2011 accounts and that the second filing is expected to be completed in March 2012 with a subsequent listing anticipated in April 2012 of the company on the Novo Mercado segment of the BM&FBOVESPA on the São Paulo Stock Exchange. In the initial filing, it was disclosed that the company was expected to include our three ultra-deepwater units currently working for Petrobras in Brazil, potentially the stake in the Joint Venture with SapuraCrest for three pipe-laying vessels and the potential cooperation with Sete Brazil on three ultra-deepwater drillships for operation in Brazil. The potential future offering of the common shares is subject to market as well as other conditions, including the approval by and registration of the common shares with the CVM.

North Atlantic Drilling Ltd

We established North Atlantic Drilling Ltd (NADL) in February 2011. The company running our European harsh environment activities operations subsequently completed an equity offering and was listed on the Norwegian OTC list. In May last year, NADL made its first acquisition when it purchased a newbuild contract for one harsh environment jack-up rig from Seadrill increasing its fleet to seven units. NADL has established a quarterly cash dividend policy and has paid dividend for the last two consecutive quarters. Since the OTC listing, the market environment and the demand for the company's services has strengthened materially based on significant exploration success Norway and increased focus on harsh environment areas. As previously communicated, the ambition is for the company to list its shares on one of the main stock exchanges in the USA. The target is to complete the listing in the second part of this year.

As communicated in the North Atlantic Drilling Ltd fourth quarter 2011 report, North Atlantic management continue to conclude on their accounting for taxes as at the press release date. Once a conclusion is reached for accounting purposes and reported by North Atlantic, we will consider whether any possible amendment to their reported results have an impact on our consolidated Q4 results reported herein.

Other Significant Investments

We hold various ownership interests in other listed offshore drilling and oil service companies. This portfolio includes a 39.9 percent holding in Archer Limited, a 33.75 percent holding in Asia Offshore Drilling Ltd, a 28.5 percent holding in Sevan Drilling ASA and a 23.6 percent holding in SapuraCrest Bhd.. In line with prudent interpretation of the relevant accounting standards, we have in the fourth quarter booked an impairment loss of

US$463 million on our holding in Archer Limited. Archer is currently undertaking integration activities following two recent mergers. The Board believes there is a considerable upside potential in the stock if the ongoing activities are dealt with in an efficient and timely manner. We have in the first quarter disposed of our 3.5 percent holding in Ensco plc, which we have had since Ensco acquired Pride last year. For the other holdings, the Board evaluates the prospects of these investments on a continuous basis. At current market prices, potential disposal of the abovementioned holdings could free up approximately US$1,075 million in cash proceeds compared to US$958 million as at year-end 2011. We are of the opinion that these holdings add significant financial flexibility to our Company. The decision to dispose of the Ensco position freed up capital that the Board feels would be better employed through the recently signed construction contracts for deepwater newbuilds.

Financial Flexibility

Our financial flexibility has further increased over the last months, irrespective of challenging financial market conditions. The closing of two secured loan facilities before year end freed up approximately US$600 million in cash on the parent company level at very competitive terms. In January 2012, we issued a new NOK1,250 million unsecured bond that was swapped to US dollars and repurchased outstanding bonds with nominal value of NOK331.5 million ahead of maturity on September 28, 2012. In general, the cash flow from our operations has been increasing as new units and contracts have been added to our portfolio. In the short term, we have one credit facility related to a part of our tender rig fleet that matures in July this year. We have already received several proposals for refinancing of this facility with clear indications that the US$325 million loan amount presently available under this facility can be increased significantly.

We are confident that attractive financing to support the newbuilding program for deliveries in 2013 can be achieved at levels equal or even higher than the outstanding yard installments. Furthermore, such financing can create additional flexibility and liquidity for further expansion. We are continuing to look for opportunities to further optimizing our capital structure as we alluded to in our third quarter report. Seadrill's related party Golar LNG has recently reduced financing cost significantly by financing LNG ships on long-term charters to major oil companies through a master limited partner sub structure. We have carefully evaluated a similar structure for financing of part of Seadrill's rig fleet on long-term charters. A final decision on whether to go ahead with this project is expected to be made in second quarter this year.

Quarterly Cash Dividend

The Board has in connection with the disclosure of the fourth quarter results evaluated the current dividend level and prospects and decided to increase the quarterly dividend further by US$0.04 to US$0.80. The increase in dividend reflects the improved market outlook, the strong revenue backlog, and solid support Seadrill receives from the financing market. The ex. dividend date has been set to March 8, 2012, record date is March 12, 2012 and payment date is on or about March 23, 2012.

Near term prospect

Seadrill continues to deliver a higher dividend yield than its industry peers. This has been achieved through a dedicated and targeted focus on operational management, financial management and aggressive investments in modern drilling equipment.

In order to meet our ambitions of providing a competitive return to our shareholders, optimizing operational predictability, cost performance and performance on safety and environment (HSE) for our rig fleet, are the key success factors. We are delivering steady improvement in terms of HSE performance and we are seeing economies of scale as a result of the reorganization that we undertook last year. We are also gaining significant operational benefits of having more rigs operating in the same regions.

Seadrill observes that there are increases in cost levels particularly in regions like Angola and Brazil. However, overall, we expect to benefit from a larger scale, standardization and reductions in cost in certain areas like the Middle East to retain similar net operating margins as recorded 2011.

With the exception of the 50 days of downtime linked to three rigs reported earlier in this report, we have had a strong operational performance for our rigs in January and February and have seen continued high utilization rates for our rigs. We are currently investing in additional BOP equipment in order to further reduce downtime risk linked to subsea issues. We are on track to reach our goal to deliver an annual EBITDA in excess of US$3 billion after our next generation of newbuildings are delivered in 2013.

The Board expects daily rates for ultra-deepwater rigs to increase to levels above US$600,000 per day during the next months. Compared with the rates some 18 months ago, such a rate level will increase the annual cash generation per rig by more than US$ 50 million. This cash can be used to build our Company further without raising additional equity.

The total utilization of the ultra deepwater fleet is currently close to 100 percent. The number of ultra deepwater newbuilds to be delivered over the next three years is approximately 46 units. This number compares favorably to the 76 new units delivered and absorbed by the market over the last three years. There is limited availability of newbuilding yard slots before year 2015.

The major exploration successes experienced lately together with increased development drilling will lead to a strong demand and a tight supply demand situation in the next three-years. This trend is further supported by new independent operators entering into exploration and development of deepwater fields.

Ultimately, this will lead to a situation where operators will have to postpone developments of high return discoveries because of lack of rig availability. In this situation, the Board of Seadrill has acted to secure valuable yard slots at attractive price levels to assure strong and profitable growth of our Company in the next five-year period. Seadrill have significantly more open capacity in this window than any of our competitors.

The operating results for the first quarter 2012 is likely to be in line or slightly better than for the fourth quarter 2011. The operating results for second quarter and subsequent quarters will show strong growth reflecting the introduction of new capacity. The new rig capacity, the strong support from the financing markets and the strengthening of the underlying drilling markets increases the likelihood that Seadrill can continue to improve its dividend payments to shareholders.

The Board is excited about the developments in the market and the way the Company is positioned to benefit from recent trends and market developments.

The Board is confident that this growth will contribute to growth in earnings and potential for increasing the cash dividend going forward.

Forward Looking Statements

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

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

February 28, 2012
The Board of Directors
Seadrill Limited
Hamilton, Bermuda

Questions should be directed to Seadrill Management AS represented by:

Alf C Thorkildsen:	Chief Executive Officer and President
Esa Ikäheimonen:	Chief Financial Officer and Senior Vice President
Jim Daatland:	Vice President Investor Relation

Seadrill Limited

INDEX TO UNAUDITED FINANCIAL STATEMENTS

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

(In US$ millions)

	Three month period ended Dec 31,		Twelve month period ended Dec 31,	
	2011	2010	**2011**	2010
Operating revenues				
Contract revenues	**1 040**	1 105	**4 095**	3 823
Reimbursables	**22**	60	**96**	192
Other revenues	**(3)**	4	**1**	26
Total operating revenues	**1 059**	1 169	**4 192**	4 041
Gain on sale of assets	**(1)**	26	**22**	26
Operating expenses				
Vessel and rig operating expenses	**406**	465	**1 585**	1 605
Reimbursable expenses	**21**	54	**90**	179
Depreciation and amortization	**139**	139	**563**	480
General and administrative expenses	**56**	58	**202**	178
Total operating expenses	**622**	716	**2 440**	2 442
Net operating income	**436**	479	**1 774**	1 625
Financial items				
Interest income	**4**	6	**21**	43
Interest expenses	**(75)**	(109)	**(295)**	(312)
Share in results from associated companies	**(482)**	10	**(420)**	48
Gain/ (loss) on derivative financial instruments	**33**	77	**(346)**	(92)
Foreign exchange (loss)	**14**	7	**(18)**	(26)
Gain on remeasurement of previously held equity interest	**0**	0	**0**	111
Gain on bargain purchase	**0**	0	**0**	56
Loss on debt extinguishment	**0**	(145)	**0**	(145)
Gain on loss of control in subsidiary	**0**	0	**540**	0
Gain on realization of marketable securities	**0**	0	**416**	0
Impairment loss on marketable securities	**0**	(15)	**(10)**	(15)
Other financial items	**5**	(6)	**9**	39
Total financial items	**(501)**	(176)	**(103)**	(294)
(Loss)/income before income taxes	**(65)**	303	**1 671**	1 331
Income taxes	**(17)**	(35)	**(165)**	(159)
Net (loss)/income	**(82)**	268	**1 506**	1 172
Net (loss)/ income attributable to the parent	**(109)**	253	**1 419**	1 117
Net income attributable to the non-controlling interest	**27**	15	**87**	55
Basic earnings per share (US$)	**(0.23)**	0.61	**3.09**	2.73
Diluted earnings per share (US$)	**(0.23)**	0.61	**3.00**	2.73
Declared regular dividend per share (US$)	**0.80**	0.675	**3.06**	2.535
Declared extraordinary dividend per share (US$)	**0**	0.20	**0**	0.20

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the three and twelve month periods ended December 31, 2011 and 2010

(In US$ millions)

	Three month period ended December 31,		Twelve month period ended December 31,	
	2011	2010	**2011**	2010
Net (loss)/ income	**(82)**	268	**1 506**	1 172
Other comprehensive income/ (loss), net of tax:				
Change in unrealized gain/ (loss) on marketable securities	**1**	75	**(291)**	(25)
Change in unrealized foreign exchange differences	**5**	1	**38**	26
Change in unrealized gain/ (loss) relating to pension	**(3)**	(31)	**(3)**	(31)
Change in unrealized gain/ (loss) on interest rate swaps in subsidiaries	**0**	0	**1**	(2)
Deconsolidation of subsidiaries	**0**	0	**(63)**	0
Change in unrealized gain/ (loss) on interest rate swaps in VIEs	**7**	11	**20**	(11)
Other comprehensive income/ (loss):	**10**	56	**(298)**	(43)
Total comprehensive (loss)/income for the period	**(72)**	324	**1 208**	1 129
Comprehensive (loss)/income attributable to the parent	**(106)**	301	**1 091**	1 081
Comprehensive income attributable to the non-controlling	**34**	23	**117**	48

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

	December 31, 2011	December 31, 2010
The total balance of accumulated other comprehensive income is made up as follows:		
Unrealized gain on marketable securities	**1**	292
Unrealized gain on foreign exchange	**54**	96
Actuarial gain relating to pension	**(11)**	(15)
Unrealized gain/ (loss) on interest rate swaps in subsidiaries	**0**	(1)
Unrealized gain/ (loss) on interest rate swaps in VIEs	**(49)**	(49)
Accumulated other comprehensive income	**(5)**	323

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

The applicable amount of income taxes associated with each component of other comprehensive income is $0 due to the fact that the items relate to companies domiciled in non-taxable jurisdictions. However for actuarial loss related to pension, the applicable amount of income taxes is $3 million as this item is related to companies domiciled in Norway where the tax rate is 28%.

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

Seadrill Limited

UNAUDITED CONSOLIDATED BALANCE SHEETS

(In US$ millions)

ASSETS	December 31, 2011	December 31, 2010
Current assets		
Cash and cash equivalents	**483**	755
Restricted cash	**232**	155
Marketable securities	**24**	598
Accounts receivables, net	**720**	828
Amount due from related party	**185**	140
Other current assets	**320**	407
Total current assets	**1 964**	2 883
Non-current assets		
Investment in associated companies	**721**	205
Newbuildings	**2 531**	1 247
Drilling units	**11 223**	10 795
Goodwill	**1 320**	1 676
Other intangible assets	**0**	57
Restricted cash	**250**	305
Deferred tax assets	**33**	30
Equipment	**25**	158
Other non-current assets	**198**	141
Total non-current assets	**16 301**	14 614
Total assets	**18 265**	17 497
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	**1 419**	981
Trade accounts payable	**38**	95
Other current liabilities	**1 251**	1 438
Total current liabilities	**2 708**	2 514
Non-current liabilities		
Long-term interest bearing debt	**8 574**	8 176
Long-term debt to related party	**435**	435
Deferred taxes	**34**	181
Other non-current liabilities	**188**	254
Total non-current liabilities	**9 231**	9 046
Commitments and contingencies	-	-
Equity		
Common shares of par value US$2.00 per share: 800,000,000 shares authorized 467,772,174 outstanding at Dec 31, 2011 (December, 31 2010: 443,125,691)	**935**	886
Additional paid in capital	**2 097**	1 217
Contributed surplus	**1 956**	1 956
Accumulated other comprehensive income	**(5)**	323
Accumulated earnings	**1 012**	1 016
Non-controlling interest	**331**	539
Total equity	**6 326**	5 937
Total liabilities and equity	**18 265**	17 497

Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the twelve month periods ended December 31, 2011 and 2010

(In US$ millions)

	Twelve month period ended December 31,	
	2011	**2010**
Cash Flows from Operating Activities		
Net income/ (loss)	**1 506**	1 172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**563**	480
Amortization of deferred loan charges	**31**	43
Amortization of unfavorable contracts	**(24)**	(39)
Amortization of favorable contracts	**23**	13
Amortization of mobilization revenue	**(96)**	(86)
Share of results from associated companies	**(43)**	(48)
Share-based compensation expense	**10**	11
Unrealized (gain)/ loss related to derivative financial instruments	**261**	98
Dividend received from associated company	**57**	61
Deferred income tax expense	**(33)**	110
Unrealized foreign exchange loss (gain) on long term interest bearing debt	**(5)**	(4)
Non cash gain recognized related to acquisition of subsidiary	**0**	(167)
Gain on disposal of fixed assets	**(22)**	(26)
Non cash gain recognized related to realization of marketable securities	**(416)**	(43)
Non cash gain recognized related to loss of control	**(540)**	0
Non cash loss recognized related to extinguishment of convertible debt	**0**	48
Impairment loss on marketable securities and investments in associated companies	**473**	15
Changes in operating assets and liabilities, net of effect of acquisitions		
Unrecognized mobilization fees received from customers	**58**	109
Trade accounts receivable	**(52)**	(163)
Trade accounts payable	**(35)**	(15)
Prepaid expenses/accrued revenue	**79**	(108)
Other, net	**21**	(161)
Net cash provided by operating activities	**1 816**	1 300

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the twelve month periods ended December 31, 2011 and 2010

(In US$ millions)

	2011	2010
Cash Flows from Investing Activities		
Additions to newbuildings	**(2 381)**	(2 006)
Additions to rigs and equipment	**(162)**	(362)
Sale of rigs and equipment	**245**	55
Change in margin calls and other restricted cash	**(43)**	51
Purchase of marketable securities	**(13)**	(15)
Investment in subsidiaries, net of cash acquired	**(26)**	(152)
Cash deconsolidated upon loss of control in subsidiary	**(127)**	0
Investment in associated companies	**(287)**	(13)
Short term loan granted to related parties	**0**	(160)
Proceed from repayment of short term loan to related parties	**0**	90
Proceeds from realization of marketable securities	**161**	215
Net cash used in investing activities	**(2 633)**	(2 297)
Cash Flows from Financing Activities		
Proceeds from debt	**5 929**	3 902
Repayments of debt	**(4 116)**	(1 870)
Debt fees paid	**(49)**	(33)
Change in current liability related to share forward contracts	**0**	(12)
Contribution (to) / from non-controlling interests	**(95)**	(292)
Contribution from non-controlling interests related to private placement	**418**	289
Proceeds from issuance of equity	**0**	318
Purchase of treasury shares	**(130)**	(42)
Proceeds from sale of treasury shares	**21**	23
Dividends paid	**(1 440)**	(990)
Net cash provided by financing activities	**538**	1 293
Effect of exchange rate changes on cash and cash equivalents	**7**	(1)
Net increase / (decrease) in cash and cash equivalents	**(272)**	295
Cash and cash equivalents at beginning of the year	**755**	460
Cash and cash equivalents at the end of period	**483**	755
Supplementary disclosure of cash flow information		
Interest paid	282	284
Taxes paid	188	134

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

Seadrill Limited

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

(In US$ millions)

	Share Capital	Additional paid-in capital	Contributed surplus	Accumulated OCI	Retained earnings	NCI	Total equity
Balance at December 31, 2010	886	1 217	1 956	323	1 016	539	**5 937**
Sale of treasury shares	1	20					**21**
Purchase of treasury shares	(5)	(120)				(5)	**(130)**
Employee stock options issued		10					**10**
Changes in actuarial gain/losses relating to pension				(3)			**(3)**
Private placement in subsidiary		307				118	**425**
Costs related to capital increase in subsidiary		(7)					**(7)**
(Un)realized gain/(loss) on marketable securities				(291)			**(291)**
Foreign exchange differences				28		10	**38**
Change in unrealized (loss) on interest rate swaps in VIEs						20	**20**
Change in unrealized (loss) on interest rate swaps in subsidiaries				1			**1**
Dividend payment					(1 423)	(17)	**(1 440)**
Dividend paid to Non-controlling interests in VIE						(23)	**(23)**
Shares purchased from non controlling interests		(4)				(68)	**(72)**
Deconsolidation of subsidiaries				(63)		(330)	**(393)**
Induced conversion of convertible bonds	53	674					**727**
Net income					1 419	87	**1 506**
Balance at December 31, 2011	**935**	**2 097**	**1 956**	**(5)**	**1 012**	**331**	**6 326**

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

Note 1- General information

Seadrill Limited ("we", "the Company", or "our") is a publicly listed company on the New York Stock Exchange and the Oslo Stock Exchange. We were incorporated in Bermuda in May 2005. Assisted by the acquisition of other companies and investment in newbuildings, we have developed into an international offshore drilling contractor providing services within drilling and well services, and as of December 31, 2011 we owned and operated 40 offshore drilling units, and have additionally 15 units under construction. Our versatile fleet consists of drillships, jack-up rigs, semi-submersible rigs and tender rigs for operations in shallow and deepwater areas, as well as benign and harsh environments.

In addition to owning and operating offshore mobile drilling units and tender rigs, we provide platform drilling, well intervention and engineering services through the separately Oslo Stock Exchange listed company Seawell Limited, now renamed Archer Ltd ("Archer"), a Bermuda company in which we own 39.9% at the end of December 2011. Effective from February 2011, Archer is no longer fully consolidated into our financial statements, but classified as an investment in an associated company.

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

Basis of presentation

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

Significant accounting policies

Since the second quarter 2011, we have been reporting unbilled revenue under the Accounts Receivable line in the Balance Sheet, instead of having it as part of the Other Current Assets line. We have adjusted December 2010 figures for comparison.

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

Note 2– Segment information

Operating segments

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

We have in 2010 and 2011 significantly expanded our fleet of drilling rigs through acquisitions of new rigs and newbuilding orders. In response to this development and the deconsolidation of Archer, management has reviewed our internal reporting structure including the operating and reporting business segments. This review has resulted in a change in our reporting segments reflecting how the Board and our directors assess performance and allocates resources. This change had effect from January 1, 2011, but the segments have also been retrospectively recasted for comparison sake.

We currently operate in the following three segments:

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

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

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

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

Contract revenues

(In US$ millions)	**Three months ended December 31,**		**Twelve months ended December 31,**	
	2011	**2010**	**2011**	**2010**
Floaters	674	616	2,611	2,172
Jack-up rigs	199	181	781	579
Tender rigs	167	136	576	463
Well Services *	0	172	127	609
Total	1,040	1,105	4,095	3,823

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

Depreciation and amortization

(In US$ millions)	Three months ended December 31,		Twelve months ended December 31,	
	2011	2010	2011	2010
Floaters	94	85	358	301
Jack-up rigs	33	33	135	99
Tender rigs	12	15	63	57
Well Services*	0	6	7	23
Total	139	139	563	480

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

Operating income - net income

(In US$ millions)	Three months ended December 31,		Twelve months ended December 31,	
	2011	2010	2011	2010
Floaters	328	320	1,328	1,139
Jack-up rigs	36	66	220	200
Tender rigs	72	75	221	222
Well Services*	0	18	5	64
Operating income	436	479	1,774	1,625
Unallocated items:				
Total financial items	(501)	(176)	(103)	(294)
Income taxes	(17)	(35)	(165)	(159)
Net income	(82)	268	1,506	1,172

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

Total Assets

(In US$ millions)	December 31, 2011	December 31, 2010
Floaters	12,822	11,650
Jack-up rigs	4,200	3,538
Tender rigs	1,243	1,322
Well Services*	0	987
Total	18,265	17,497

* Deconsolidated in February 2011.

Note 3 – Earnings per share

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

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

(In US$ millions)	**Three months ended December 31,**		**Twelve months ended December 31,**	
	2011	**2010**	**2011**	**2010**
Net (loss)/ income available to stockholders	(109)	253	1,419	1,117
Effect of dilution	9	174	45	228
Diluted net (loss)/ income available to stockholders	(100)	427	1,464	1,345

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

(In US$ millions)	**Three months ended December 31,**		**Twelve months ended December 31,**	
	2011	**2010**	**2011**	**2010**
Basic earnings per share:				
Weighted average number of common shares outstanding	467	417	459	409
Diluted earnings per share:				
Weighted average number of common shares outstanding	467	417	459	409
Effect of dilutive share options	1	2	2	2
Effect of dilutive convertible bonds	19	67	27	60
	487	486	488	471

Due to a net loss in the three months ended December 31, 2011, the effect of the share options and the convertible bonds would have an anti-dilutive effect. As a consequence of this, these effects are backed-out of the calculation of dilutive earnings per share for this quarter, and the diluted earnings per share equal basic earnings per share for this period.

For the twelve month period ended December 31, 2010 and the three months period ended December 31, 2010, the loss on debt extinguishment of $145 million has been added back to net income in addition to interest expenses related to the convertible bonds. These effects are anti-dilutive, and exceed the effect of increased denominator when calculating the diluted earnings per share. As a consequence of this, the diluted earnings per share equal basic earnings per share for this period.

Note 4 – Marketable securities

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

Marketable securities held by us include approximately 3.5% of the issued shares of Ensco plc. ("Ensco"), 9.2% of the issued shares of Seahawk Drilling Inc. ("Seahawk"), 81.1% of the partially redeemed Petromena NOK2,000 million bond ("Petromena") and 3.3% of Golden Close Maritime bond ("Golden Close"). Marketable securities and changes in their carrying value are as follows:

(In US$ millions)	Pride	Ensco	Seahawk	Petromena	Golden Close	Other bonds	Total
Historic cost at December 31, 2010	268	-	10	13	15	-	306
Fair Market value adjustments recognized via OCI as of December 31, 2010	276	-	-	16	-	-	292
Net book value at December 31, 2010	544	-	10	29	15	-	598
Additions	-	5	-	-	-	13	18
Fair market value adjustments recognized via OCI	140	-	-	(16)	1	-	125
Release of OCI into profit & loss	(416)	-	-		-	-	(416)
Realization of historic cost	(268)	-	-	(9)	-	(13)	(290)
Other than temporary impairments	-	-	(10)	-	-	-	(10)
Historic cost at Dec 31, 2011	-	5	0	4	15	0	24
Fair Market value adjustments recognized via OCI as of December 31, 2011	-	-	-	-	1	0	1
Fair Market value adjustments recognized via P&L	-	(1)	-	-	-	0	(1)
Net book value at Dec 31, 2011	0	4	0	4	16	0	24

In the third quarter 2011, we determined that the decline in fair value of the Seahawk investment was other than temporary based preliminary upon evaluation of the severity of the excess of its cost basis over the market price of the security and prospects for recovery within 2011. As a result of this evaluation we recognized an impairment charge so that its adjusted cost basis as of December 31, 2011 is 0. A loss of $10 million has been then classified as other financial items during the first twelve months of 2011.

On February 7, 2011, Ensco plc ("Ensco") (NYSE: ESV) and Pride (NYSE: PDE) jointly announced that they have entered into a definitive merger agreement under which Ensco will combine with Pride in a cash and stock transaction. The definitive merger agreement has been unanimously approved by each company's board of directors and the completion of the acquisition was announced on May 31, 2011. Under the terms of the merger agreement, Pride stockholders received 0.4778 newly-issued shares of Ensco plus $15.60 in cash for each share of Pride common stock.

The Ensco transaction represented a realization of the former Pride positions and the accumulated OCI effect of $416 million has been released into the profit and loss statement.

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

The year to date loss of $346 million in our Statement of Operations consists of the following:

Total Return Swaps (TRS):
We have a TRS agreement with 2,000,000 Seadrill Limited shares as underlying security, with a reference price of NOK 177.21 and expiry on March 7, 2012. The total realized and unrealized gain related to the TRS agreements amounted to $5 million for the twelve months ended December 31, 2011 and is recognized in the statement of operations as gain/(loss) on derivative financial instruments.

Interest-rate swap agreements and forward exchange contracts:
Total realized and unrealized loss on interest-rate swap agreements, not qualified for hedge accounting, and forward exchange contracts amounted to $314 million for the twelve months ended December 31, 2011. The loss is recognized in the statement of operations as gain/ (loss) on derivative financial instruments.

Other derivative instruments:
Total realized and unrealized loss on other derivative instruments amounted to $37 million for the twelve months ended December 31, 2011, mainly due to unrealized losses in our Ensco forwards contracts.

Note 6 – Newbuildings

(In US$ millions)	
Opening balance at December 31, 2010	1,247
Additions	2,381
Re-classified as drilling units	(1,097)
Closing balance at December 31, 2011	2,531

In 2011, additions to newbuildings are principally related to acquisition of rigs and yard installments, but also include capitalized interest expenses and loan-related costs amounting to $74 million.

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

Drilling unit	Yard	Delivery date	Book Value as of December 31, 2011 In US$ millions	Estimated total project price In US$ millions
Jack-up rigs				
West Elara	Jurong	3Q 2011(*)	478	-
West Telesto	Dalian	4Q 2012	20	190
West Tucana	Jurong	4Q 2012	37	200
West Castor	Jurong	1Q2013	37	200
West Oberon	Dalian	1Q 2013	20	190
West Linus	Jurong	3Q 2013	95	530
Tender rigs				
T-15	Nantong	4Q 2012	24	113
T-16	Nantong	1Q 2013	25	113
T-17	Nantong	1Q 2013	23	115
West Esperanza	Keppel	2Q 2013	33	200
Semi-submersible rigs				
West Capricorn	Jurong	4Q 2011(*)	764	-
West Leo	Jurong	1Q 2012	565	650
Drillships				
West Auriga	Samsung	1Q 2013	137	600
West Vela	Samsung	2Q 2013	137	600
West Tellus	Samsung	2Q 2013	136	600
			2,531	4,301

(*) Delivered from yard, not yet commenced operations

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

Note 7 – Drilling units

(In US$ millions)	**December 31, 2011**	**December 31, 2010**
Cost	12,898	11,927
Accumulated depreciation	(1,675)	(1,132)
Net book value	11,223	10,795

Depreciation expense was $547 million and $448 million for the twelve months ended December 31, 2011 and 2010, respectively.

During the third quarter, we have sold West Juno for the amount of $245 million, net of commission paid. We have recognized a gain of $22 million in our accounts.

Note 8– Equipment

Equipment consists of office equipment, furniture and fittings.

(In US$ millions)	**December 31, 2011**	**December 31, 2010**
Cost	40	279
Accumulated depreciation	(15)	(121)
Net book value	25	158

Depreciation expense was $16 million and $28 million for the twelve months ended December 31, 2011 and 2010, respectively.

Note 9 – Goodwill

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

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

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

(In US$ millions)	December 31, 2011	December 31, 2010
Credit facilities:		
US$1,500 facility	-	1,060
US$800 facility	272	636
US$585 facility	337	387
US$100 facility	74	80
US$1,500 facility	1,059	1,027
US$1,200 facility	1,000	1,133
US$700 facility	630	700
$550 million secured multi currency credit facility (Archer)	-	189
NOK other loans and leasings (Seawell)	-	5
US$1,121 facility	985	0
US$2,000 facility (North Atlantic Drilling)	1,917	0
US$170 facility	92	101
US$550 facility	550	0
US$400 facility	400	0
Total Bank Loans + other	7,316	5,318
Debt recorded in consolidated VIE's:		
US$700 facility	470	546
US$1,400 facility	939	1,099
Total Ship Finance Facilities	1,409	1,645
Bonds and convertible bonds:		
Bonds	425	552
Convertible bonds	545	1,287
Total bonds	970	1,839
Other credit facilities with corresponding restricted cash deposits:	298	355
Total interest bearing debt	9,993	9,157
Less: current portion	(1,419)	(981)
Long-term portion of interest bearing debt	8,574	8,176

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

(In US$ millions) **Year ending December 31**	
2012	1,419
2013	2,332
2014	1,389
2015	1,787
2016 and thereafter	3,171
Effect of amortization of convertible bond	(105)
Total debt	9,993

In January 2011 a $1.1 billion secured credit facility was entered into to fund the acquisition of the two ultra-deepwater semi-submersible drilling rigs West Pegasus and West Leo. These two units were pledged as security for the facility which bears interest at LIBOR plus a margin and is repayable over a term of seven years. At maturity a balloon payment of $498 million is due.

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

In October 2011, we have successfully secured commitments from a group of commercial lending institutions and export credit agencies for a new $550 million senior secured credit facility. . The facility has a five-year tenor, has interest rate of Libor plus margin and has a balloon installment of $275 million at maturity. The ultra-deepwater semi-submersible rig West Capricorn was pledged as security.

In November 2011, we have successfully secured commitments from a group of commercial lending institutions for a new $400 million senior secured credit facility. The facility has a five-year tenor, has interest rate of Libor plus margin and has a balloon installment of $200 million at maturity. The jack-up rigs West Cressida, West Callisto, West Leda and West Triton were pledged as security.

Convertible bonds:

In October 2010 we issued at par $650 million of senior unsecured convertible bonds. Interest on the bonds is fixed at 3.375%, payable semi-annually in arrears. The bonds are convertible into Seadrill Limited common shares at any time up to ten banking days prior to October 27, 2017. The conversion price at the time of issuance was $38.92 per share, representing a 30% premium to the share price at the time. Since then, dividend distributions have reduced the conversion price to $34.88. For accounting purposes $121 million was allocated to the bond equity component and $529 million to the bond liability component at the time of issuance. This is due to the cash settlement option stipulated in the bond agreement. Unless previously redeemed, converted or purchased and cancelled, the bonds mature in October 2017.

On December 16, 2010 we announced a conversion incentive period for holders of up to $250 million of our $1 billion principal amount convertible bond due 2012. We accepted for early conversion of $250 million in principal amount (being the "maximum conversion amount"). In May 2011 we exercised the embedded call option and, as a consequence, the remaining convertible bonds outstanding were settled. Bondholders representing $721.2 million had requested conversion within the conversion date stipulated in the loan agreement, while the other $28.2 million were redeemed at par.

Covenants- Credit facilities:

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

Note 11 – Share capital

All shares are common shares of US$2.00 par value each	**December 31, 2011** Shares	US$ millions	**December 31, 2010** 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	938	443,308,487	887
Treasury shares held by Company	(1,478,759)	(3)	(182,796)	(1)
Shares issued and outstanding	467,772,174	935	443,125,691	886

Note 12 – Related party transactions

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

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

Rig	
West Prospero	7
West Polaris	126
West Hercules	120
West Taurus	112
Total	**365**

These lease costs are eliminated at consolidation.

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

On June 24, 2011, we entered into a share sale and purchase agreement with Ship Finance, where we acquired all the shares of Rig Finance II Limited, which was the owner of West Prospero. The acquisition price for the shares amounted to $47 million. This transaction is accounted for as an equity transaction and no gain or loss is recognized.

In February 2011, we deconsolidated our majority-owned subsidiary Archer (formerly Seawell Limited). Archer is accounted for as an associated company from February 2011 and consequently became a related party to Seadrill. In August 2011, Archer acquired Great White Energy. Archer's financing for the transaction was fully guaranteed by its two largest shareholders, Seadrill and Lime Rock Partners.

In July 2011, we participated in a private placement in Asian Offshore Drilling (AOD) and were allocated shares for $54 million, which corresponds to a 33.75% ownership stake. AOD was established by Mermaid Maritime Public Company Limited in late 2010 when two MOD-V B Class jack-up rigs where ordered at Keppel FELS in Singapore. AOD had additional option agreements for construction of two similar units. Furthermore, it was agreed that we would be responsible for the construction supervision, project management and commercial management of all of AODs jack-up rigs. The total amount of management fees amounted to $1.9 million for the 12 months ended December 31, 2011.

Note 13 – Fair value of financial instruments

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

	Fair value	Fair value measurements at reporting date using			Carrying value
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
(In US$ millions)	December 31, 2011	(Level 1)	(Level 2)	(Level 3)	December 31, 2011
Assets:					
Marketable securities	**24**	4		20	**24**
TRS equity swap contracts	**11**		11		**11**
Total assets	**35**	4	11	20	**35**
Liabilities:					
Currency forward contracts – short term payables	**3**		3		**3**
Other derivative instruments- short term payable	**38**		38		**38**
Interest rate swap contracts – short term payables	**347**		347		**347**
Total liabilities	**388**		388		**388**

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

(In US$ millions)	
Beginning balance January 1, 2011	44
Realization of bonds	(9)
Changes in fair value of bonds	(15)
Ending balance December 31, 2011	20

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

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

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

The fair values of interest rate swaps and forward exchange contracts are calculated using well-established independent valuation techniques applied to contracted cash flows and LIBOR and NIBOR interest rates as at December 31, 2011.

The fair value of other derivative instruments is calculated using the closing prices of the underlying financial securities.

Note 14 – Commitments and contingencies

Purchase Commitments

At December 31, 2011, we had fifteen contractual commitments under newbuilding contracts. The contracts are for the construction of two semi-submersible rigs, three drillships, six jack-up rigs, three drillships and four tender rigs. The units are scheduled to be delivered in 2012 and 2013. As of December 31, we have paid $2,531 million related to these rigs, including payments to the construction yards and other payments, and are committed to make further payments amounting to $3,012 million. These amounts include contract variation orders, spares, accrued interest expenses, construction supervision, operation preparation and mobilization.

The maturity schedule for the remaining payments is as follows:

Maturity schedule for remaining newbuild payments as of December 31, 2011 *(In US$ millions)*	
2012	506
2013	2,506
Total	3,012

Anticipated Legal Proceedings

We are a party, as plaintiff or defendant, to several lawsuits in various jurisdictions for demurrage, damages, off-hire and other claims and commercial disputes arising from the operation of 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 adverse effect on our operations or financial condition. Our best estimate of the outcome of the various disputes has been reflected in our financial statements as of December 31, 2011.

Tax issue related to relocation of rigs and functional currency

In October 2011, two subsidiary companies of our consolidated subsidiary, North Atlantic Drilling Limited, received an assessment for additional taxes from the tax authorities in Norway. The claim was approximately $263 million which includes $69 million in expenses related to alleged errors in their functional currency calculations for tax purposes. North Atlantic's legal position on this issue is that there is no basis for either claim. North Atlantic management is preparing to file legal actions in Norway to mitigate the liability, including an action based on an unconstitutional retroactive application of Norwegian law.

North Atlantic will vigorously defend itself against these claims.

Given the complexity of the two issues combined with the planned action above, North Atlantic are unable to settle on the likely outcome with certainty at this time and have not, as of the reporting date, recorded any provision related to these claims. North Atlantic intends to settle on a position shortly, and will report any amendments arising as and when it records any provision. In any event, the Company's maximum tax liability in respect of these claims, should the case be lost in court, would be limited to $263 million plus costs.

Note 15 – Gain on realization of marketable securities

On February 7, 2011, Ensco plc ("Ensco") (NYSE: ESV) and Pride International, Inc. ("Pride") (NYSE: PDE) jointly announced that they have entered into a definitive merger agreement under which Ensco will combine with Pride in a cash and stock transaction. On May 31, 2011, Ensco announced the completion of its acquisition of Pride International, after both companies received shareholder approvals. Under the terms of the merger agreement, Pride stockholders received 0.4778 newly-issued shares of Ensco plus $15.60 in cash for each share of Pride common stock.

The merger represents a realization of our previously held Pride positions. The accumulated other-comprehensive income effect related to our holding in Pride amounted to $416 million as of May 31, 2011. This amount has been released into the profit and loss statement upon our acceptance of the Ensco offer, and the gain is presented on a separate line item in our financial statements. The cash effect of this transaction was $125 million received in second quarter of 2011, and $16 million received in third quarter 2011.

Note 16 – Gain on loss of control in subsidiary

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

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

As of February 23, 2011, we held 117,798,650 shares in Archer. Based on closing share price of NOK34.00 on February 23, 2011, this ownership had a gross value of some $711 million. As a consequence of the merger, our ownership interest in Archer was reduced from 52.3% to 36.5%, and as such, Archer was deconsolidated as of February 23, 2011.

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

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

(In US$ millions)	
Fair value of the consideration received	0
Fair value of the retained non-controlling investment	711
The carrying amount of non-controlling interest in Archer	330
The carrying amount of Archers assets and liabilities	(564)
Accumulated translation adjustments recycled from other comprehensive income into profit & loss	70
Accumulated actuarial gain/(loss) recycled from other comprehensive income into profit & loss	(7)
Total gain	540

During third quarter 2011 we have purchased shares in Archer for $167 million, increasing our ownership to 39.9%. The total carrying value has been impaired in the fourth quarter of 2011, please see Note 17 below.

Note 17 – Impairment loss on marketable securities and investments in associated companies

In 2011 the Company determined that the decline in fair value of its shareholding in Archer Limited was other than temporary and as a result, an impairment loss was recognized reducing its cost basis of this associated company to the market price of the shares in question as of December 31, 2011, which was $393 million. The impairment loss amounted to $463 million during the fourth quarter of 2011 and is presented as share of result from associated companies in the statements of operations.

Also the Company determined that the decline in fair value of its Seahawk shares was other than temporary and as a result, an impairment loss was recognized reducing its cost basis to the market price of the shares in question as of December 31, 2011. The impairment loss amounted to $10 million and has been classified as a separate line item in the statements of operations.

Note 18 – Subsequent Events

On January 31, 2012 we have successfully completed a NOK1,250 million senior unsecured bond issue with maturity date February 13, 2014. Settlement date is set to be February 13, 2012. An application will be made for the bonds to be listed on Oslo Børs as soon as practically possible. The net proceeds from the bond issue will be used for general corporate purposes.
In conjunction with the bond issue, Seadrill has repurchased bonds with nominal value of NOK331.5 million in the SME05 (ISIN: NO 001 028379.9) maturing at September 28, 2012. Remaining outstanding amount in SME05 after the buy-backs will be NOK168.5 million.