

SEADRILL LTD  
Form 6-K  
March 02, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16 OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the month of March 2011

Commission File Number 001-34667

SEADRILL LIMITED

P.O. Box HM 1593  
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(441)295-6935  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): .

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): .

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

INFORMATION CONTAINED IN THIS FORM 6-K REPORT

Attached hereto as Exhibit 99.1 is a copy of the press release of Seadrill Limited (the "Company"), dated February 24, 2011, announcing the Company's financial results for the three and twelve months ended December 31, 2010.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEADRILL LIMITED  
(Registrant)

Dated: March 2, 2011

By */s/ Georgina Sousa*  
Georgina Sousa  
Secretary

## Seadrill Limited (SDRL) - Fourth quarter and preliminary 2010 results

## Highlights

- Seadrill generates fourth quarter 2010 EBITDA\*) of US\$618 million
- Seadrill reports fourth quarter 2010 net income of US\$268 million and earnings per share of US\$0.61 (after the adverse accounting impact of US\$145 million (US\$0.35 per share) linked to the successful incentive offer for early conversion of the Company's convertible loans)
- Seadrill increases quarterly regular cash dividend to US\$0.675 per share and further distributes an extraordinary dividend payment of US\$0.20 per share
- Seadrill finalized disposal of 1984-built jack-up rig West Larissa for US\$55 million
- Seadrill orders two ultra-deepwater drillships for a total consideration of less than US\$1,200 million and four new jack-up rigs for a total consideration of US\$790 million.
- Seadrill acquires the 2008-build 375ft jack-up rig Petrojack IV (renamed West Cressida) for US\$180 million
- Seadrill takes delivery of the new 375ft jack-up newbuild rig West Juno
- Seadrill issues new convertible debt of US\$650 million and fixed rate bond of US\$350 million
- Seadrill completes induced offer to accelerate conversion of US\$750 million to convertible bond debt into equity
- Seadrill agrees to purchase two ultra-deepwater semi-submersible units under construction in Singapore for US\$1.2 billion and simultaneously secures nearly 100% debt financing for the investment

## Subsequent events

- Seadrill establishes a new harsh environment focused drilling company named North Atlantic Drilling Limited and raises US\$425 million in a Private Placement
- Seadrill secures three-year contract with Chevron in Thailand for the tender rig T12
- Majority owned Seawell Limited completes merger with Allis-Chalmers

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

## Condensed consolidated income statements

## Fourth quarter results

Consolidated revenues for the fourth quarter of 2010 amounted to US\$1,169.3 million as compared to US\$1,085.7 million in the third quarter of 2010. Operating profit for the quarter was US\$479.4 million, up from US\$431.2 million in the previous quarter. The fourth quarter operating profit included a gain from the sale of West Larissa amounting to US\$26.1 million. Operating profit for Mobile Units, excluding the gain on sale, was US\$360.6 million as compared to US\$358.7 million in the preceding quarter. The operating profit from the Tender Rigs was US\$74.7 million, an increase of US\$16.9 million from the preceding quarter. The improvement was related to lower operating expenses and several non-recurring items. Operating profit from Well Services amounted to US\$18.0 million, an increase from US\$14.7 million in the preceding quarter due to higher activity.

Net financial items for the quarter amounted to a loss of US\$176.0 million compared a loss of US\$33.1 million in the previous quarter. Interest expenses were up from US\$97.6 million to US\$109.0 million due to less capitalized interest expenses and higher interest bearing debt following delivery of new units. On derivative financial instruments, a gain of US\$76.8 million was recorded compared to a gain of US\$75.3 million in the third quarter. The gain was related to

interest swap agreements, mark-to-market on forward contracts, currency derivatives and total return swap agreements in own treasury shares. The Company recorded a loss of US\$145.0 million related to the incentive offers for the early conversion and retirement of some of the convertible debt instruments.

Income taxes for the fourth quarter were US\$35.3 million.

Net income for the quarter was US\$268.1 million corresponding to basic earnings per share of US\$0.61.

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#### Balance sheet

At December 31, 2010, total assets amounted to US\$17,497 million, up from US\$16,421 million as of September 30, 2010.

Total current assets increased from US\$2,587 million to US\$2,883 million over the course of the quarter. The increase was primarily related to the US\$208 million increase in cash and cash equivalents.

Total non-current assets increased from US\$13,834 million to US\$14,614 million. The US\$780 million increase was mainly due to milestone payments on rigs under construction.

Total current liabilities decreased from US\$3,163 million to US\$2,514 million. Short-term interest bearing debt was in the third quarter temporarily high due to the inclusion of short-term debt from the acquired subsidiary Scorpion Offshore Ltd and the Well Services segment, that were refinanced in the fourth quarter. Long-term interest bearing debt increased from US\$7,377 million to US\$8,176 million over the course of the quarter. Net interest bearing debt was at year-end US\$8,376 million compared to US\$8,482 million as of September 30, 2010. In the fourth quarter, Seadrill repaid US\$1,033 million of debt of which approximately US\$290 million was in form of regular installments.

Total equity increased from US\$5,049 million as of September 30, 2010 to US\$5,937 million at year-end 2010. The increase is related to the conversion of the convertible debt, part of the new convertible debt booked as equity as well as the net income contribution for the quarter, partly offset by dividend paid during the quarter. Unrealized gain on marketable securities also contributed to the increase.

#### Cash flow

As of December 31, 2010, cash and cash equivalents amounted to US\$755 million, which corresponds to an increase of US\$295 million as compared to year-end 2009. Net cash from operating activities for the twelve months period was US\$1,300 million whereas net cash used in investing activities for the same period amounted to US\$2,297 million, primarily related to milestone payments on our newbuilds. Net cash from financing activities was US\$1,293 million of which the net proceeds from debt amounted to US\$3,902 million.

#### Convertible bonds

In December, Seadrill launched an early conversion offer to bondholders in the US\$1,000 million convertible bond ("CB1") maturing 2012, and the US\$500 million convertible bond ("CB2") maturing 2014. The offers were available to all bondholders of the CB2 loan, but limited to US\$250 million of the CB1 loan. Following completion of the induced offer, US\$250 million of CB1 and all US\$500 million of the CB2 debt has been converted to equity. Seadrill has as such US\$1.4 billion in convertible debt outstanding, US\$750 million that matures in 2012 and US\$650 million (issued in October 2010) that matures in 2017. Because of the early conversion of the debt, Seadrill will save up to US\$109 million in future interest expenses offset by the US\$91 million paid in cash for the inducement to the bondholders.

#### Outstanding shares

As of December 31, 2010, issued common shares in Seadrill Limited totaled 443,308,487 up from 412,288,216 as of September 30, 2010, following conversion of some convertible debt. Our holding of treasury shares was 182,796 at the end of the fourth quarter, and approximately 5.5 million options were outstanding under the management share incentive program, out of which approximately 1.6 million has vested and are exercisable.

#### Operations

##### Offshore drilling units

Seadrill had 42 offshore drilling units in operation (including the five Varia Perdana owned tender rigs) in North Europe, US Gulf of Mexico, South Americas, West Africa and Southeast Asia and 2 units warm-stacked during the fourth quarter.

For our floaters (drillships and semis) the average economical utilization rate averaged 93 percent compared to 95 percent in the third quarter. The reduction was mainly related to operational challenges reported in the third quarter report for the deepwater units West Phoenix and West Eminence. For the jack-up rigs, the average economical utilization was 97 percent for the units for operation. This reduces to 92 percent if we include Offshore Resolute, which was unemployed for most of the quarter. The economical utilization rate for our tender rigs averaged 99 percent compared to 97 percent in the third quarter. This reduces to 90 percent if we include the tender barge T8 that has been idle since June 2009.

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Table 1.0 Contract status offshore drilling units

Unit	Current client	Current location	Contract start	Contract expiry
<b>Semi-submersible rigs</b>				
West Alpha	BG Consortium	Norway	May 2009	Jun 2012
West Aquarius	Exxon	China	Feb 2009	Feb 2013
West Capricorn (NB*)		Singapore – Jurong Shipyard		
West Eminence	Petrobras	Brazil	Jul 2009	Jul 2015
West Hercules	Husky	China	Nov 2008	May 2012
West Orion	Petrobras	Brazil	Jul 2010	Jul 2016
West Phoenix	Total	UK	Jan 2009	Jan 2015
West Sirius	BP	US Gulf of Mexico	Jul 2008	Jul 2014
West Taurus	Petrobras	Brazil	Feb 2009	Feb 2015
West Venture	Statoil	Norway	Aug 2010	Jul 2015
West Pegasus (former Seadragon I (NB*))		Singapore – Jurong Shipyard		
West Leo (former Seadragon II (NB*))		Singapore – Jurong Shipyard		
<b>Drillships</b>				
West Capella	Total	Nigeria	Apr 2009	Apr 2014
West Gemini	Total	Angola	Sep 2010	Sep 2012
West Navigator	Shell	Norway	Jan 2009	Dec 2012
West Polaris	Exxon	Brazil	Oct 2008	Oct 2012
West Auriga (NB*)		South Korea – Samsung Shipyard		
West Vela (NB*)		South Korea – Samsung Shipyard		
<b>HE Jack –ups</b>				
West Epsilon	Statoil	Norway	Dec 2010	Dec 2014
West Elara (NB*)	Statoil	Singapore – Jurong Shipyard	Oct 2011	Oct 2016
<b>BE Jack-up rigs</b>				
Offshore Courageous	Shell	Malaysia	Jan 2009	Jan 2012
Offshore Defender	Petrobras	Brazil	Mar 2010	Feb 2012
Offshore Freedom	Odfjell	Saudi Arabia / Kuwait	Jun 2009	May 2013
Offshore Intrepid	Odfjell	Saudi Arabia / Kuwait	May 2009	Nov 2012
Offshore Mischief	Anadarko	Brazil	Jul 2010	Aug 2011
Offshore Resolute		Vietnam (warm stacked*)		
Offshore Vigilant	Cardon IV	Venezuela	Aug 2010	Jun 2011
West Ariel	VSP	Vietnam	Nov 2009	Dec 2011
West Callisto	Premier Oil	Indonesia	Aug 2010	Sep 2011
West Cressida	PTTEP	Thailand	Nov 2010	May 2014
West Janus	PCPPOC	Malaysia	Aug 2008	Aug 2011
West Juno	PTTEP	Andaman Sea	Jan 2011	Apr 2011
West Leda	PT Pan	Indonesia	Nov 2010	Mar 2011



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West Prospero	VSP	Vietnam	Nov 2010	Dec 2011
West Triton	CPOC	Malaysia	Dec 2010	Aug 2011
West Castor (NB*)		Singapore – Jurong Shipyard		
West Tucana (NB*)		Singapore – Jurong Shipyard		
West Telesto (NB*)		China – Dalian Shipyard		
West Oberon (NB*)		China – Dalian Shipyard		
Tender rigs				
T4	Chevron	Thailand	Jul 2008	Jul 2013
T7	Chevron	Thailand	Nov 2006	Oct 2011
T8		Singapore (warm stacked*)		
T11	Chevron	Thailand	May 2008	May 2013
T12	PTTEP	Thailand	Apr 2010	Apr 2014
West Alliance	Shell	Malaysia	Jan 2010	Jan 2015
West Berani	ConocoPhillips	Indonesia	Jan 2009	Dec 2011
West Jaya (NB*)	BP	Singapore – KFELS	July 2011	July 2013
West Menang		In transit to Singapore		
West Pelaut	Shell	Brunei	Apr 2009	Mar 2015
West Setia	Chevron	Angola	Aug 2009	Aug 2012
West Vencedor	Chevron	Angola	Apr 2010	July 2015

\* NB - newbuilding

\*\* Warm stacked means the unit is not in operating mode, but is being maintained in a state of readiness for future operations

#### Well Services (Seawell Limited)

Seawell is a provider of offshore platform drilling and well services. The overall activity level in the fourth quarter was sound with an EBITDA of US\$24 million compared to an EBITDA of US\$20 million in the preceding quarter.

In August 2010, Seawell announced that it had agreed a merger agreement providing for the acquisition of Allis-Chalmers. Yesterday, February 23, 2011, the stockholders in Allis-Chalmers approved a merger agreement and a plan of merger involving Allis-Chalmers, Seawell and Wellco Sub Company, pursuant to which Allis-Chalmers will become a subsidiary of Seawell.

Sadrill currently holds 117,798,650 shares in Seawell. Based on closing share price of NOK34.00 on February 23, 2011, our ownership has a gross value of some US\$713 million. As a consequence of the merger, Sadrill's ownership interest in Seawell will be reduced from 52.3 percent to an estimated 35 percent.

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

#### Next quarter operational events

We expect our first quarter 2011 earnings to be favorably impacted by full quarter earnings from the new jack-up rigs West Juno and West Leda as well as the newly acquired jack-up rig West Cressida. Furthermore, we expect improved utilization for the floaters that delivered lower than expected utilization rates in the fourth quarter. However, we estimate that West Phoenix due to manufacturing problems with the BOP system will have some 25 days of downtime. In addition, the idle tender rigs T8 and West Menang and the idle jack-up rig Offshore Resolute are all expected to remain unemployed throughout the quarter. For the jack-up rigs West Leda and West Juno that are expected to complete existing contracts, late March/early April we are close to securing new contracts and continued employment.

#### Newbuilding program

Sadrill has increased its newbuild order book by four ultra-deepwater units and four jack-up rigs. At present, number of units under construction totals 11 units, five ultra-deepwater units, five jack-ups and one tender rig.

The last two ultra-deepwater semi-submersible drilling rigs added to the list were, Seadragon I (renamed West Pegasus) and Seadragon II (renamed West Leo), that we agreed to purchase on New Years Eve. The total acquisition cost for the two rigs is estimated to be US\$1,200 million (including project management for the remaining construction period, drilling and handling tools, spares, operation preparations and capitalized interest). The units, which are currently under construction at the Jurong shipyard in Singapore, are scheduled for delivery end of March and November 2011.

As reported in our third quarter report, we ordered two ultra-deepwater drillships and four 400ft benign environment jack-up rigs in October and November 2010. As part of the newbuild order agreements, we also acquired the rights to order further two drillships and six jack-up rigs at predetermined prices. We are closely monitoring the activity in the newbuilding market, and based on the large increase in the yards' order books in recent months, it is less likely that we will use all these options.

We will take delivery of five newbuilds later this year, the semi-submersible rig West Pegasus and the semi-submersible tender rig West Jaya in the first quarter, the harsh-environment jack-up rig West Elara in May, and the semi-submersible rigs West Leo and West Capricorn in the fourth quarter. The remaining six units under construction are scheduled for delivery in the period between the fourth quarter of 2012 and the second quarter of 2013.

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



Operations in associated companies

Varia Perdana Bhd.

Seadrill has a 49 percent ownership in Varia Perdana Bhd, 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 Carigali Hess in the Malaysia Thailand Joint Development Area. The tender barge T6 completed work for the Carigali PTTEPI Operating Company and commenced work for Carigali Hess while the Teknik Berkat worked for Petronas Carigali and T9 worked for Exxon Mobil Exploration & Production Malaysia. Varia Perdana contributed US\$5 million to Seadrill's earnings compared to US\$11 million in the third quarter, adversely impacted by some operational challenges related to the T10 barge unit. Contribution from Varia Perdana is reported under other financial items.

SapuraCrest Bhd.

Seadrill currently has an ownership interest of 23.6 percent (or 301,132,020 shares) in the Malaysian oil service provider, SapuraCrest Bhd. Among other things, SapuraCrest owns 51 percent of Varia Perdana Bhd. The Company has a strong foothold in the deepwater construction market in the Asia Pacific region and is currently considering growth opportunities in this market as well as within the traditional E&P market. Seadrill is very pleased with the current developments in Sapura Crest. Based on the closing share price on February 23, 2011 on the Malaysian Stock Exchange, our holding in SapuraCrest has a gross value of some US\$321 million compared to a book value of US\$86 million. The market conditions for the company business remain attractive and it contributed US\$5 million to Seadrill's performance up from US\$4 million in the third quarter. Contribution from SapuraCrest is reported under other financial items.

Other investments in offshore drilling companies

Pride International Inc.

Seadrill holds 9.4 percent in the NYSE listed offshore drilling company Pride International Inc. (Pride) through a combination of forward contracts for 16,300,000 shares and direct ownership of 200,000 shares. The current average strike price per share on the forward contracts is US\$33.1. Based on a Pride's closing share price of US\$39.95 on February 23, 2011 our exposure has a gross value of some US\$659 million as compared to a book value of US\$545 million including an unrealized gain of US\$276 million.

In February this year, Ensco plc ("Ensco") and Pride announced a merger agreement subject to shareholder approval where Ensco will put forward an offer for all the outstanding shares in Pride. The offer constituted a settlement of US\$15.60 in cash and 0.4778 of new Ensco shares per share in Pride.

Seadrill has not decided how to react to the present offer, but we appreciate Ensco's effort to consolidate the industry. We will consider our options in the coming weeks.

Seahawk Drilling Inc.

As a result of the spin-off of Pride International Inc's mat-supported jack-up rigs in 2009, we continue to hold 1,099,999 shares equivalent to a 9.2 percent ownership interest in Seahawk Drilling Inc ("Seahawk"). The ownership interest amounts to US\$4.5 million based on closing share price of US\$4.11 on February 23, 2011, compared to a book value of US\$10 million as of December 31, 2010.

In February 2011, Seahawk announced the sale of all of its assets to Hercules Offshore Inc. Total consideration for the sale is expected to comprise shares in Hercules plus cash to retire indebtedness and working capital liabilities limited up to a certain level. The asset sale will be implemented through a Chapter 11 bankruptcy filing in which Seahawk will seek an expedited hearing to obtain Court approval. The Chapter 11 process might lead to write-down of part or whole of Seadrill's investment in Seahawk.



#### New contracts and contract extensions

Subsequent to the filing of the third quarter report on November 30, 2010, Seadrill has entered into the following new contracts and contract extensions.

On November 30, 2010, Seadrill purchased the premium jack-up rig Petrojack IV (renamed West Cressida) and agreed to continue the drilling contract with PTTEP in Thailand at US\$129,500 per day. The contract extends to January 2014.

In December, Seadrill secured a two-year contract with BP Trinidad and Tobago LLC for the self-erecting semi-tender West Jaya, which is currently under construction in Singapore at KFELS. The agreed daily rate is US\$169,000.

In January 2011, a two well contract was entered into with PTTEP for the jack-up rig West Juno for operation in the Andaman Sea. The agreed daily rate is US\$129,500 and will secure employment for the rig to early April 2011.

In February 2011, Premier Oil exercised an option to extend the contract for the jack-up rig West Callisto for three further wells. The agreed daily rate is US\$119,500 and the contract secures employment until the end of September 2011.

Further, Seadrill secured a three-year contract with Chevron Thailand Exploration and Production for operations in Thailand for the tender rig T12. The agreed daily rate is US\$120,000 and commencement of the assignment is scheduled for the second quarter this year, in direct continuation of the rig's existing contractual obligations.

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

#### Market development

The outlook and fundamentals for the oil industry look increasingly attractive with the Brent oil price exceeding US\$100/bbl. In addition, the world economy shows steady improvement providing support for increasing energy demand longer-term. In the oil industry, the focus continues on newer drilling units offering superior technical capabilities, operational flexibility and reliability. In response, the industry has ordered 29 new jack-ups rigs and 21 new ultra-deepwater units (including seven Petrobras orders) over the last months.

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

The demand for ultra-deepwater units continues to be adversely impacted by the low activity in the US Gulf of Mexico as no new drilling permits for deepwater wells have been issued in spite of the moratorium being lifted last year. At the same time, new demand from other regions is absorbing the new units that are delivered from yards. There is also an increase in areas and countries for deepwater activities. This covers additional countries in West Africa, East Africa, and Southeast Asia. Also new frontier markets are emerging such as Greenland and Australia. Nevertheless, the strong growth in demand for development drilling in Brazil and West Africa is the main new driver in the market, which will further accelerate in the years to come.

Oil companies continue their focus on new technically superior dynamically positioned deepwater units. The industry has shown a reduced interest in using moored and upgraded deepwater vessels with weight and capacity restrictions. Consequently, established players have taken advantage of the material reduction in newbuild prices and favorable payment terms. Since October last year, 21 new ultra deepwater units have been ordered, mainly on speculation. However, these units are not expected to adversely affect the market near term as the deliveries are scheduled in 2013 and 2014.

Near term, more rigs are moving into Brazil and a return of deepwater drilling activities in the US Gulf could have a positive impact on demand pushing daily rates higher. There is likely to be a catch up effect in the US Gulf of Mexico related to all the deep water drilling that have been “lost” during the last 10 months. This should support the daily rates for quality newbuilds in the next years. It should be observed, that no ultra-deepwater newbuilding so far has left a yard without employment in place, and that the utilization of the modern fleet is close to 100 percent. Furthermore, the number of market enquiries for ultra-deepwater rigs is currently significantly higher than it was six to twelve months ago.

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#### Premium jack-up rigs (>300 ft water)

The market for premium jack-up rigs continues to show improvement. The large newbuild order book that existed two years ago has been significantly reduced with only 11 rigs remaining for deliveries in 2011. The utilization of premium jack-up rigs continues to hold above 90 percent and tendering activity has increased quarter over quarter since mid 2010. The risk to the supply/demand balance caused by the possible reactivation of stacked jack-up rigs appears to be decreasing over time as the significant investments that are needed to put many of these units back in operational mode cannot be justified by the returns. Oil companies remain attracted to the safety and efficiency gains offered by the newer and higher specification units. Consequently, the bifurcation in utilization and pricing between older jack-ups and newer premium jack-ups continues with daily rate spreads in the range from US\$50,000 to US\$60,000 being common. The trend of replacing older equipment with new equipment is continuing with 29 firm orders new jack-up rigs agreed since October last year. Despite this increase in supply, we remain optimistic on the long-term outlook for premium jack-up rigs. The number of jack-ups under construction still corresponds to less than 5 percent of the existing jack-up rig fleet, which already has an average age of more than 20 years. The high oil price has improved the availability of financing for smaller independent oil companies. This combined with the market for energy related public and private equity offerings reopening, is likely to lead to increased drilling activity particularly in the jack-up segment.

#### Tender rigs

Seadrill sees strong interest from oil companies for its tender rig concept. Recent long-term contracts entered into portray an improved market in terms of daily rate development and contract terms. As with the other rig classes, we are also seeing an increased customer focus on equipment quality, operational experience and track-record creating barriers to entry to the tender rig market. Commencement of operations for our West Jaya unit in Trinidad Tobago is opening up a new market in the Americas for this concept. Furthermore, we are seeing increased interest for assignments in the Gulf of Mexico and Australia. We together with our customers continue to benefit from the tender rig concept being a versatile and cost effective alternative to a fixed or floating platform solution. We are optimistic about the outlook for our existing fleet, and intend to add further capacity to our fleet in this attractive segment. It is likely that such additional capacity will be accompanied by long-term contracts.

#### Corporate strategy, dividend and outlook

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

#### Growth and Investments

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

We are optimistic about the outlook for our business. In line with this belief, we increased our ultra-deepwater fleet by two semi-submersible drilling rigs at the start of the year when we acquired the two Seadragon units currently under construction in Singapore. A nearly 100 percent debt financed deal at an all-in price of US\$600 million per rig was a very attractive opportunity to increase our near term exposure to this fast growing market segment and to continue secure growth in our earnings. These units have strong equipment specifications and are suitable for challenging drilling operations in all environments. The units will be ready for operation later this year and we are confident in securing contracts with daily rates that will further strengthen our dividend capacity.





At the time of the acquisition, we indicated that the first of the Seadragon rigs had a five-year contract in place. However, due to the postponed delivery the contract has been subject to further discussions between the involved parties. Those discussions are at present very close to conclusion, and we are confident they will result in the rig retaining its five-year contract, taking into account a revised delivery date and a daily rate in line with current market conditions.

The oil industry continues its focus on fleet renewal and growing demand for rigs with enhanced technical capabilities and operational reliability irrespective of asset class. We believe in bifurcation, not only in the jack-up rig market, but also in the floater market. The recent increase in oil prices as well as a steadily improving economic environment support growth in E&P spending in all offshore drilling markets. Since October last year, the numbers of new jack-ups rigs and deepwater units have increased by 50 units.

The increased production capacity for yards and vendors in this cycle compared to the 2005 – 2008 cycle raise some concerns. These concerns are further highlighted by the yards willingness to accept heavy back ended payment terms. Such payment schedules lower the entry ticket for more speculative non-industry players.

The Board expects the tightening of the drilling market to continue at least to 2013. The main driver in this trend will be a solid drilling demand spurred by high oil price further supported by a limited amount of new supply due to the lack of new orders placed between the mid 2008 and the autumn of 2010. The development of the market after 2013 will depend on the amount of capital made available to fund further speculative orders. However, such orders are not expected to significantly influence the market balance before 2013 for jack-up rigs and 2014 for ultra-deepwater units.

As part of our newbuild order agreements, we have options to order further six units at pre-agreed prices. These options are for two more drill ships and a further six jack-ups.

We are keeping our finger on the pulse of the market and are carefully evaluating the economics of adding additional capacity to that part of our fleet. For our tender rigs, we have seen a positive development during the last months. Also for this asset class, our customers are directing their demand towards new and higher capacity units. In response, we are contemplating adding some new units against long-term contracts at terms that we consider attractive to our shareholders. In the current environment, the Board is of the opinion that selective newbuilds offer an attractive risk and reward combination superior to any corporate or asset acquisitions.

In the newbuilding market for deepwater units and particularly for jack-ups, we are likely to act less aggressively in the months to come. Of the newly ordered 29 jack-up rigs, companies that independently own less than five existing rigs have ordered 12 rigs. These “project companies” have limited cash flow from operation to support payment of further installments. The combined building cost for these units is estimated to US\$2,465 million while only US\$592 million have been funded so far according to independent research analysts. Of the remaining US\$1,874 million, it is unlikely that the traditional bank market is willing to finance these companies without a long-term contract in place. Even with a long-term contract, the gearing capacity would be limited. This creates a funding gap that needs to be financed through the high yield bond and equity markets. The amount needed is significant compared to what these companies have raised and their shareholders have put in so far. Seadrill anticipates that several interesting opportunities for take-over and joint ventures will arise as this situation evolves. Such opportunities might be more attractive than adding more orders to the newbuilding book at this stage. Seadrill capitalized on a similar situation in 2010 by taking over Scorpion, a company that provided us access to immediate cash flow at asset prices that today look very attractive.

#### New listed subsidiary established

Earlier this month, the Board decided to establish a new drilling company, North Atlantic Drilling Ltd (“NADL”), focusing on harsh-environment operations. The new entity was formed based on the Seadrill’s six existing harsh-environment units: the ultra-deepwater rigs West Phoenix and West Navigator, the mid-water semi-submersible rigs West Alpha and West Venture, and the harsh-environment jack-up rigs West Epsilon and West Elara (currently under constructions). The new entity has also an option to enter into a construction contract for a new harsh-environment jack-up rig (similar to West Elara). NADL will have an organization of 1,000 people, a 40-year history of harsh-environment experience and a contract backlog of approximately US\$3,100 million. The shares will be listed on the Norwegian OTC list.

The harsh environment market is a fragmented market place with no player controlling more than six units. The Board is of the opinion that the new company can capitalize on its strong market position and seek growth and consolidation opportunities, which would have been limited by the previous ownership structure. In order to fund the acquisition of the six rigs, NADL last week successfully raised US\$425 million in new equity through a Private Placement that was 20 times oversubscribed, reducing Seadrill’s ownership interest to 75 percent.

NADL is currently working on several opportunities to increase the size of this fleet. The most attractive ones of these opportunities will have long-term contracts, which significantly reduce the investment risk.

NADL targets an annual dividend yield of minimum seven percent and Seadrill will remain a long-term majority shareholder. Seadrill will release approximately US\$700 million in cash from the separation of NADL. This cash will enable further growth in our three core global markets, i.e. the ultra-deepwater market, the high-end jack-up market, and the tender rig market. The proceeds together with our strong cash flow will make it possible for us to conclude ongoing evaluation of fleet expansion without raising additional equity. In addition to the cash released, Seadrill will keep a combined bond and equity investment in NADL of US\$1,775 million. This position is likely to generate free cash contribution of minimum US\$129 million on an annual basis.

#### Financial flexibility

Our financial flexibility has significantly increased during the last six months. The strong operational cash flow, the offer for Pride International Inc, the conversion of some of the convertible bond and the separation of NADL has all contributed to a stronger balance sheet. Seadrill has 15 units (ex NADL rigs, including newbuilds) that are unpledged or free of liens and available as collateral for new debt arrangements. These include one ultra-deepwater unit, six jack-up rigs and two tender rigs, with an aggregated market value of close to US\$2 billion. If we included the six newbuilds ordered in 2010, we will have more than US\$4 billion worth of assets that are unpledged against remaining committed investment program of US\$3.3 billion.

#### Other Investments

We have various ownership interests in other listed offshore drilling and oil service companies. The current portfolio includes Seawell Limited, Pride International Inc, Seahawk Inc and SapuraCrest Bhd. At current market prices, these holdings could free up some US\$1.1 billion in cash. The Board evaluates the strategic and financial prospects for these holdings on a continuous basis including our options with respect to the Ensco Plc bid for all outstanding shares in Pride International Inc.

## Regular Cash Dividend

The Board has, based on the Company's improved financial position and the strength of the drilling market, decided to increase the long-term quarterly dividend to US\$0.675. In addition, the Board has resolved pay out an extraordinary dividend of US\$0.20 per share this quarter to reflect the financial strengthening of Seadrill, which have taken place during the last three months.

The ex. dividend date has been set at March 2, 2011. Record date is March 4, 2011 and payment date is on or about March 16, 2011.

## Near term prospects

In November last year, we wrote about our ambition to grow the annual EBITDA to more than US\$3 billion. The recent acquisition of the Seadragon rigs took us a step closer to that goal. The Board believes that with the current underlying fundamentals we will get additional opportunities to increase our fleet, which makes our target a realistic one for the next two to three years.

Seadrill has a unique composition of modern high quality assets. Combined with strong operational focus we feel extremely well positioned. It is our overall target to benefit from the strength of the offshore cycle, but also through active operational and financial management, deliver a higher overall return to shareholders than our competitors.

We have reached our targeted earnings levels in the beginning of 2011 and generated some US\$7 million of EBITDA per day in January. The solid operational performance in January and February, together with the strong underlying development will contribute to solid growth and strong financial results for the first quarter 2011 as well as for the year overall. The Board remains excited about the prospects for our Company.

## Forward Looking Statements

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

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

February 24, 2011  
The Board of Directors  
Seadrill Limited  
Hamilton, Bermuda

Questions should be directed to Seadrill Management AS represented by:

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



Seadrill Limited

INDEX TO UNAUDITED INTERIM FINANCIAL STATEMENTS

Unaudited Consolidated Statements of Operations for the three and 12 months ended December 31, 2010 and 2009	Page 2
Unaudited Consolidated Statements of Comprehensive Income for the three and 12 months ended December 31, 2010 and 2009	Page 3
Unaudited Consolidated Balance Sheets as of December 31, 2010 and December 31, 2009	Page 4
Unaudited Consolidated Statements of Cash Flows for the twelve months ended December 31, 2010 and 2009	Page 5
Unaudited Consolidated Statements of Changes in Shareholders' Equity for the twelve months ended December 31, 2010	Page 7
Notes to Unaudited Interim Financial Statements	Page 8

## Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
for the three and 12 month periods ended December 31, 2010 and 2009

(In millions of US\$)

	Three month period ended December 31,		12 month period ended December 31,	
	2010	2009	2010	2009
Operating revenues				
Contract revenues	1,105.3	834.9	3,822.8	3,044.9
Reimbursables	59.8	33.3	191.9	166.0
Other revenues	4.2	10.7	26.1	43.0
Total operating revenues	1,169.3	878.9	4,040.8	3,253.9
Gain on sale of assets	26.1	50.0	26.1	71.1
Operating expenses				
Vessel and rig operating expenses	465.4	364.9	1,604.9	1,252.8
Reimbursable expenses	53.9	30.9	178.6	154.9
Depreciation and amortization	138.7	104.8	479.8	395.9
General and administrative expenses	58.0	46.7	178.2	149.1
Total operating expenses	716.0	547.3	2,441.5	1,952.7
Net operating income	479.4	381.6	1,625.4	1,372.3
Financial items				
Interest income	5.9	16.8	42.5	78.1
Interest expenses	(109.0 )	(63.4 )	(312.4 )	(228.4 )
Share in results from associated companies	9.7	29.7	47.8	92.4
Gain/ (loss) on derivative financial instruments	76.8	28.8	(92.4 )	129.6
Foreign exchange (loss)	6.8	4.2	(25.7 )	(25.4 )
Gain on remeasurement of previously held equity interest	0.0	0.0	110.6	0.0
Gain on bargain purchase	0.0	0.0	56.2	0.0
Loss on debt extinguishment	(145.0 )	0.0	(145.0 )	0.0
Other financial items	(21.2 )	3.5	23.9	54.5
Total financial items	(176.0 )	19.6	(294.5 )	100.8
Income before income taxes	303.4	401.2	1,330.9	1,473.1
Income taxes	(35.3 )	(0.1 )	(159.3 )	(120.0 )
Net income	268.1	401.1	1,171.6	1,353.1
Net income attributable to the parent	253.5	379.1	1,116.9	1,261.2
Net income attributable to the non-controlling interest	14.6	22.0	54.7	91.9

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Basic earnings per share (US\$)	0.61	0.95	2.73	3.16
Diluted earnings per share (US\$)	0.58	0.88	2.61	3.00
Declared regular dividend per share (US\$)	0.675	0.55	2.535	1.05
Declared extraordinary dividend per share (US\$)	0.20	-	0.20	-



## Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
for the three and 12 month periods ended December 31, 2010 and 2009

(In millions of US\$)

	Three month period ended December 31,		12 month period ended December 31,	
	2010	2009	2010	2009
Net income	268.1	401.1	1,171.6	1,353.1
<b>Other comprehensive income/ (loss), net of tax:</b>				
Change in unrealized gain/ (loss) on marketable securities	74.8	14.9	(24.7 )	317.1
Change in unrealized foreign exchange differences	1.1	5.5	26.8	29.6
Change in unrealized gain/ (loss) relating to pension	(31.4 )	5.3	(31.4 )	13.7
Change in unrealized gain/ (loss) on interest rate swaps in subsidiaries	0.3	0.0	(1.9 )	0.0
Change in unrealized gain/ (loss) on interest rate swaps in VIEs	10.9	3.6	(11.4 )	15.1
Other comprehensive income/ (loss):	55.7	29.3	(42.6 )	375.5
<b>Total comprehensive income for the period</b>	<b>323.8</b>	<b>430.4</b>	<b>1,129.0</b>	<b>1,728.6</b>
Comprehensive income attributable to the parent	300.6	402.0	1,080.7	1,619.8
Comprehensive income attributable to the non-controlling interest	23.2	28.4	48.3	108.8

Accumulated other comprehensive income as per December 31, 2010 and December 31, 2009:

	December 31, 2010	December 31, 2009
The total balance of accumulated other comprehensive income is made up as follows:		
Unrealized gain on marketable securities	292.4	317.1
Unrealized gain on foreign exchange	95.9	80.1
Actuarial gain relating to pension	(15.0 )	10.9
Unrealized gain/ (loss) on interest rate swaps in subsidiaries	(1.4 )	0.0
Unrealized gain/ (loss) on interest rate swaps in VIEs	(48.6 )	(48.6 )
Accumulated other comprehensive income	323.3	359.5

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

The applicable amount of income taxes associated with each component of other comprehensive income is \$0 due to the fact that the items relate to companies domiciled in non-taxable jurisdictions. However for actuarial loss related to

pension, the applicable amount of income taxes is US\$4.2 million as this item is related to companies domiciled in Norway where the tax rate is 28%.

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

UNAUDITED CONSOLIDATED BALANCE SHEETS  
as of December 31, 2010 and December 31, 2009

(In millions of US\$)

	December 31, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	755.1	460.0
Restricted cash	155.4	142.1
Marketable securities	598.2	742.3
Accounts receivables, net	696.5	451.6
Amount due from related party	140.1	137.9
Other current assets	537.7	327.1
<b>Total current assets</b>	<b>2,883.0</b>	<b>2,261.0</b>
Non-current assets		
Investment in associated companies	205.3	321.0
Newbuildings	1,247.2	1,430.9
Drilling units	10,795.3	7,514.3
Goodwill	1,676.5	1,596.0
Other intangible assets	56.6	23.5
Restricted cash	304.9	371.0
Deferred tax assets	29.6	13.4
Equipment	158.4	115.1
Amount due from related party	0.0	90.0
Other non-current assets	140.6	95.2
<b>Total non-current assets</b>	<b>14,614.4</b>	<b>11,570.4</b>
<b>Total assets</b>	<b>17,497.4</b>	<b>13,831.4</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Current portion of long-term debt	980.6	774.1
Trade accounts payable	94.7	84.7
Other current liabilities	1,439.0	1,175.3
<b>Total current liabilities</b>	<b>2,514.3</b>	<b>2,034.1</b>
Non-current liabilities		
Long-term interest bearing debt	8,175.8	6,621.2
Long-term debt to related party	435.0	0.0
Deferred taxes	180.8	124.5
Other non-current liabilities	254.7	238.1
<b>Total non-current liabilities</b>	<b>9,046.3</b>	<b>6,984.4</b>
Commitments and contingencies	-	-
Equity		
Common shares of per value US\$2.00 per share:		
800,000,000 shares authorized		
443,125,691 outstanding at December 31, 2010 (December, 31 2009: 399,023,016)	886.2	798.0
Additional paid in capital	1,216.4	164.2

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Contributed surplus	1,955.4	1,955.4
Accumulated other comprehensive income	323.3	359.5
Accumulated earnings/(deficit)	1,016.2	901.9
Non-controlling interest	539.3	633.9
Total equity	5,936.8	4,812.9
Total liabilities and equity	17,497.4	13,831.4

4

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## Seadrill Limited

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

(In millions of US\$)

	12 month period ended December 30,	
	2010	2009
Cash Flows from Operating Activities		
Net income/ (loss)	1,171.6	1,353.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	479.8	395.9
Amortization of deferred loan charges	43.0	23.3
Amortization of unfavorable contracts	(39.5 )	(43.0 )
Amortization of favorable contracts	13.4	0.0
Amortization of mobilization revenue	(86.0 )	(49.8 )
Share of results from associated companies	(47.8 )	(92.4 )
Share-based compensation expense	11.4	16.0
Gain on disposal of fixed assets	(26.1 )	(71.1 )
Realized gain on disposal of other investments	(43.1 )	(15.9 )
Unrealized loss/ (gain) related to derivative financial instruments	97.5	(152.9 )
Dividend received from associated company	61.3	41.2
Deferred income tax expense	110.3	2.2
Unrealized foreign exchange (gain)/ loss on long term interest bearing debt	(4.0 )	28.0
Non cash loss recognized related to extinguishment of convertible debt	48.0	0.0
Non cash gains recognized related to acquisition of subsidiaries	(166.8 )	0.0
Changes in operating assets and liabilities, net of effect of acquisitions		
Unrecognized mobilization fees received from customers	108.9	165.9
Trade accounts receivable	(163.4 )	(110.5 )
Trade accounts payable	(15.0 )	(35.1 )
Prepaid expenses/accrued revenue	(107.4 )	(71.5 )
Other, net	(145.7 )	68.6
Net cash provided by operating activities	1,300.4	1,452.0

## Sadrill Limited

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

(In millions of US\$)

	2010	2009
<b>Cash Flows from Investing Activities</b>		
Additions to newbuildings	(2,006.1 )	(1,153.2 )
Additions to rigs and equipment	(361.3 )	(216.2 )
Sale of rigs and equipment	55.0	392.9
Change in margin calls and other restricted cash	50.8	344.6
Investment in associated companies	(13.2 )	(32.9 )
Investment in subsidiaries, net of cash acquired	(152.1 )	0.0
Purchase of Marketable Securities	(15.0 )	(263.0 )
Proceeds from realization of marketable securities	215.2	58.8
Proceed from repayment of short term loan to related parties	90.0	115.0
Short term loan granted to related parties	(160.3 )	(169.7 )
Net cash used in investing activities	(2,297.0 )	(923.7 )
<b>Cash Flows from Financing Activities</b>		
Proceeds from debt	3,901.6	2,407.3
Repayments of debt	(1,870.3 )	(2,490.9 )
Debt fees paid	(33.4 )	(42.7 )
Change in current liability related to share forward contracts	(11.9 )	(68.6 )
Paid to non-controlling interests	(292.0 )	(68.0 )
Contribution from non-controlling interests	289.2	0.0
Proceeds from issuance of equity	318.3	0.0
Purchase of treasury shares	(42.2 )	0.0
Proceeds from sale of treasury shares	23.1	8.8
Dividends paid	(989.8 )	(199.4 )
Net cash provided by financing activities	1,292.6	(453.5 )
Effect of exchange rate changes on cash and cash equivalents	(0.9 )	8.8
Net increase / (decrease) in cash and cash equivalents	295.1	83.6
Cash and cash equivalents at beginning of the year	460.0	376.4
Cash and cash equivalents at the end of period	755.1	460.0
<b>Supplementary disclosure of cash flow information</b>		
Interest paid	284.1	245.4
Taxes paid	134.2	52.0

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



Seadrill Limited

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
for the 12 months ended December 31, 2010

(In millions of US\$)

	Share Capital	Additional paid-in capital	Contributed surplus	Accumulated OCI	Retained earnings	NCI	Total equity
Balance at December 31, 2009	798.0	164.2	1,955.4	359.5	901.9	633.9	4,812.9
Sale of treasury shares	3.4	19.7					23.1
Purchase of treasury shares	(3.5 )	(38.7 )					(42.2 )
Employee stock options issued		11.1				0.3	11.4
Changes in actuarial (loss)/gain relating to pension				(25.9 )		(5.5 )	(31.4 )
Unrealized gain/(loss) on marketable securities				18.0			18.0
Realized (gain)/loss on marketable securities				(42.7 )			(42.7 )
Foreign exchange differences				15.8		11.0	26.8
Change in unrealized (loss) on interest rate swaps in VIES						(11.4 )	(11.4 )
Change in unrealized (loss) on interest rate swaps in subsidiaries				(1.4 )		(0.5 )	(1.9 )
Issuance of shares	26.3	292.0					318.3
Dividend payment					(989.8 )		(989.8 )
Share issuance Seawell						289.2	289.2
Dividend paid to Non-controlling interests in VIE						(435.0)	(435.0 )
Paid to Non-controlling interests in Scorpion						(292.0)	(292.0 )
Contribution by Non-controlling interest						281.8	281.8
Step up acquisition in Scorpion					(12.8 )	12.8	0.0
Induced conversion of convertible bonds	62.0	647.0					709.0
Issuance of convertible bond, equity element		121.1					121.1
Net income					1,116.9	54.7	1,171.6
Balance at December 31, 2010	886.2						