



North Atlantic Drilling Ltd. (NADL) – Third quarter 2015 results

Highlights from the third quarter

- North Atlantic Drilling generated third quarter 2015 EBITDA* of \$113.1 million
- North Atlantic Drilling reports third quarter 2015 net income of \$1.4 million and a net loss attributable to shareholders of \$2.6 million. The loss per share was \$0.01.
- North Atlantic Drilling secured a contract extension for the semi-submersible rig West Phoenix with Total E&P UK Limited, commencing mid-March 2016 and securing work for the unit through the end of August 2016. The total revenue potential for the contract extension is approximately \$62 million.

** EBITDA is defined as 'Earnings Before Interest, Tax, Depreciation and Amortization' and has been calculated by taking operating income plus depreciation and amortization.*

Financial highlights

Third quarter 2015 results

Consolidated revenues for the third quarter 2015 were \$194.6 million compared to \$210.7 million for the second quarter. The primary reasons for the decrease are the West Phoenix winter period dayrate reduction and the West Venture contract completion.

Operating income for the third quarter was \$57.2 million, a decrease of \$7.3 million compared to the second quarter operating income of \$64.5 million. The decrease is primarily due to the West Phoenix and West Venture as stated above, combined with continued focus on cost savings initiatives.

Net financial items for the third quarter of 2015 amounted to a loss of \$47.9 million. The loss included \$24.1 million in interest expenses, loss on financial derivatives of \$32.6 million, and foreign exchange gain of \$8.7 million mainly related to the NOK1,500 million bond loan. The second quarter of 2015 incurred a net financial loss of \$20.5 million, including interest expenses of \$25.1 million, gain on financial derivatives of \$8.8 million, and loss on foreign exchange of \$3.4 million mainly related to the NOK1,500 million bond loan.

Income taxes for the third quarter was a \$7.9 million expense, compared to a \$0.2 million benefit in the second quarter. The change was primarily due to a net tax benefit recognized during the second quarter in respect of return-to-provision ("RTP") adjustments, whereas there was no such adjustment made in the third quarter.

Net income for the third quarter was \$1.4 million and the net loss attributable to shareholders was \$2.6 million, resulting in a basic loss per share of \$0.01. This is compared to net income of \$44.2 million and a net income attributable to shareholders of \$40.1 million for the second quarter.

The Company reports operating revenues of \$597.3 million, operating income of \$158.6 million and a net income of \$34.3 million for the nine months ended September 30, 2015. This compares to operating revenues of \$972.5 million, operating income of \$286.8 million and a net income of \$154.2 million for the nine months ended September 30, 2014.

Balance sheet as at September 30, 2015

As at September 30, 2015, total assets decreased to \$3,440.6 million from \$3,484.8 million compared to the previous quarter.

Total non-current assets decreased to \$3,102.8 million from \$3,145.2 million compared to the previous quarter. The decrease was mainly due to depreciation on drilling units.

Total current liabilities increased to \$514.1 million from \$491.6 million compared to the previous quarter. The increase is largely due to the increase in related party payables. For further information please see Note 17 to our consolidated financial statements.

Long-term interest bearing debt, including related party debt, decreased to \$2,282.9 million from \$2,347.7 million during the quarter. Net interest bearing debt decreased to \$2,333.1 million from \$2,415.1 million during the quarter. During the third quarter the Company repaid net \$42 million on the \$2 billion credit facility and repaid net \$12 million on the \$475 million credit facility. As at September 30, 2015, the Company had undrawn amounts of \$50 million available on its credit facilities.

Total equity increased to \$519.7 million from \$515.7 million compared to the previous quarter. The increase is primarily due to the net income for the quarter.

Cash flow

As at September 30, 2015, cash and cash equivalents increased to \$155.4 million from \$134.5 million compared to the previous quarter.

For the nine-month period ending September 30, 2015, net cash provided by operating activities was \$281.1 million, net cash used in investing activities amounted to \$29.9 million, and net cash used in financing activities was \$210.6 million.

Outstanding shares

As at September 30, 2015, the total number of common shares issued by North Atlantic Drilling was 243,516,514. The Company held 2,373,863 treasury shares reducing the adjusted number of shares outstanding to 241,142,651.

Operations

During the third quarter, North Atlantic Drilling had four offshore drilling rigs in operation offshore Norway, one rig operating in the UK sector of the North Sea and two idle rigs: the West Navigator and West Venture. Economic utilization* for the third quarter was 100 percent, compared to 95 percent in the second quarter.

** Economic utilization is calculated as total revenue, excluding bonuses, for the period as a proportion of the full operating dayrate multiplied by the number of days in the period for the rigs that are on contract.*

Commercial, Revenue Backlog and Newbuild Program

North Atlantic Drilling secured a contract extension for the semi-submersible rig West Phoenix with Total E&P UK Limited, commencing mid-March 2016 and securing work for the unit through the end of August 2016. The total revenue potential for the contract extension is approximately \$62 million. A portion of the \$62 million is being paid during the current idle period from October 18, 2015 to the middle of March 2016. The Company has the ability to market the rig for alternate work during this period.

West Venture completed its drilling contract with Statoil on August 21, 2015 and remains idle in Norway with a reduced crew. The rig has completed the five year class and is actively being marketed for employment in the region.

Currently, the Company's revenue backlog is \$0.8 billion. Average remaining contract length is approximately 17 months excluding clients' options for extensions.

The construction of the harsh environment semi-submersible drilling rig West Rigel is ongoing at Jurong Shipyard in Singapore. The yard is estimating the rig will be ready for delivery in the fourth quarter of 2015. The Company has had ongoing discussions with the yard regarding alternatives. The final yard installment due upon delivery is approximately \$455 million.

Market Development and Outlook

The challenging market for oilfield service companies continued in the third quarter as oil prices remained compressed in the \$40 to \$50 range. The impact of persistent low prices is highlighted in oil companies' budgeting and spending activities. The year on year decline experienced in 2015 is expected to continue in 2016. North Atlantic drilling continues to believe the offshore drilling market will remain challenging through 2016 with limited visibility for 2017 as the timing and extent of a potential market recovery remain uncertain.

Utilization and pricing across all market segments remain low and in many cases has drifted lower during the third quarter. The Harsh Environment sector has seen limited contracting activity as oil companies remain focused on cost reduction. For the most part, customer conversations continue to remain focused on extending existing contracted assets or trade-offs between existing assets and newer assets rather than contracting new units for work. The few new tenders that are active have commencement dates into 2016 or beyond and are being offered at break-even rates or below. Overall marketed utilization in Norway and the UK is currently at approximately 70%. It is likely that this will trend downwards for the remainder of the year and through 2016 as more units roll off contract and become stacked.

The total marketed supply of floaters in UK and Norway currently stands at approximately 44 units and 23 idle by the end of 2016. We continue to expect further units to become idle or scrapped over the next year. A significant number of units rolling off contract are 25 years or older, and although stacking costs are proving to be lower than expected, many of these rigs need to complete an SPS and/or repair and upgrades in order to re-enter operation. There is a high likelihood that a number of these units will exit the North Sea market or either be scrapped or cold-stacked with limited reactivation incentive, leading to limited fleet growth. The potential reductions to active supply combined with significant barriers to entry in the harsh environment regions could lead to increased supply constraints in the eventual recovery.

North Atlantic is actively marketing its fleet and continues to focus on safe and efficient operations, cost management and being proactive with all counterparties in this challenging market. Operating performance has improved in the quarter and we continue to realize benefits from our cost savings initiatives. We have driven additional efficiencies on idle units by planning early and executing with best in class form to achieve low stacking costs and maintaining the quality of the units and crews.

Technical utilization for the fourth quarter to date was 99%.

Corporate

On August 17, 2015 the Company announced the appointment of Mr. Scott McReaken as Chief Financial Officer. In the fourth quarter, the Company announced Mr. Jo Lunder stepped down as a Director of the Board.

On August 20, 2015, the Company received notice from the New York Stock Exchange ("NYSE") that the Company is no longer in compliance with NYSE's continued listing standards because the average closing share price of the Company's common stock for the consecutive 30 trading-day period ending on August 17, 2015 has fallen below the requirement to be at least \$1.00 per share. This notice does not have an immediate effect on the NYSE listing of the Company's common shares.

Subject to the NYSE's rules, the Company has until February 20, 2016 to regain compliance with the minimum share price rule. The Company can regain compliance at any time during the six-month cure period ending on February 20, 2016 if on the last trading day of any calendar month during the cure period the Company's common shares have a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the 30 trading-day period ending on the last trading day of such month.

To comply with the NYSE listing rules and regulations, the Board has approved a capital reorganization that effects a 1-for-10 reverse stock split of its issued and outstanding common shares and concurrently reduces par value from \$5.00 to \$0.10 and reduces total authorized share capital from \$2.0 billion to \$10.0 million. The capital reorganization will result \$10.0 million of authorized share capital consisting of 100,000,000 shares of par value \$0.10 each. The record date is set for December 3, 2015 and the Company anticipates holding a Special General Meeting on December 28, 2015 to seek approval of shareholders. The Special General Meeting notice will be distributed to shareholders of record date in due course.

Forward Looking Statements

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

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

November 24, 2015

The Board of Directors

North Atlantic Drilling Ltd.

Hamilton, Bermuda

Questions should be directed to North Atlantic Management AS represented by:

Scott McReaken: Chief Financial Officer

North Atlantic Drilling Ltd
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North Atlantic Drilling Ltd
Unaudited Consolidated Statements of Operations
for the three and nine months ended September 30, 2015 and 2014
(In millions of US\$)

	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
Operating revenues				
Contract revenues	189.3	297.2	582.8	791.7
Reimbursable revenues	5.3	46.1	14.5	135.9
Related party revenues *	—	12.9	—	44.9
Total operating revenues	194.6	356.2	597.3	972.5
Operating expenses				
Vessel and rig operating expenses *	63.4	129.9	215.1	351.6
Reimbursable expenses	5.0	42.0	12.7	126.5
Depreciation	55.9	57.0	166.2	154.3
General and administrative expenses *	13.1	16.4	44.7	53.3
Total operating expenses	137.4	245.3	438.7	685.7
Operating income	57.2	110.9	158.6	286.8
Financial items				
Interest expense *	(24.1)	(26.8)	(73.8)	(77.6)
Loss from derivative financial instruments	(32.6)	(12.7)	(58.1)	(26.7)
Foreign exchange gain	8.7	16.8	19.7	15.3
Other financial items	0.1	(0.7)	(2.1)	(25.3)
Total financial items	(47.9)	(23.4)	(114.3)	(114.3)
Income before income taxes	9.3	87.5	44.3	172.5
Income tax benefit/(expense)	(7.9)	(13.1)	(10.0)	(18.3)
Net income	1.4	74.4	34.3	154.2
Net income to non-controlling interest	4.0	4.0	12.2	7.0
Net income attributable to the shareholders of the Company	(2.6)	70.4	22.1	147.2
Basic earnings per share (US\$)	(0.01)	0.29	0.09	0.61
Diluted earnings per share (US\$)	(0.01)	0.29	0.09	0.61
Declared dividend per share (US\$)	—	—	—	0.48

* Includes transactions with related parties. Refer to Note 17 - Related Party Transactions.

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

North Atlantic Drilling Ltd
Unaudited Consolidated Statements of Comprehensive Income
for the three and nine months ended September 30, 2015 and 2014

(In millions of US\$)

	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
Net income	1.4	74.4	34.3	154.2
Other comprehensive income, net of tax:				
Unrealized actuarial gain/(loss) relating to defined benefit pension scheme	3.7	(15.9)	25.2	(18.6)
Unrealized gain/(loss) on interest rate swaps in the variable interest entities	(1.4)	1.9	(1.9)	0.9
Other comprehensive income /(loss) net of tax	2.3	(14.0)	23.3	(17.7)
Total comprehensive income for the period	3.7	60.4	57.6	136.5
Total comprehensive income attributable to non-controlling interests	2.6	5.9	10.3	7.9
Total comprehensive income attributable to the shareholders	1.1	54.5	47.3	128.6

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

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

North Atlantic Drilling Ltd
Unaudited Consolidated Balance Sheets
as of September 30, 2015 and December 31, 2014
(In millions of US\$ except for share, and per share data)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	155.4	116.2
Restricted cash	4.8	11.0
Accounts receivables, net	135.8	235.1
Related party receivables	17.4	34.8
Deferred tax assets	1.2	6.5
Other current assets	23.2	22.0
Total current assets	337.8	425.6
Non-current assets		
Newbuilding	204.3	172.6
Drilling units	2,783.7	2,923.5
Deferred tax assets	17.9	25.3
Other non-current assets	96.9	104.0
Total non-current assets	3,102.8	3,225.4
Total assets	3,440.6	3,651.0
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	210.4	210.2
Related party liabilities	65.8	17.0
Trade accounts payable	8.1	6.5
Tax payable	13.7	11.8
Other current liabilities	216.1	267.8
Total current liabilities	514.1	513.3
Non-current liabilities		
Long-term interest bearing debt	1,961.5	2,188.2
Long-term debt to related party	321.4	308.4
Deferred taxes	48.5	54.2
Pension liabilities	46.8	82.9
Other non-current liabilities	28.6	42.4
Total non-current liabilities	2,406.8	2,676.1
Equity		
Common shares of par value US\$5 per share: 241,142,651 shares outstanding at September 30, 2015 (December 31, 2014: 241,142,651)	1,205.7	1,205.7
Additional paid-in capital	49.1	48.6
Contributed surplus	834.3	834.3
Contributed deficit	(1,188.4)	(1,188.4)
Accumulated other comprehensive loss	(33.4)	(58.6)
Accumulated deficit	(368.0)	(390.1)
Total Shareholder's equity	499.3	451.5
Non-controlling interest	20.4	10.1
Total equity	519.7	461.6
Total liabilities and equity	3,440.6	3,651.0

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

North Atlantic Drilling Ltd
Unaudited Consolidated Statement of Cash Flows
for the nine months ended September 30, 2015 and 2014
(In millions of US\$)

	Nine month period ended September 30,	
	2015	2014
Cash flow from operating activities		
Net income	34.3	154.2
<i>Adjustments to reconcile net (loss)/income to net cash provided by operating activities:</i>		
Depreciation	166.2	154.3
Amortization of deferred loan charges	6.2	6.1
Amortization of tax assets	6.5	6.6
Share based compensation expense	0.5	0.6
Unrealized loss related to financial derivatives	28.6	4.0
Unrealized foreign exchange gain on long-term interest bearing debt	(23.8)	(10.8)
Payments for long-term maintenance	(21.7)	(131.2)
Deferred income tax expense	2.7	9.9
<i>Changes in operating assets and liabilities:</i>		
Trade accounts receivables	99.3	(34.5)
Trade accounts payables	1.6	4.2
Short-term related party receivables and liabilities	80.6	(31.2)
Other receivables and other assets	2.4	6.3
Other liabilities	(95.0)	(26.3)
Deferred revenue	(7.3)	5.3
Net cash provided by operating activities	281.1	117.5

North Atlantic Drilling Ltd
Unaudited Consolidated Statements of Cash Flows continued
for the nine months ended September 30, 2015 and 2014
(In millions of US\$)

	Nine month period ended September 30,	
	2015	2014
Cash flow from investing activities		
Additions to newbuildings	(31.7)	(443.0)
Additions to rigs and equipment	(4.3)	(7.5)
Changes in restricted cash	6.1	17.5
Net cash used in investing activities	(29.9)	(433.0)
Cash flow from financing activities		
Installment paid on long-term interest bearing term debt	(251.6)	(377.0)
Proceeds from long-term interest bearing term debt	41.0	1,215.0
Repayment of shareholder loan	—	(517.0)
Proceeds from shareholder loan	—	142.0
Proceeds from related party loan	—	40.0
Repayment of related party loans	—	(110.0)
Debt fees paid	—	(11.3)
Proceeds from issuance of equity, net of issuance cost	—	114.0
Dividend paid	—	(171.0)
Net cash (used in) / provided by financing activities	(210.6)	324.7
Effect of exchange rate changes on cash and cash equivalents	(1.4)	6.7
Net increase in cash and cash equivalents	39.2	15.9
Cash and cash equivalents at the beginning of the period	116.2	84.1
Cash and cash equivalents at the end of the period	155.4	100.0

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

North Atlantic Drilling Ltd
Unaudited Consolidated Statements of Changes in Equity
for the nine months ended September 30, 2015 and 2014
(In millions of US\$)

	Share capital	Additional paid-in capital	Contributed surplus	Contributed deficit	Accumulated earnings/ (deficit)	Accumulated OCI	Total Shareholder's equity	NCI	Total equity
Balance at December 31, 2013	1,138.1	1.3	834.3	(1,188.4)	113.9	(39.4)	859.8	(2.3)	857.5
Issuance of common shares	67.6	46.4	—	—	—	—	114.0	—	114.0
Share based compensation	—	0.6	—	—	—	—	0.6	—	0.6
Other comprehensive loss	—	—	—	—	—	(18.6)	(18.6)	0.9	(17.7)
Net income	—	—	—	—	147.2	—	147.2	7.0	154.2
Dividends declared	—	—	—	—	(171.0)	—	(171.0)	—	(171.0)
Balance at September 30, 2014	1,205.7	48.3	834.3	(1,188.4)	90.1	(58.0)	932.0	5.6	937.6
Balance at December 31, 2014	1,205.7	48.6	834.3	(1,188.4)	(390.1)	(58.6)	451.5	10.1	461.6
Share based compensation	—	0.5	—	—	—	—	0.5	—	0.5
Other comprehensive income / (loss)	—	—	—	—	—	25.2	25.2	(1.9)	23.3
Net income	—	—	—	—	22.1	—	22.1	12.2	34.3
Balance at September 30, 2015	1,205.7	49.1	834.3	(1,188.4)	(368.0)	(33.4)	499.3	20.4	519.7

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

Dividends per share

During the nine months ended September 30, 2015, and 2014, the company declared dividends of nil and \$0.48 per ordinary share respectively.

North Atlantic Drilling Ltd

Notes to Unaudited Consolidated Financial Statements

Note 1 – General information

North Atlantic Drilling Ltd (“North Atlantic Drilling”) is an offshore drilling contractor in the North Atlantic Area providing harsh environment drilling services to the oil and gas industry. North Atlantic Drilling was formed as a wholly owned subsidiary of Seadrill Limited (“Seadrill” or the “Parent”) on February 11, 2011, under the laws of Bermuda to acquire certain continuing businesses of Seadrill in the North Atlantic region. The Company was registered on the Norwegian Over The Counter (N-OTC) list on February 24, 2011. On January 29, 2014 the Company was listed on the New York Stock Exchange. Following the Initial Public offering in January 2014, Seadrill owns 70.4% of the Company.

As of September 30, 2015, North Atlantic owned eight offshore drilling units, including one drilling unit under construction. The fleet consists of one drillship, three jack-up drilling rigs and four semi-submersible drilling rigs (of which one was under construction).

As used herein, and unless otherwise required by the context, the terms the “Company”, “we”, “Group”, “our”, “us” and words of similar import refer to North Atlantic Drilling 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). The unaudited interim consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These interim financial statements should be read in conjunction with our annual report on form 20F for the year ended December 31, 2014. The year-end balance sheet data that was derived from our audited 2014 financial statements does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement have been included. The amounts are presented to the nearest hundred thousand United States dollar (US dollar), unless stated otherwise.

Significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the preparation of our annual audited consolidated financial statements for the year ended December 31, 2014 unless otherwise included in these unaudited interim financial statements as separate disclosures.

Related party offsetting

Historically the Company presented balances due to/from Ship Finance on a gross basis. From June 30, 2015 the Company elected to represent this on a net basis, due to the fact that the right of offset is established in the long-term loan agreements, and the balances are intended to be settled on a net basis, providing a more appropriate description of the Company’s related party net debt position. Accordingly the Company has represented \$14.3 million as at December 31, 2014, from Amounts due from related parties (Current assets) and offset against Long-term debt due to related parties (Non-current liabilities). There is no corresponding offsetting impact as at September 30, 2015 as the short term trading balances are in a liability position of \$40.3 million. Refer to Note 17 - Related party transactions and Note 20 - Variable Interest Entity.

Note 2 - Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-03, *Interest - Imputation of Interest, (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires the debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and premiums. This ASU is effective for the first interim period beginning after December 15, 2015 and early adoption is permitted. The Company has chosen to early adopt this ASU in the second quarter of 2015. As a result, the consolidated balance sheet as at December 31, 2014 has been restated to reflect this change in accounting principle. \$7.9 million of debt issuance costs have been reclassified from Other current assets to a direct deduction from Current portion of long-term debt and \$15.4 million of debt issuance costs have been reclassified from Other non-current assets to a direct deduction from Long-term debt. As at September 30, 2015, \$7.8 million of debt issuance costs have been presented as a direct deduction from the current portion of long-term debt and \$9.0 million of debt issuance costs have been presented as a direct deduction from long-term debt. The company has disclosed this presentation in Note 11 - Long term interest bearing debt.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides new authoritative guidance on the methods of revenue recognition and related disclosure requirements. In April 2015 the FASB proposed to defer the effective date of the guidance by one year. Based on this proposal, public entities would need to apply the new guidance for annual and interim periods beginning after December 15, 2017, and shall be applied, at the Company's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted until periods beginning after December 15, 2016. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which provides new authoritative guidance with regards to management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The ASU will be effective for all entities in the first annual period ending after December 15, 2016 (December 31, 2016 for calendar year-end entities) and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which made targeted amendments to the current consolidation guidance that could affect all industries. The FASB issued this guidance to respond to stakeholders' concerns about the current accounting for consolidation of certain legal entities. Financial statement users asserted that in certain situations in which consolidation is ultimately required, deconsolidated financial statements are necessary to better analyze the reporting entity's economic and operational results. Previously, the FASB issued an indefinite deferral for certain entities to partially address those concerns. However, the amendments in this guidance rescind that deferral and address those concerns by making changes to the consolidation guidance. The ASU will be effective for public entities in the first annual period, and for interim periods therein, beginning after December 15, 2015 and early adoption is permitted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

Note 3 – Segment information

The Company provides harsh environment offshore drilling services to the oil and gas industry. The Company's performance is reviewed by the chief operating decision maker as one reportable segment, mobile units.

Revenues from the following customers accounted for more than 10% of the Company's consolidated revenues:

<i>(In millions of US\$)</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
Statoil	41%	36%	45%	38%
ExxonMobil	28%	—%	23%	14%
Conoco Phillips	17%	11%	17%	6%
Total	14%	13%	15%	13%
Shell	—%	16%	—%	15%
KMNG	—%	24%	—%	10%
Others	—%	—%	—%	4%
Total	100%	100%	100%	100%

Geographic segment data

Revenues are attributed to geographical segments based on the country of operations for drilling activities; that is, the country where the revenues are generated. The following presents the Company's total operating revenue by geographic area:

<i>(In millions of US\$)</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
Norway	167.3	268.5	509.5	811.9
United Kingdom	27.3	45.9	87.8	118.8
Russia	—	41.8	—	41.8
Total	194.6	356.2	597.3	972.5

As of September 30, 2015, one of the Company's drilling units, with a net book value of \$652.5 million, was located in United Kingdom, all other units were located in Norway. As of December 31, 2014, one of the Company's drilling units, with a net book value of \$671.9 million, was located in United Kingdom and all other units were located in Norway. Asset location at the end of the period is not necessarily indicative of the geographic distribution of the revenues or operating profits generated by such assets during the period.

Note 4 – Taxation

Income taxes consist of the following:

(In millions of US\$)	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
Current tax (expense)/benefit:				
Bermuda	—	—	—	—
Foreign	(4.0)	(20.4)	(5.7)	(1.5)
Deferred tax (expense)/benefit:				
Bermuda	—	—	—	—
Foreign	(1.6)	9.6	2.6	(9.9)
Amortization of tax effect on internal sale of assets	(2.3)	(2.3)	(6.9)	(6.9)
Total income taxes	(7.9)	(13.1)	(10.0)	(18.3)
Effective tax rate	84.9%	15.0%	22.6%	10.6%

The Company may be taxable in more than one jurisdiction based on its drilling rig operations. A loss in one jurisdiction may not be offset against taxable income in another jurisdiction. Thus, the Company may pay tax within some jurisdictions even though it might have losses in other jurisdictions.

The income taxes for the nine months ended September 30, 2015 and 2014 differed from the amount computed by applying the statutory income tax rate of 0% due to operations in foreign jurisdictions with different applicable tax rates as compared to Bermuda.

The effective tax rate for the nine months ended September 30, 2015 is 22.6%. Excluding financial items and tax items recorded discretely, the effective tax rate is 13.7%.

(In millions of US\$)	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
Income taxes at statutory rate	—	—	—	—
Amortization of tax effect on internal sale of assets	(2.3)	(2.3)	(6.9)	(6.9)
Effect of taxable income in various countries	(5.6)	(10.8)	(3.1)	(11.4)
Total income taxes	(7.9)	(13.1)	(10.0)	(18.3)

Deferred Income Taxes

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

Deferred Tax Assets:

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Pension	6.1	21.7
Contracts	1.2	3.6
Loss carry forward	11.8	6.5
Gross deferred tax asset	19.1	31.8

Deferred Tax Liability:

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Property plant and equipment	48.5	50.7
Tax depreciation	—	0.3
Pensions	—	3.2
Gross deferred tax liability	48.5	54.2
Net deferred tax liability	(29.4)	(22.4)

Net deferred taxes are classified as follows:

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Short-term deferred tax asset	1.2	6.5
Long-term deferred tax asset	17.9	25.3
Long-term deferred tax liability	(48.5)	(54.2)
Net deferred tax (liability)/asset	(29.4)	(22.4)

As of September 30, 2015, deferred tax assets related to net operating loss ("NOL") carryforwards was \$11.8 million (December 31, 2014: \$6.5 million), which can be used to offset future taxable income. NOL carryforwards were generated in Norway and UK and will not expire.

Note 5 – Earnings per share

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

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

<i>(In millions of US\$)</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
Net income attributable to shareholders	(2.6)	70.4	22.1	147.2
Effect of dilution	—	0.2	—	0.6
Diluted net income attributable to shareholders	(2.6)	70.6	22.1	147.8

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

<i>(In millions of US\$)</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
<i>Basic earnings per share:</i>				
Weighted average number of common shares outstanding	241.1	241.1	241.1	239.8
<i>Diluted earnings per share:</i>				
Weighted average number of common shares outstanding	241.1	241.1	241.1	239.8
Effect of dilution	—	0.3	—	0.3
Diluted numbers of shares	241.1	241.4	241.1	240.1
Basic earnings per share (US\$)	(0.01)	0.29	0.09	0.61
Diluted earnings per share (US\$)	(0.01)	0.29	0.09	0.61

Note 6 – Accounts receivable

Accounts receivable are presented net of allowances for doubtful accounts. The allowance for doubtful accounts receivables at September 30, 2015 was \$10.0 million (December 31, 2014: \$8.3 million).

The Company did not recognize any bad debt expense in 2015 and 2014, but has instead reduced contract revenue for the disputed amounts.

Note 7 – Other current assets

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Reimbursable amounts due from customers	5.4	6.2
Deferred tax effect of internal transfer of assets – current portion	9.2	9.1
Prepaid expenses	7.9	0.9
Derivative financial instruments ⁽¹⁾	0.2	2.7
VAT receivables	0.4	3.0
Other	0.1	0.1
Total other current assets	23.2	22.0

⁽¹⁾ Derivative financial instruments consist of unrealized gain on interest rate swaps. Additional disclosure has been provided in Note 18.

Note 8 – Newbuildings

(In millions of US\$)	Nine months ended September 30, 2015	Year ended December 31, 2014
Opening balance at the beginning of the period	172.6	312.9
Additions	31.7	448.9
Re-classified as drilling units	—	(589.2)
Closing balance at the end of the period	204.3	172.6

The additions in 2015 relate to the *West Rigel* and include capitalized interest expenses.

The reclassification to drilling units is related to the *West Linus* which commenced operations in May 2014.

Note 9 – Drilling units

(In millions of US\$)	September 30, 2015	December 31, 2014
Cost	4,106.1	4,079.7
Accumulated depreciation	(1,322.4)	(1,156.2)
Net book value	2,783.7	2,923.5

Depreciation expense for the three and nine months ended September 30, 2015 was \$55.9 million and \$166.2 million, respectively (\$57.0 million and \$154.3 million for the three and nine months ended September 30, 2014, respectively).

Note 10 – Other non-current assets

(In millions of US\$)	September 30, 2015	December 31, 2014
Deferred tax effect of internal transfer of assets - Long-term portion	96.9	102.0
Other	—	2.0
Total other non-current assets	96.9	104.0

Note 11 – Debt

As of September 30, 2015 and December 31, 2014, the Company had the following debt facilities:

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Credit facilities:		
US\$2,000 facility	1,241.7	1,366.7
US\$475 facility	365.6	451.3
Total credit facilities principal	1,607.3	1,818.0
Bonds:		
Bond MNOK1500*	177.8	201.4
Bond US\$600 million**	600.0	600.0
Total bonds principal	777.8	801.4
Related party loans:		
Loan from related party	125.0	110.7
Total debt principal	2,510.1	2,730.1
Less: current portion of long term debt	(218.2)	(218.1)
Less: Related party share of long term debt	(321.4)	(308.4)
Long-term portion of debt principal	1,970.5	2,203.6

* Seadrill is the owner of 5.5% of the bond, this portion is presented as related party liability in the Company's consolidated balance sheet. Refer to Note 17 - Related party transactions.

** Seadrill is the owner of 31.1% of the bond, this portion is presented as related party liability in the Company's consolidated balance sheet. Note 17 - Related party transactions.

The company has adopted Accounting Standards Update (ASU) 2015-03, Interest - Imputation of Interest, (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs as at June 30, 2015, which requires the debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and premiums. This ASU is effective for the first interim period beginning after December 15, 2015 and early adoption is permitted. The Company has chosen to early adopt this ASU in the second quarter of 2015. As a result, the consolidated balance sheet as at December 31, 2014 has been restated to reflect this change in accounting principle. \$7.9 million of debt issuance costs have been reclassified from Other current assets to a direct deduction from Current portion of long-term debt and \$15.4 million of debt issuance costs have been reclassified from Other non-current assets to a direct deduction from Long-term debt. As at September 30, 2015, \$7.8 million of debt issuance costs have been presented as a direct deduction from the current portion of long-term debt and \$9.0 million of debt issuance costs have been presented as a direct deduction from long-term debt.

Outstanding debt as at September 30, 2015

<i>(In \$ millions)</i>	Principal outstanding	Less: Debt Issuance Costs	Total Debt
Current portion of long-term debt	218.2	(7.8)	210.4
Long-term portion of debt	1,970.5	(9.0)	1,961.5
Total debt	2,188.7	(16.8)	2,171.9

Outstanding debt as at December 31, 2014

<i>(In \$ millions)</i>	Principal outstanding	Less: Debt Issuance Costs	Total Debt
Current portion of long-term debt	218.1	(7.9)	210.2
Long-term portion of debt	2,203.6	(15.4)	2,188.2
Total debt	2,421.7	(23.3)	2,398.4

The outstanding debt as of September 30, 2015 is repayable as follows:

<i>(In millions of US\$)</i>	September 30,
Twelve months ended September 30, 2016	218.1
Twelve months ended September 30, 2017	1,122.6
Twelve months ended September 30, 2018	47.5
Twelve months ended September 30, 2019	996.9
Twelve months ended September 30, 2020	—
Twelve months ended September 30, 2021 and thereafter	125.0
Total debt principle	2,510.1

Credit facilities

\$2,000 million senior secured credit facility

In April 2011, the Company entered into a \$2,000 million senior secured credit facility to fund the Company's acquisition of West Phoenix, West Navigator, West Alpha, West Epsilon, West Venture, and West Elara. The \$2,000 million senior secured credit facility has a 6 year term payable quarterly with a balloon payment of \$1,000 million at maturity. The loan bears interest of Libor plus 2.0% per annum.

In February 2015, North Atlantic Drilling received approval to amend its \$2,000 million Senior Secured Credit Facility. Under the terms of the agreement, Seadrill has provided a guarantee for the credit facility in exchange for amendments to the covenant package, principally replacing the existing financial covenants with financial covenants within Seadrill's secured credit facilities. The guarantee fee charged by Seadrill is 0.3% per annum of the outstanding principal.

\$475 million secured term loan

In October 2013, SFL Linus Ltd entered into a \$475 million secured term loan and revolving credit facility with a syndicate of banks to fund the acquisition of West Linus, which has been pledged as security. SFL Linus Ltd drew down on the loan at the delivery date of the rig in February 2014. During the nine months ended September 30, 2015 the revolving credit tranche of \$50 million was repaid.

In February 2015, North Atlantic Drilling received approval to amend its \$475 million Credit Facility. Under the terms of the agreement, Seadrill has provided a guarantee for the facility in exchange for amendments to the covenant package, principally replacing financial covenants with financial covenants within Seadrill's secured credit facilities. The guarantee fee charged by Seadrill is 0.3% per annum of the outstanding principal.

Amendment to the credit facilities

The financial covenants within the Company's secured facilities and NOK bond are measured at the Seadrill consolidated level and are in line with Seadrill's covenants on its secured facilities.

In May 2015, the Company executed an amendment to the covenants contained in all of its secured credit facilities. Under the amended terms, the permitted leverage ratio has been amended to the following:

- 6.0:1, from and including the financial quarter starting on July 1, 2015 and including the financial quarter ending on September 30, 2016;
- 5.5:1, from and including the financial quarter starting on October 1, 2016 and including the financial quarter ending December 31, 2016;
- 4.5:1, from and including the financial quarter starting on January 1, 2017 until the final maturity date.

In connection with the amendment, effective from July 1, 2015, an additional margin may be payable on the senior secured credit facilities as follows:

- 0.125 percent per annum if the leverage ratio is 4.50:1 up to and including 4.99:1;
- 0.25 percent per annum if the leverage ratio is 5.00:1 up to and including 5.49:1;
- 0.75 percent per annum if the leverage ratio is 5.50:1 up to and including 6.00:1

Bonds

\$600 million senior unsecured bond

On January 31, 2014, a \$600 million senior unsecured bond was issued with maturity date January 2019. The notes bear a fixed coupon of 6.25%. As at September 30, 2015, Seadrill is the holder of 31.1% of the bond, which amounts to \$186.6 million (December 31, 2014: 31.1% or \$186.6 million).

NOK 1,500 million senior unsecured bond

On October 30, 2013, a NOK1,500 million senior unsecured bond was issued with maturity date October 2018. The bond bears interest at 3-months NIBOR plus a margin of 4.40%. The bond was subsequently swapped to US dollars with a fixed rate of 6.18% per annum until maturity. As at September 30, 2015, Seadrill is the holder of 5.5% of the bond, which amounts to \$9.8 million (December 31, 2014: 5.5% or \$11.1 million).

In February 2015, the Company received approval from its Norwegian bondholders to amend the bond agreement for its NOK1,500 million Senior Unsecured Bond maturing in 2018. Under the terms of the agreement, Seadrill has provided a guarantee for the bond issue in exchange for amendments to the covenant package, principally replacing the current financial covenants with the financial covenants within Seadrill's NOK bonds. The guarantee fee charged by Seadrill is 0.3% per annum of the outstanding principal.

Related party loans

Seadrill provided the Company with an unsecured revolving shareholder loan of \$85 million. No draw downs were made on this facility as at December 31, 2014 and no draw downs were made during 2015. The facility matured in January 30, 2015.

Ship Finance granted the SF Linus Ltd, a loan of \$195 million in June 2013. The maturity date is June 30, 2029. SFL Linus Ltd repaid US\$70 million in 2014, and the outstanding balance as of September 30, 2015 is \$125 million.

Note 12 – Other current liabilities

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Derivative financial instruments ⁽¹⁾	131.4	109.4
Accrued interest expense	11.8	19.5
Accrued expenses	29.4	65.6
Employee withheld taxes, social security and vacation payment	15.8	33.2
Withheld business taxes	7.5	20.2
Short term portion of deferred revenues	20.2	19.9
Total other current liabilities	216.1	267.8

⁽¹⁾ Derivative financial instruments consist of unrealized losses on interest rate swaps, cross currency swaps and foreign exchange rate forwards. Additional disclosure has been provided in Note 18.

Note 13 – Other non-current liabilities

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Deferred revenue	24.2	39.9
Derivative financial instruments ⁽¹⁾	4.4	2.5
Total other non-current liabilities	28.6	42.4

⁽¹⁾ Derivative financial instruments consist of unrealized losses on interest rate swaps. Additional disclosure has been provided in Note 18.

Note 14 – Share capital

<i>All shares are common shares of US\$5.00 par value each</i>	September 30, 2015		December 31, 2014	
	Shares	US\$ millions	Shares	US\$ millions
Authorized share capital	400,000,000	2,000.0	400,000,000	2,000.0
Issued and fully paid share capital	243,516,514	1,217.6	243,516,514	1,217.6
Treasury shares held by Company	(2,373,863)	(11.9)	(2,373,863)	(11.9)
Outstanding shares in issue	241,142,651	1,205.7	241,142,651	1,205.7

Note 15 – Accumulated Other Comprehensive Loss

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Actuarial loss relating to pension	(33.4)	(58.6)
Total accumulated other comprehensive loss, net of tax	(33.4)	(58.6)

For actuarial loss related to pension, the accumulated applicable amount of deferred income taxes related to companies domiciled in Norway, where the tax rate is 27%, amounted to \$12.3 million at September 30, 2015 (December 31, 2014 \$21.7 million).

Note 16 – Pension benefits

The Company has a defined benefit pension plan covering substantially all employees in Norway. A significant part of this plan is administered by a life insurance company. In addition, the Company has defined contribution plan for all new onshore employees. Under this scheme, the Company contributes to the employee's pension plan amounts ranging from five to eight percent of the employee's annual salary.

For onshore employees in Norway, continuing with the defined benefits plan, the primary benefits are retirement pension of approximately 66% of salary at retirement age of 67 years, together with a long-term disability pension. The retirement pension per employee is capped at an annual payment of 66% of the total of 12 times the Norwegian Social Security Base. Most employees in this group may choose to retire at 62 years of age on a pre-retirement pension. Offshore employees in Norway have retirement and long-term disability pension of approximately 60% of salary at retirement age of 67. Offshore employees on mobile units may choose to retire at 60 years of age on a pre-retirement pension.

The expenses for our defined benefit pension plans for the nine month period ended September 30, 2015 were as follows:

<i>(In millions of US\$)</i>	Nine month period ended September 30,	
	2015	2014
Benefits earned during the period	9.5	12.8
Interest cost on prior years' benefit obligation	2.7	5.3
Gross pension cost for the period	12.2	18.1
Expected return on plan assets	(2.5)	(4.4)
Administration charges	0.6	0.7
Net pension cost for the period	10.3	14.4
Social security cost	1.5	2.0
Amortization of actuarial losses	2.6	1.7
Amortization of prior service cost	—	(0.3)
Total net pension cost	14.4	17.8

Employer Contributions

In the nine months period ended September 30, 2015 and 2014, contributions of \$12.8 million and \$16.8 million, respectively, were made to the defined benefit pension plans.

The funded status of the defined benefit plan

<i>(In millions of US\$)</i>	As at September 30, 2015	As at December 31, 2014
Projected benefit obligations	149.8	186.5
Plan assets at market value	(107.1)	(113.8)
Accrued pension liability exclusive social security	42.7	72.7
Social security related to pension obligations	4.1	10.2
Accrued pension liabilities	46.8	82.9

Change in benefit obligations

<i>(In millions of US\$)</i>	Nine months ended September 30, 2015	Year ended December 31, 2014
Benefit obligations at beginning of the period	186.5	176.1
Current service cost	9.5	14.0
Interest cost	2.7	6.8
Change in unrecognized actuarial (gain) / loss	(12.5)	23.5
Settlement	(14.0)	—
Benefits paid	(1.6)	(1.9)
Foreign currency translations	(20.8)	(32.0)
Benefit obligations at end of the period	149.8	186.5

Change in pension plan assets

<i>(In millions of US\$)</i>	Nine months ended September 30, 2015	Year ended December 31, 2014
Fair value of plan assets at beginning of the period	113.8	125.8
Expected return on plan assets	2.5	4.9
Change in unrecognized actuarial gain / (loss)	1.6	(8.9)
Administration charges	(0.6)	(0.9)
Contribution by employer	12.8	16.9
Settlement	(7.5)	—
Benefits paid	(1.6)	(2.0)
Foreign currency translations	(13.9)	(22.0)
Fair value of plan assets at end of the period	107.1	113.8

During the period a number of employees left the Company and as a result the defined benefit scheme transferred the pension liability for these employees to the life insurance company administering the scheme. The difference between the reduction in benefit obligation and the plan assets transferred to the life insurance company has been recognized within "Other comprehensive income". The settlement is not deemed to be significant in the context of the overall scheme and as such net unrecognized actuarial losses have not been recycled as a result of the settlement.

Assumptions used in calculation of pension obligations

The discount rate assumption is based on the covered bond rate in Norway. This assumption was revised during the period from 2.30% to 2.60%, which resulted in an unrealized actuarial gain for the period.

<i>(In millions of US\$)</i>	September 30, 2015	December 31, 2014
Rate of compensation increase at the end of period	2.75%	2.75%
Discount rate at the end of period	2.60%	2.30%
Prescribed pension index factor	1.20%	1.20%
Expected return on plan assets for the period	3.20%	3.20%
Employee turnover	4.00%	4.00%
Expected increases in Social Security Base	2.50%	2.50%

Note 17 – Related party transactions

The Company transacts business with the following related parties, being companies in which Seadrill's principal shareholder, Hemen Holdings Ltd. (herein referred to as "Hemen"), and companies associated with Hemen, have a significant interest:

- Seadrill
- Ship Finance International Limited ("Ship Finance")
- Frontline Management (Bermuda) Limited ("Frontline")
- Archer Limited ("Archer")
- Sevan Drilling Limited ("Sevan")

The Company has entered into the following significant agreements with related parties:

Seadrill transactions

\$600 million senior unsecured bond

Seadrill is the holder of 31.1% of the \$600 million bond, which amounts to \$186.6 million (December 31, 2014: 31.1% or \$186.6 million). The bond was entered into in January 2014 with a fixed coupon of 6.25% and matures in January 2019. Interest due to Seadrill for the nine months ended September 30, 2015 was \$8.7 million (nine months ended September 30, 2014: \$5.8 million).

\$85 million Revolving Credit Facility

Seadrill provided the Company with an unsecured revolving shareholder loan of \$85 million. No draw downs were made on this facility as at December 31, 2014 and no draw downs were made during 2015. The facility matured in January 2015. Interest and commitment fee charged relating to the shareholder loan from Seadrill for the nine months ended September 30, 2015 and 2014 amounted to \$0.1 million and \$0.8 million, respectively.

NOK 1,500 million senior unsecured bond

Seadrill is the holder of 5.5% of the NOK1500 bond loan, which amounts to \$9.8 million (December 31, 2014: 5.5% or \$11.1 million). Interest due to Seadrill for the nine months ended September 30, 2015 was \$0.3 million (nine months ended September 30, 2014: nil).

Financial covenants and debt guarantees

In February 2015, the Company received approval from its Norwegian Bondholders to amend the Bond Agreement for its NOK1.5 billion Norwegian Bond maturing in 2018. Under the terms of the agreement, Seadrill will provide a guarantee for the Bond Issue in exchange for amendments to the covenant package, principally replacing the current financial covenants with the financial covenants within Seadrill's NOK bonds. Additionally, the Company received approval to amend its \$2 billion credit facility and \$475 million term loan and revolving credit facility. Under the terms of the agreements, Seadrill will provide a guarantee for the credit facilities in exchange for amendments to the covenant package, principally replacing the existing financial covenants with financial covenants within Seadrill's secured credit facilities. This amendment to the covenants was applicable to the period ended December 31, 2014. As such there are no longer separate financial covenants contained within the Company's credit facilities or bond agreements. The guarantee fees charged by Seadrill is 0.3% per annum of the outstanding principal. The total guarantee fee for the nine months ended September 30, 2015 was US\$4.0 million.

Performance guarantees

Seadrill provides performance guarantees in connection with the Company's drilling contracts, and charges the Company an annual fee of 1% of the guaranteed amount to provide these guarantees. The total amount of such guarantees was \$225.0 million at September 30, 2015 and \$250 million at December 31, 2014. The incurred fee was \$1.7 million and \$1.9 million for the nine months ended September 30, 2015 and 2014, respectively. The Company has agreed to reimburse Seadrill for all claims made against Seadrill under the performance guarantees.

Management services

North Atlantic Management provides all day-to-day management functions to the Company and its subsidiaries in accordance with the terms of the General Management Agreement. North Atlantic Management has contracted in senior management services from Seadrill Management Ltd and Seadrill Management AS in accordance with the terms of the Management and Administrative Services Agreement. The agreement can be terminated by either party at one month's notice. In consideration of the services provided to the Company, the Company pays Seadrill a fee that includes the operating costs attributable to the Company plus a margin of 8%. For the nine month period ended September 30, 2015 and 2014, Seadrill had charged North Atlantic Management a total fee of \$17.0 million and \$13.0 million, respectively, for providing the services under the Services Agreement.

Operation and Management of the West Hercules

The *West Hercules*, a harsh environment, semi-submersible drilling rig, is owned by a wholly-owned subsidiary of Ship Finance, a related party, and is controlled by Seadrill through a bareboat charter agreement that expires in 2023. Until October 31, 2013, the company operated and managed this rig pursuant to an operational bareboat charter agreement that the Company entered into with Seadrill in July 2012. Subsequently the company entered into a management agreement with Seadrill which replaced the bareboat charter agreement effective from November 1, 2013, pursuant to which the Company operated and managed the *West Hercules* when it was employed under the drilling contract with Statoil. Under the management agreement, North Atlantic has charged Seadrill a management fee of \$2.4 million and crew costs of \$13.5 million for nine months ended September 30, 2014. In August 2014, the operation and management of the *West Hercules* was transferred to Seadrill.

Archer transactions

Engineering Services

North Atlantic received certain technical vessel and rig services from subsidiaries of Archer Ltd. The charged amount was \$1.0 million and \$3.6 million for the nine months period ended September 30, 2015 and 2014, respectively. These amounts are included in vessel and rig operating expenses. Archer Ltd. is a company in which Seadrill Limited is a large shareholder.

Frontline transactions

Management Services

The Company and its subsidiaries incorporated in Bermuda receive corporate secretarial and certain other administrative services applicable to the jurisdiction of Bermuda from Frontline Management (Bermuda) Ltd. The fee was \$0.8 million and \$0.4 million for the nine month period ended September 30, 2015 and 2014, respectively. Frontline Management (Bermuda) Ltd. is a wholly owned subsidiary of Frontline Ltd., a company in which Hemen Holding Limited is a large shareholder.

Ship Finance transactions

Sale and leaseback contract

The Company entered into sale and leaseback transaction with Ship Finance for the jack-up rig, *West Linus*, in June 2013. The total consideration was \$600 million, The *West Linus* is chartered back to North Atlantic on a bareboat charter in a period of 15 years, wherein North Atlantic has been granted four purchase options. The *West Linus* was delivered from the yard in February 2014. Ship Finance has an option to sell the rig back to North Atlantic at the end of the charter period. As at September 30, 2015, the unit is reported under Drilling Units in the Company's balance sheet. Additional disclosure about the VIE has been provided in Note 20.

\$125 million Loan Facility:

Ship Finance granted the VIE company, SFL Linus Ltd, an unsecured loan of \$195 million in June 2013 to be repaid at the earlier of June 30, 2029 or date of sale of the *West Linus* rig. The proceeds of this loan was used to finance the acquisition of the *West Linus*. The loan did not bear interest until the rig was delivered from the yard. The loan was reduced to \$125 million in the period ended March 31, 2014. As at September 30, 2015 the outstanding balance is \$125 million (December 31, 2014: \$125 million) and is presented as long term debt to related parties on our balance sheet. The interest on the facility is 4.5% per annum. Interest charged for the nine month period ended September 30, 2015 was \$4.2 million (nine month period ended September 30, 2014: \$3.5 million).

Related Party Balances

(In millions of US\$)	September 30, 2015	December 31, 2014
Related party receivables		
Seadrill	17.4	34.8
Total related party receivables	17.4	34.8
Related party payables		
Seadrill	25.5	17.0
Ship Finance International	40.3	—
Total related party payables	65.8	17.0
Long term debt to related party		
US\$600 Bond, Seadrill Ltd share 31.1%	186.6	186.6
NOK1,500 Bond, Seadrill Ltd share 5.5%	9.8	11.1
Long term related party loan from Ship Finance *	125.0	110.7
Total long term debt to related party	321.4	308.4

Receivables and payables with related parties arise when the Company pays an invoice on behalf of a related party and vice versa. Receivables and payables are generally settled monthly in arrears.

Other than the loans specifically mentioned, the amounts due to and from Seadrill Limited and its subsidiaries under business operations are unsecured, interest-free and intended to be settled in the ordinary course of business.

* Historically the Company presented balances due to/from Ship Finance on a gross basis. From June 30, 2015 the Company has elected to represent this on a net basis, due to the fact that the right of offset is established in the long-term loan agreements, and the balances are intended to be settled on a net basis, providing a more appropriate description of the Company's related party net debt position. Accordingly the Company has re-presented \$14.3 million as at December 31, 2014, from Amounts due from related parties (Current assets) and offset against Long-term debt due to related parties (Non-current liabilities). There is no corresponding offsetting impact as at September 30, 2015 as the short term trading balances are in a liability position of \$40.3 million.

Note 18 – Risk management and financial instruments

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

Interest rate risk management

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

Interest rate swap agreements not qualified for hedge accounting

As at September 30, 2015, the Company had interest rate swap agreements with an outstanding principal amount of \$1,300 million (including one contract of \$200 million which commences in March 2016) (December 31, 2014: \$1,300 million). The agreements do not qualify for hedge accounting, and accordingly any changes in the fair values of the swap agreements are included in the consolidated statement of operations under "(Loss)/gain from derivative financial instruments." The total fair value of the interest rate swaps outstanding at September 30, 2015 amounted to a liability of \$35.9 million and an asset of \$0.2 million due to master netting agreements with our counterparties (December 31, 2014: liability \$36.6 million and asset \$2.7 million).

The Company did not enter into any other new swap agreements, nor change any existing swap agreements, in the nine month period ended September 30, 2015.

The Company's outstanding interest rate swap agreements as of September 30, 2015 were as follows:

Outstanding principal (In US\$ millions)	Receive rate	Pay rate	Length of contract
200	3 month LIBOR	2.14%	May 2011 - Jan 2016
200	3 month LIBOR	2.14%	May 2011 - Jan 2016
100	3 month LIBOR	2.74%	May 2012 - May 2017
200	3 month LIBOR	2.57%	June 2012 - June 2017
100	3 month LIBOR	2.56%	June 2012 - June 2017
100	3 month LIBOR	2.17%	Aug 2012 - Aug 2017
100	3 month LIBOR	2.17%	Aug 2012 - Aug 2017
100	3 month LIBOR	1.15%	Dec 2012 - Dec 2019
200	3 month LIBOR	2.92%	Mar 2016 - Mar 2021

Interest rate hedge accounting

The Ship Finance subsidiary consolidated by the Company as a VIE, SFL Linus Ltd, (refer to Note 20 - Variable Interest Entities) has entered into interest rate swap agreements in order to mitigate its exposure to variability in cash flows for future interest payments on the loan taken out to finance the acquisition of *West Linus*. These interest rate swaps qualify for hedge accounting and any changes in their fair value are included in "Other comprehensive income". Below is a summary of the notional amount, fixed interest rate payable and duration of the interest rate swaps.

Outstanding principal (in US\$ Millions)	Receive rate	Pay rate	Length of contract
197.8	3 month LIBOR	1.77%	Dec 2013 - Dec 2018
4.0	1 month LIBOR	2.01%	Mar 2014 - Oct 2018
4.0	1 month LIBOR	2.01%	Mar 2014 - Nov 2018

The total fair value of the interest rate swaps outstanding at September 30, 2015 amounted to a liability of \$4.4 million (December 31, 2014: a liability of \$2.5 million). In the nine month period ended September 30, 2015, the above VIE Ship Finance subsidiary has recorded fair value losses on interest rate swaps of \$1.9 million (nine month period ended September 30, 2014: gains of \$0.9 million). Gain or loss is recorded by the VIE in "Other comprehensive income" but due to its ownership by Ship Finance this is allocated to "Non-controlling interest" in our statement of changes in equity. Any change in fair value resulting from hedge ineffectiveness is recognized immediately in earnings. The VIE, and therefore North Atlantic, did not recognize any gain or loss due to hedge ineffectiveness in the consolidated financial statements during the nine month period ended September 30, 2015.

Cross currency interest rate swaps not qualified for hedge accounting

At September 30, 2015 the Company had outstanding cross currency interest rate swaps with a principal amount of \$253.5 million (December 31, 2014: \$253.5 million). These agreements do not qualify for hedge accounting and accordingly any changes in the fair values of the swap agreements are included in the consolidated statement of operations under "Income/loss on derivative financial instruments". The total fair value of cross currency interest rate swaps outstanding at September 30, 2015 amounted to a liability of \$95.5 million (December 31, 2014: a liability of \$64.4 million). The fair value of the cross currency interest rate swaps are classified within other current liabilities in the balance sheet.

Foreign currency risk management

The Company uses foreign currency forward contracts to manage its exposure to foreign currency risk on certain assets, liabilities and future anticipated transactions. Such derivative contracts do not qualify for hedge accounting treatment and are recorded in the balance sheet under other current assets if the contracts have a net positive fair value, and under other current liabilities if the contracts have a net negative fair value. During the period ended September 30, 2015, the Company's forward contracts to sell \$40 million matured at exchange rates between NOK 7.9493 and NOK 7.9716 per US dollar. The total fair value of currency forward contracts outstanding as at September 30, 2015 amounted to a liability of \$0.0 million (December 31, 2014: a liability of \$8.4 million).

The gains and losses of the derivatives recognized in the Statement of Operations for the period were as follows:

<i>(In millions of US\$)</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2015	2014	2015	2014
Interest rate swaps	(9.8)	2.4	(18.3)	(7.3)
Ship Finance Linus Interest rate swaps	(0.8)	(1.0)	(2.4)	(3.1)
Cross currency interest rate swap agreements	(20.4)	(10.9)	(34.4)	(13.2)
Foreign currency agreements	(1.6)	(3.2)	(3.0)	(3.1)
Total Derivatives Gain/(Loss)	(32.6)	(12.7)	(58.1)	(26.7)

Fair values

The carrying value and estimated fair value of the Company's financial instruments at September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of US\$)</i>	September 30, 2015		December 31, 2014	
	Fair value	Carrying value	Fair value	Carrying value
Cash and cash equivalents	155.4	155.4	116.2	116.2
Restricted cash	4.8	4.8	11.0	11.0
Current portion of long-term debt	218.2	218.2	218.1	218.1
Long-term floating rate debt	1,389.1	1,389.1	1,599.9	1,599.9
\$600 million fixed interest bond	277.7	413.4	270.3	413.4
NOK 1,500 million floating interest bond	112.7	168.0	123.8	190.3
\$600 million fixed interest bond - owned by related party	125.4	186.6	122.0	186.6
NOK 1,500 million floating interest bond - owned by related party	6.5	9.8	6.6	11.1
Long term fixed interest loan to related party	125.0	125.0	125.0	125.0

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

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

The fair value of the \$600 million bond and the NOK1500 bond are based at the price it is trading at on September 30, 2015 and December 31, 2014. The Company has categorized this at level 1 on the fair value measurement hierarchy.

The fair value of the loan provided by Ship Finance to SF Linus is estimated to be equal to the carrying value as the loan was entered into on arm's length terms and accrues interest which is repaid quarterly. This debt is not freely tradable and cannot be purchased by the Company at prices other than the outstanding balance plus accrued interest. The Company has categorized this at level 2 on the fair value measurement hierarchy.

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

		September 30, 2015		December 31, 2014	
(In millions of US\$)	Fair value hierarchy	Fair value	Carrying value	Fair value	Carrying value
Assets					
Interest rate swaps	Level 2	0.2	0.2	2.7	2.7
Liabilities					
Currency forward contracts	Level 2	—	—	8.4	8.4
Interest rate swaps	Level 2	35.9	35.9	36.6	36.6
Interest rate swaps qualified for hedge accounting	Level 2	4.4	4.4	2.5	2.5
Cross currency swap	Level 2	95.5	95.5	64.4	64.4

US GAAP 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, US GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level three of the hierarchy).

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

The fair values of interest rate swaps, cross currency swaps and forward exchange contracts are calculated using the income approach, discounting of future contracted cash flows on LIBOR and NIBOR interest rates.

As of September 30, 2015 and December 31, 2014 liabilities or assets related to financial and derivative instruments are presented at gross amounts where the Company does not have the right of offset. The amounts are included in our fair value table above.

Credit risk

The Company has financial assets, including cash and cash equivalents, restricted cash, other receivables and certain amounts receivable on derivative instruments, mainly forward exchange contracts and interest rate swaps. These assets expose the Company to credit risk arising from possible default by the counterparty. The Company considers the counterparties to be creditworthy financial institutions and does not expect any significant loss to result from non-performance by such counterparties. The Company, in the normal course of business, does not demand collateral.

The credit exposure of interest rate swap agreements, currency option contracts and foreign currency contracts is represented by the fair value of contracts with a positive fair value at the end of each period, reduced by the effects of master netting agreements. It is the Company's policy to enter into master netting agreements with the counterparties to derivative financial instrument contracts, which give the Company the legal right to discharge all or a portion of amounts owed to a counterparty by offsetting them against amounts that the counterparty owes to the Company.

Concentration of Risk

There is a concentration of credit risk with respect to cash and cash equivalents as most of the amounts are deposited with Nordea Bank Finland Plc and Danske Bank A/S. The Company considers these risks to be remote.

There is a concentration of credit risk with respect to revenue as the Company has customers that represent more than 10% of total revenues. Refer to Note 3 - Segment Information for an analysis of the Company's revenue by customer.

Note 19 – Commitments and contingencies

Pledged assets

The book value of assets pledged under mortgages and overdraft facilities as at September 30, 2015 was \$2,783.7 million.

Newbuilding Commitments

As of September 30, 2015, the Company had one contractual commitment under a newbuilding contract. The contract is for the West Rigel semi-submersible rig which is scheduled to be delivered in Q4 2015.

The maturity schedule for the remaining payments is as follows:

<i>(In millions of US\$)</i>	September 30, 2015
2015	455.0
Total	455.0

Legal Proceedings

From time to time we are a party, as plaintiff or defendant, to lawsuits in various jurisdictions for demurrage, damages, off-hire and other claims and commercial disputes arising from the construction or operation of our drilling units, in the ordinary course of business or in connection with our acquisition or disposal activities. We believe that the resolution of such claims will not have a material impact individually or in the aggregate on our operations or financial condition. Our best estimate of the outcome of the various disputes has been reflected in our financial statements as of September 30, 2015.

In December 2014, a purported shareholder class action lawsuit, *Fuchs et al. v. Seadrill Limited et al.*, No. 14-cv-9642 (LGS)(KNF), was filed in US Federal District Court in the Southern District of New York, alleging, among other things, that Seadrill and certain of its executives made materially false and misleading statements in connection with the payment of dividends. In January 2015, a second purported shareholder class action lawsuit, *Heron v. Seadrill Limited et al.*, No. 15-cv-0429 (LGS)(KNF), was filed in the same court on similar grounds. In March 2015, a third purported shareholder class action lawsuit, *Glow v. Seadrill Limited et al.*, No. 15-cv-1770 (LGS)(KNF), was filed in the same court on similar grounds. On March 24, 2015, the court consolidated these complaints into a single action. On June 23, 2015 the court appointed co-lead plaintiffs and co-lead counsel and ordered the co-lead plaintiffs to file a single consolidated amended by complaint by July 23, 2015. The amended complaint was filed on July 23, 2015 including North Atlantic Drilling as a defendant. It alleges, among other things, that Seadrill Limited, North Atlantic Drilling and certain of their executives made materially false and misleading statements in connection with the payment of dividends, the failure to disclose the risks to the Rosneft transaction as a result of various enacted government sanctions and the inclusion in backlog of \$4.1 billion attributable to the Rosneft transaction. The defendants filed their Motion to Dismiss the Complaint on October 13, 2015. The plaintiffs, in turn, filed their Opposition to the Motion to Dismiss on November 12, 2015, which is scheduled to be fully briefed by 4 December, 2015. Although we intend to vigorously defend this action, we cannot predict the outcome of this case, nor can we estimate the amount of any possible loss. Accordingly, no loss contingency has been recognized within the financial statements.

Note 20 - Variable Interest Entity (VIE)

As of September 30, 2015, the Company leased a jack-up rig from the VIE under a finance lease. The shares in North Atlantic Linus Ltd, which owned the jack-up rig, was sold by the Company to Ship Finance Ltd on June 30, 2013, while the *West Linus* rig was simultaneously leased back by the Company on a bareboat charter contract for a term of 15 years. The Company has four options to repurchase the unit during the charter period, and an obligation to purchase the asset at the end of the 15 year lease period.

The Company has determined that the Ship Finance subsidiary, which owns the rig, is a VIE, and that North Atlantic is the primary beneficiary of the risks and rewards connected with the ownership of the rig and the charter contract. Accordingly, the VIE is consolidated in our financial statements. The Company did not record any gain or loss from the sale of the shares, as the assets and liabilities continued to be reported at its original cost in the Company's balance sheet at the time of the transaction. At September 30, 2015, the asset is reported under Drilling unit in the Company's balance sheet. Refer also to Note 17 - Related party transactions for additional details about the sales and leaseback contract.

The following table gives a summary of the sale and leaseback arrangement, as of September 30, 2015:

Unit	Effective from	Sale value (in US\$ millions)	First repurchase option (in US\$ millions)	Month of first repurchase option	Last repurchase option (in US\$ millions)	Month of last repurchase option
West Linus	June 2013	600	370	On the 5th anniversary*	170	On the 15th anniversary*

* Anniversaries of the Drilling Contract Commencement Date

Ship Finance has a right to require North Atlantic Drilling to purchase the rig on the 15th anniversary for the price of \$100 million if North Atlantic doesn't exercise the final repurchase option.

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

(In thousands of US\$)

Unit	Base LIBOR interest rate	2016	2017	2018	2019	2020
West Linus	1%	222	222	222	173	140

The assets and liabilities in the accounts of the VIE as at September 30, 2015 are as follows:

(In millions of US\$)	September 30, 2015	December 31, 2014
Investment in Finance Lease	541.8	574.5
Amounts due from related parties	13.9	—
Total assets	555.7	574.5
Current position of long-term debt	51.5	51.5
Short-term related party liability	40.3	—
Total current liability	91.8	51.5
Interest bearing debt	314.2	399.7
Long-term debt due to related parties	125.0	110.7
Derivative instruments - payable	4.4	2.5
Total non-current liabilities	443.6	512.9
Accumulated Other Comprehensive Income	(4.2)	(2.3)
Retained earnings	24.5	12.4
Total stockholders' equity	20.3	10.1
Total liabilities and stockholders' equity	555.7	574.5
Book value of the drilling unit in the Company's consolidated accounts	564.5	581.0

Historically the Company presented balances due to/from Ship Finance on a gross basis. From June 30, 2015 the Company have elected to represent this on a net basis, due to the fact that the right of offset is established in the long-term loan agreements, and the balances are intended to be settled on a net basis, providing a more appropriate description of the Company's related party net debt position. Accordingly the Company has represented \$14.3 million from Amounts due from related parties (Current assets) and offset against Long-term debt due to related parties (Non-current liabilities). There is no corresponding offsetting impact as at September 30, 2015 as the short term trading balances are in a liability position of \$40.3 million.

Note 21 - Subsequent Events

On November 5, 2015, the Company announced that it had been informed that Jo Lunder, Director of the Company, is under investigation by Norwegian prosecuting authorities in relation to charges of corruption in VimpelCom Ltd, his former employer. The investigations are unrelated to North Atlantic Drilling. After consultation with Mr. Lunder, it has been agreed that he will step down as Director of North Atlantic Drilling.