North Atlantic Drilling Ltd. (NADL) – Third quarter and nine months 2014 results

Highlights from the third quarter

- North Atlantic Drilling generates third quarter 2014 EBITDA*) of US$167.9 million
- North Atlantic Drilling reports third quarter 2014 net income of US$74.4 million and earnings per share of US$0.29
- North Atlantic Drilling resolves to suspend the regular cash dividends

Subsequent events

- North Atlantic Drilling and Rosneft delay closing of planned transaction

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

Condensed consolidated income statements

Third quarter and half year 2014 results

Consolidated revenues for the third quarter 2014 were US$356.2 million compared to US$342.6 million for the second quarter 2014.

Operating profit for the third quarter was US$110.9 million, an increase of US$6.1 million compared to the second quarter operating profit of US$104.8 million.

Net financial items for the third quarter of 2014 amounted to a loss of US$23.4 million. The loss included US$26.8 million in interest expenses and US$12.7 million related to financial derivatives, offset by foreign exchange gains of US$16.8 million mainly related to the NOK1500 bond loan, compared to the second quarter 2014 that incurred a loss of US$42.4 million, including interest expenses of US$27.4 million and US$19.3 million loss related to financial derivatives.

Income taxes for the third quarter were US$13.1 million.

Net income for the third quarter was US$74.4 million, and basic earnings per share were US$0.29.

The Company reports operating revenues of US$972.5 million, operating income of US$286.8 million and a net income of US$154.2 million for the nine months ended September 30, 2014. This compares to operating revenues of US$1,013.9 million, operating income of US$271.4 million and a net income of US$187.5 million for the nine months ended September 30, 2013.

Balance sheet as per September 30, 2014

As per September 30, 2014, total assets were US$4,217 million, up from US$3,699 million as per December 31, 2013.

Total non-current assets increased from US$3,316 million to US$3,741 million over the nine-month period. The increase was mainly due to the delivery of West Linus from the shipyard and five-year classification and upgrade work on the West Alpha.

Total current liabilities increased from US$431 million to US$477 million over the course of the nine months period ending September 30, 2014. The increase is largely due to drawdown on the US$475 million facility and an increase in related party liabilities. For further information please see Note 13 and Note 18 to our consolidated financial statements.

Long-term interest bearing debt, including related party debt, increased from US$2,281 million to US$2,612 million. As per September 30, 2014, net interest bearing debt was US$2,730 million compared to US$2,364 million as per December 31, 2013. During this period, the Company issued US$600 million in unsecured notes. The net proceeds of this offering were used to prepay the US$500 million bond held by Seadrill. SFL Linus Ltd repaid US$12 million on the US$475 million credit facility that was issued in connection with the West Linus delivery. SFL Linus Ltd repaid in the first quarter US$70 million on the US$195 million parent loan. Furthermore, during the nine months the Company repaid US$95 million on the US$2 billion credit facility and repaid net US$5 million on the revolving credit facility with Seadrill. As per September 30, 2014, the Company had undrawn amounts of US$135 million available on its credit facilities.

Total equity increased from US$858 million as per December 31, 2013 to US$938 million as per September 30, 2014. The increase is primarily related to the completion of the initial public offering in the U.S. which contributed with net proceeds of US$114 million and contributions from net income during the nine months of US$154.2 million, partly offset by dividend payments of US$171 million.

Cash flow

As per September 30, 2014, cash and cash equivalents amounted to US$100 million.

For the nine-month period ending September 30, 2014, net cash from operating activities was US$118 million, whereas net cash used in investing activities amounted to US$433 million, primarily related to capital expenditures on the newbuilds and the existing drilling units. Net cash contributed from financing activities was US$325 million, primarily as a result of net positive contribution from refinancing activities of US$382 million, net contribution from the initial public offering of US$114 million, offset by dividend payments of US$171 million.

Outstanding shares

As per September 30, 2014, the total number of common shares issued by North Atlantic Drilling Ltd. 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 seven offshore drilling rigs in operation offshore Norway, including West Hercules, and one rig operating in the UK sector of the North Sea. Economic utilization for the third quarter was 99 percent, compared to 98 percent in the second quarter.

At the end of June, the West Alpha began its mobilization to the Kara Sea to drill the first well for ExxonMobil and Rosneft in the Kara Sea. The rig move was completed according to plan, and on August 9, West Alpha commenced drilling operations on the University-1 well. The drilling operations were completed early October, and West Alpha has now returned to Norway where it is working for ExxonMobil on the Balder field. The Board is pleased with West Alpha's operations in the Kara Sea and that the Company has successfully demonstrated its capabilities to deliver safe and efficient operations in such a remote and harsh area.

Contracts and revenue backlog

Measured from September 30, 2014, the Company's revenue backlog was US$6.0bn, of which backlog from the Rosneft contracts constituted US$4.1bn, with an average remaining contract length of 48 months excluding clients' options for extensions, compared to US$6.3bn and 51 months at the end of the previous quarter, respectively.

Table 1.0 Contract status offshore drilling units

Unit	Current client	Area of location	Contract start	Contract expiry
Semi-submersible rigs				
West Alpha	ExxonMobil/Karmorneftegaz	Norway/Russia(*)	Jun 2014	Jul 2016/2017
	Rosneft	Russia	Aug 2016/2017	Jul 2021/2022
West Phoenix	Total	UK	Jan 2012	Oct 2015
West Venture	Statoil	Norway	Aug 2010	Jul 2015
West Rigel(**)	Rosneft	Singapore/Russia	Dec 2015	Nov 2020
Drillships				
West Navigator	Shell	Norway	Jan 2009	Sep 2014
	Centrica	Norway	Oct 2014	Dec 2014
	Rosneft	Russia	Jul 2015	Jul 2020
HE Jack –ups				
West Elara	Statoil	Norway	Mar 2012	Mar 2017
West Epsilon	Statoil	Norway	Dec 2010	Dec 2016
West Linus	ConocoPhillips	Norway	May 2014	May 2019
HE-JU TBNI(***)	Rosneft	Russia	2017	2022
HE-JU TBNII(***)	Rosneft	Russia	2018	2023

* Operations in Norway will be for ExxonMobil and operations in Russia will be for Karmorneftegaz
** Newbuild under construction or in mobilization to its first drilling assignment
*** Newbuild commitment contingent on Rosneft contract

Newbuilding program

The construction of the harsh environment semi-submersible drilling rig West Rigel is ongoing at Jurong Shipyard in Singapore. The rig is expected to be ready for startup on its five-year contract with Rosneft in the fourth quarter of 2015. At delivery from the yard, the remaining yard installment is US$454 million.

Market outlook

Based on the positive results from the Kara Sea drilling this summer, the potential incremental demand for offshore drilling rigs coming from Russia is more visible than ever. Rosneft has demonstrated its commitment to develop the resource base in the area, and the University-1 well is only one of approximately 100 wells that have to be drilled in the Russian arctic over the next 10 years in order for the license holders to retain their licenses. In addition, positive exploration results will generate more demand for drilling appraisal and production wells. Our first mover advantage places the Company in pole position to grow our business in Russia, although there is still uncertainty around commencement dates for these projects.

The markets in Norway and in the UK continue to be influenced by the major oil companies curbing their capital expenditures in order to improve their free cash flows. For instance, Statoil is expected to have only 12 floaters working in their portfolio of offshore drilling rigs in 2015, compared to 16-17 rigs in 2013. A reduction in activity is also expected for other oil companies operating in Norway and in the UK, with only few exceptions. In addition, Statoil has not been able to fully utilize its fleet of contracted rigs, and as a result there are currently four floaters that have either been suspended or set on stand-by rate, in addition to one rig in Norway that Statoil has cancelled. The Company has not received any requests to suspend or cancel any of its rig contracts.

Our peers continue to face cost and time overruns on their maintenance and classification projects. There are currently 19 floaters in the UK and in Norway that are older than 30 years and which will roll off their current contracts before the end of 2016. With dayrates and contract terms under pressure, it is difficult to justify the significant maintenance and classification costs required to keep these rigs in operation. Based on this, the Company expects that several of the oldest rigs will be effectively forced out of service, and as a result, the fleet of rigs may look significantly different within one to two years. Additionally, some modern units have left the Norwegian Continental Shelf for work in other harsh environment areas. Two recent examples are the Polar Pioneer and West Hercules. Successful exploration campaigns in the region have resulted in a substantial list of potential development projects. Based on this, and coupled with expected attrition of older rigs, the Board remains positive to the long term fundamentals of our market.

Corporate strategy and dividend

As communicated since prior to North Atlantic Drilling's IPO on the NYSE in January, the Company has viewed the Russian market as a potential game changer for our industry. The planned agreement with Rosneft takes North Atlantic Drilling one step closer to realizing that potential. The transaction was expected to close during the fourth quarter of this year, however, due to factors outside the control of the Company and Rosneft, we have agreed to extend the expected closing of the agreement to May 2015.

Due to the delay of the agreement with Rosneft, combined with a market which has become significantly weaker in the past quarter, the Board has resolved to suspend the regular quarterly cash dividend. The Board believes that a suspension of the regular cash dividends will be in the best interest of all our shareholders, will better position the Company to withstand near term headwinds, and is the responsible course of action. In addition, the Company has initiated a program to reduce costs both offshore and onshore in order to ensure that the Company maintains its competitive position.

As part of the cost reduction program onshore, the Company has decided to relocate North Atlantic Management AS from Stavanger to Oslo. Combined with a substantial reduction in administrative personnel, the Company expects to reap cost benefits over time from the relocation. Onshore operations and operations support will continue to be run from Stavanger, Bergen and Aberdeen. The relocation will be effective from the first quarter of 2015.

The Company remains focused on generating premium returns to our shareholders. Returning excess cash to investors through quarterly cash dividends has and will continue to be dictated by market outlook, contract backlog and margins, capital expenditure program, our operational performance, as well as our financial flexibility.

Near term prospects

The Board is pleased with the performance of the third quarter with the record high EBITDA-level and economic utilization of 99 percent. During the fourth quarter to date, the Company has had a technical utilization of approximately 95 percent. West Navigator will most likely complete its current contract with Centrica in mid- to end-December this year.

The Company will continue to pursue alternative opportunities for the West Navigator until it can commence the Rosneft contract, and is also working to secure new contracts for our two rigs that have open positions in 2015. The five-year classification survey for West Navigator will be completed if the Company has a new contract opportunity at hand which satisfies the Company's return requirements for such an investment, or prior to commencement of the Rosneft contract.

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 26, 2014
The Board of Directors
North Atlantic Drilling Ltd.
Hamilton, Bermuda

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

Ragnvald Kavli: Chief Financial Officer
Tore Byberg: VP Commercial Finance

North Atlantic Drilling Ltd

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North Atlantic Drilling Ltd

Unaudited Consolidated Statements of Operations
(In millions of US$)

	Three months period ended September 30,		Nine months period ended September 30,	
	2014	**2013**	**2014**	**2013**
Operating revenues				
Contract revenues	297.2	293.5	791.7	845.6
Reimbursable revenues	46.1	27.7	135.9	168.3
Related party revenues	12.9	—	44.9	—
Total operating revenues	**356.2**	**321.2**	**972.5**	**1,013.9**
Operating expenses				
Vessel and rig operating expenses	129.9	134.1	351.6	395.6
Reimbursable expenses	42.0	25.9	126.5	158.1
Depreciation	57.0	50.8	154.3	139.6
General and administrative expenses	16.4	17.5	53.3	49.2
Total operating expenses	**245.3**	**228.3**	**685.7**	**742.5**
Net operating income	**110.9**	**92.9**	**286.8**	**271.4**
Financial items				
Interest expense	(26.8)	(20.7)	(77.6)	(60.8)
Loss from derivative financial instruments	(12.7)	(3.2)	(26.7)	(0.2)
Foreign exchange income	16.8	2.5	15.3	0.1
Other financial items	(0.7)	(0.7)	(25.3)	(5.7)
Total financial items	**(23.4)**	**(22.1)**	**(114.3)**	**(66.6)**
Income before income taxes	**87.5**	**70.8**	**172.5**	**204.8**
Income taxes	(13.1)	(1.9)	(18.3)	(17.3)
Net income	**74.4**	**68.9**	**154.2**	**187.5**
Net income attributable to the shareholders of the Company	70.4	68.9	147.2	187.5
Net income to non-controlling interest	4.0	—	7.0	—
Basic earnings per share (US$)	0.292	0.303	0.614	0.824
Diluted earnings per share (US$)	0.292	0.303	0.614	0.824
Declared dividend per share (US$)	—	0.225	0.480	0.675

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

North Atlantic Drilling Ltd

Unaudited Consolidated Statements of Comprehensive Income
(In millions of US$)

	Three months period ended September 30,		Nine months period ended September 30,	
	2014	2013	2014	2013
Net income	**74.4**	**68.9**	**154.2**	**187.5**
Other comprehensive income, net of tax:				
Change in actuarial loss relating to pension	(15.9)	(9.4)	(18.6)	(3.9)
Change in unrealized gain/ (loss) on interest rate swaps in the variable interest entities	1.9	(2.9)	0.9	(2.9)
Other comprehensive loss net of tax	**(14.0)**	**(12.3)**	**(17.7)**	**(6.8)**
Total comprehensive income for the period	**60.4**	**56.6**	**136.5**	**180.7**
Comprehensive income/ (loss) attributable to non-controlling interests	**5.9**	**(2.9)**	**7.9**	**(2.9)**
Comprehensive income attributable to the shareholders	**54.5**	**59.5**	**128.6**	**183.6**

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
(In millions of US$)

ASSETS	September 30, 2014	December 31, 2013
Current assets		
Cash and cash equivalents	100.0	84.1
Restricted cash	7.8	25.3
Accounts receivables, net	263.2	221.7
Related party receivables	47.3	5.8
Deferred tax assets	20.3	2.9
Other current assets	37.4	43.6
Total current assets	**476.0**	**383.4**
Non-current assets		
Goodwill	480.6	480.6
Deferred tax assets	24.4	16.4
Newbuilding	166.8	312.9
Drilling units	2,944.7	2,377.8
Other non-current assets	124.2	128.2
Total non-current assets	**3,740.7**	**3,315.9**
Total assets	**4,216.7**	**3,699.3**
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	218.1	166.7
Related party liabilities	23.3	13.0
Trade accounts payable	14.6	10.4
Tax payable	14.1	17.9
Other current liabilities	207.3	223.4
Total current liabilities	**477.4**	**431.4**
Non-current liabilities		
Long-term interest bearing debt	2,347.3	1,581.2
Related party liabilities	264.7	700.0
Deferred taxes	65.0	35.7
Pension liabilities	79.6	57.6
Other non-current liabilities	45.1	35.9
Total non-current liabilities	**2,801.7**	**2,410.4**
Equity		
Common shares of par value US$5 per share:		
241,142,651 shares outstanding at September 30, 2014 and 227,629,137 at December 31, 2013	1,205.7	1,138.1
Additional paid-in capital	48.3	1.3
Contributed surplus	834.3	834.3
Contributed deficit	(1,188.4)	(1,188.4)
Accumulated other comprehensive loss	(58.0)	(39.4)
Non-controlling interest	5.6	(2.3)
Accumulated earnings	90.1	113.9
Total equity	**937.6**	**857.5**
Total liabilities and equity	**4,216.7**	**3,699.3**

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

North Atlantic Drilling Ltd

Unaudited Consolidated Statement of Cash Flows
(In millions of US$)

	Nine months period ended September 30,	
	2014	**2013**
Cash flow from operating activities		
Net income	**154.2**	**187.5**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	154.3	139.6
Amortization of deferred loan charges	6.1	4.5
Amortization of mobilization revenue	(10.1)	(9.5)
Amortization of mobilization cost	—	1.2
Amortization of deferred revenue	(6.8)	(7.8)
Amortization of tax assets	6.6	6.9
Share based compensation expense	0.6	—
Unrealized (gain) / loss related to financial derivatives	4.0	(18.7)
Unrealized foreign exchange gain on long-term interest bearing debt	(10.8)	—
Payments for long-term maintenance	(131.2)	(71.8)
Deferred income tax expense	9.9	15.5
Change in operating assets and liabilities:		
Trade accounts receivables	(34.5)	(44.1)
Trade accounts payables	4.2	16.8
Change in short-term related party receivables and liabilities	(31.2)	59.1
Tax payable	(3.8)	(18.9)
Other receivables and other assets	6.3	(12.7)
Other liabilities	(22.5)	3.9
Proceeds from mobilization fees	22.2	52.5
Net cash provided by operations	**117.5**	**304.0**

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

North Atlantic Drilling Ltd

Unaudited Consolidated Statement of Cash Flows
(In millions of US$)

	Nine months period ended September 30,	
	2014	**2013**
Cash flow from investing activities		
Additions to newbuildings	(443.0)	(28.2)
Additions to rigs and equipment	(7.5)	(32.6)
Additions to other fixed assets	—	(1.0)
Changes in restricted cash	17.5	4.1
Net cash used in investing activities	**(433.0)**	**(57.7)**
Cash flow from financing activities		
Installment paid on long-term interest bearing term debt	(377.0)	(125.0)
Proceeds from long-term interest bearing term debt	1,215.0	—
Repayment of shareholder loan	(517.0)	(470.0)
Proceeds from shareholder loan	142.0	350.0
Proceeds from related party loan	40.0	193.5
Repayment of related party loans	(110.0)	(21.6)
Debt fees paid	(11.3)	—
Proceeds from issuance of equity, net of issuance cost	114.0	—
Dividend paid	(171.0)	(154.1)
Net cash provided by (used in) financing activities	**324.7**	**(227.2)**
Effect of exchange rate changes on cash and cash equivalents	6.7	(1.8)
Net (decrease) increase in cash and cash equivalents	**15.9**	**17.3**
Cash and cash equivalents at the beginning of the period	84.1	98.4
Cash and cash equivalents at the end of the period	**100.0**	**115.7**
Supplementary disclosure of cash flow information		
Interest paid	(75.5)	(71.1)
Taxes paid	(4.3)	(5.1)

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

North Atlantic Drilling Ltd

Unaudited Consolidated Statement of Changes in Equity
(In millions of US$)

	Share capital	Additional paid-in capital	Contributed surplus	Accumulated earnings	Accumulated OCI	NCI	Contributed deficit	Total equity
Balance at December 31, 2012	**1,138.1**	**0.8**	**834.3**	**83.8**	**(32.8)**	**—**	**(1,186.1)**	**838.1**
Changes in actuarial gain/ losses related to pension	—	—	—	—	(3.9)		—	(3.9)
Common control transaction	—	—	—	—	—	—	(2.3)	(2.3)
Dividend paid	—	—	—	(154.1)	—	—	—	(154.1)
Unrealized loss on financial derivatives						(2.9)		(2.9)
Net income	—	—	—	187.5	—	—	—	187.5
Balance at September 30, 2013	**1,138.1**	**0.8**	**834.3**	**117.2**	**(36.7)**	**(2.9)**	**(1,188.4)**	**862.4**

	Share capital	Additional paid-in capital	Contributed surplus	Accumulated earnings	Accumulated OCI	NCI	Contributed deficit	Total equity
Balance at December 31, 2013	**1,138.1**	**1.3**	**834.3**	**113.9**	**(39.4)**	**(2.3)**	**(1,188.4)**	**857.5**
Issuance of common shares in private placement	67.6	46.4	—	—	—	—	—	114.0
Unrealized loss on financial derivatives	—	—	—	—	—	0.9	—	0.9
Share based compensation	—	0.6	—	—	—	—	—	0.6
Changes in actuarial gain/ losses related to pension	—	—	—	—	(18.6)	—	—	(18.6)
Dividend paid	—	—	—	(171.0)	—	—	—	(171.0)
Net income	—	—	—	147.2	—	7.0	—	154.2
Balance at September 30, 2014	**1,205.7**	**48.3**	**834.3**	**90.1**	**(58.0)**	**5.6**	**(1,188.4)**	**937.6**

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

North Atlantic Drilling Ltd

Notes to Unaudited Consolidated Financial Statements

Note 1 – General information

North Atlantic Drilling Ltd ("North Atlantic") is an offshore drilling contractor in the North Atlantic Area providing harsh environment drilling services to the oil and gas industry. North Atlantic 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.

As of September 30, 2014, North Atlantic owned eight offshore drilling units, including one drilling unit under construction. Our fleet consists of one drillship, three jack-up drilling rigs and four semi-submersible drilling rigs (of which one was under construction). In addition we operated one harsh environment semi-submersible rig on behalf of Seadrill on a management agreement in the from November 2013 to August 2014.

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 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 financial statements as at December 31, 2013. The year-end balance sheet data that was derived from our audited 2013 financial statements does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement have been included. The amounts are presented in million 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, 2013 unless otherwise included in these unaudited interim financial statements as separate disclosures.

Note 2 - Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Effective January 1, 2014, the Company has adopted the accounting standards update that expands on the recognition, measurement and disclosure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (US GAAP). The update requires measurement of the obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the entity agreed to pay on the basis of its arrangement and any additional amount the Company expects to pay on behalf of its co-obligors. The update also requires an entity to disclose the nature, amount and other information of the obligation. The adoption did not have a material effect on our consolidated financial statement.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which provides new authoritative guidance on the methods of revenue recognition and related disclosure requirements. The accounting standard update will be effective for the first interim period beginning after December 15, 2016 and early adoption is not permitted. 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 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 November 2014, the FASB issued ASU 2014-17, *Business Combinations (Topic 805): Pushdown accounting*, which provides guidance that allows all acquired entities to choose to apply pushdown accounting in their separate financial statements when an acquirer obtains control of them. The new guidance is effective immediately. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

Note 3 – Segment information

We provide 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:

Contract revenue, including reimbursable, split by customer:

	Three months period ended September 30,		Nine months period ended September 30,	
	2014	**2013**	**2014**	**2013**
Statoil	36%	52%	38%	59%
Shell	16%	18%	15%	18%
ExxonMobil	—	16%	14%	11%
KMNG	24%	—	10%	—
Total	13%	14%	13%	12%
Conoco Phillips	11%	—	6%	—
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 revenue by geographic area:

(In millions of US$)	Three months period ended September 30,		Nine months period ended September 30,	
	2014	**2013**	**2014**	**2013**
Norway	268.5	245.1	811.9	846.8
United Kingdom	45.9	67.7	118.8	158.7
Russia	41.8	—	41.8	—
Ireland	—	8.4	—	8.4
Total	356.2	321.2	972.5	1,013.9

As of September 30, 2014, one of the Company's drilling units, with a net book value of US$676.9 million, was located in United Kingdom and one drilling unit with at net book value of US$263.3 million was located in Russia, all other units were located in Norway. As of December 31, 2013, one of the Company's drilling units, with a net book value of US$698 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 months period ended September 30,		Nine months period ended September 30,	
	2014	**2013**	**2014**	**2013**
Current tax expense/(benefit):				
Foreign	20.4	3.3	1.5	(8.2)
Deferred tax expense/(benefit):				
Foreign	(9.6)	(3.7)	9.9	18.6
Amortization of tax effect on internal sale of assets	2.3	2.3	6.9	6.9
Total provision	13.1	1.9	18.3	17.3
Effective tax rate	15.0%	2.7%	10.6%	8.4%

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 an overall loss at the consolidated level.

The income taxes for the nine months ended September 30, 2014 and 2013 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.

(In millions of US$)	**Three months period ended September 30,**		**Nine months period ended September 30,**	
	2014	**2013**	**2014**	**2013**
Amortization of tax effect on internal sale of assets	2.3	2.3	6.9	6.9
Effect of taxable income in various countries	10.8	(0.4)	11.4	10.4
Total	13.1	1.9	18.3	17.3

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:

(In millions of US$)	**September 30, 2014**	**December 31, 2013**
Pension	21.5	15.4
Contracts and Long term maintenance	2.9	1.0
Loss carry forward	20.3	2.9
Gross deferred tax asset	44.7	19.3

Deferred Tax Liability:

(In millions of US$)	**September 30, 2014**	**December 31, 2013**
Long term maintenance	59.6	32.9
Tax depreciation	0.5	0.4
Pensions	4.9	2.4
Gross deferred tax liability	65.0	35.7
Net deferred tax asset/(liability)	(20.3)	(16.4)

Net deferred taxes are classified as follows:

(In millions of US$)	September 30, 2014	December 31, 2013
Short-term deferred tax asset	20.3	2.9
Long-term deferred tax asset	24.4	16.4
Long-term deferred tax liability	(65.0)	(35.7)
Net deferred tax assets/(liability)	(20.3)	(16.4)

As of September 30, 2014, deferred tax assets related to net operating loss ("NOL") carryforwards was US$20.3 million, which can be used to offset future taxable income. NOL carryforwards were generated in the United Kingdom and Norway and will not expire.

Note 5 – Earnings per share

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

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

(In millions of US$)	Three months period ended September 30,		Nine months period ended September 30,	
	2014	2013	2014	2013
Net income available to stockholders	70.4	68.9	147.2	187.5
Effect of dilution	0.2	—	0.6	—
Diluted net income available to stockholders	70.6	68.9	147.8	187.5

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

	Three months period ended September 30,		Nine months period ended September 30,	
	2014	2013	2014	2013
Basic earnings per share:				
Weighted average number of common shares outstanding	241.1	227.6	239.8	227.6
Diluted earnings per share:				
Weighted average number of common shares outstanding	241.1	227.6	239.8	227.6
Effect of dilution	0.3	—	0.3	—
Diluted numbers of shares	241.4	227.6	240.1	227.6
Basic earnings per share (US$)	0.292	0.303	0.614	0.824
Diluted earnings per share (US$)	0.292	0.303	0.614	0.824

The expenses related to the restricted stock units have been added back to net income. The effect for the three and nine months period ended September 30, 2014 is anti-dilutive, and exceed the effect of increased denominator when calculating the diluted earnings per share for this quarter. As a consequence of this, the diluted earnings per share for this quarter equal the basic earning per share.

Note 6 – Accounts receivable

Accounts receivable are presented net of allowances for doubtful accounts. The allowance for doubtful accounts receivables at September 30, 2014 was US$8.1 million (December 31, 2013: US$22.0 million).

The Company did not recognize any bad debt expense in 2014 and 2013, but has instead reduced contract revenue for the disputed amounts.

Note 7 – Other current assets

(In millions of US$)	**September 30, 2014**	**December 31, 2013**
Reimbursable amounts due from customers	9.1	10.0
Deferred tax effect of internal transfer of assets – current portion	9.1	9.1
Loan fees – short-term portion	8.0	5.9
Prepaid expenses	2.9	4.8
Derivative financial instruments [1]	4.2	6.2
VAT receivables	3.1	6.7
Other	1.0	0.9
Total other current assets	**37.4**	**43.6**

(1) Derivative financial instruments consist of unrealized gain on interest rate swaps. Additional disclosure has been provided in Note 19.

Note 8 – Newbuildings

(In millions of US$)	**September 30, 2014**	**December 31, 2013**
Opening balance at the beginning of the period	312.9	248.7
Additions	443.0	64.2
Re-classified as drilling units	(589.1)	—
Closing balance at the end of the period	**166.8**	**312.9**

Additions relate to *West Linus* and *West Rigel*. The additions relate to final yard installment paid for *West Linus*, operation and preparation cost and capitalized interest expenses for both units in the nine months period ending September 30, 2014.

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, 2014**	**December 31, 2013**
Cost	4,043.1	3,322.2
Accumulated depreciation	(1,098.4)	(944.4)
Net book value	**2,944.7**	**2,377.8**

Additions in 2014 primarily relate to reclassification of *West Linus* from Newbuildings and expenditures for major additions and improvements to existing drilling rigs that extend the life of a drilling rig or increase functionality together with deferred long-term maintenance expenses on existing drilling units.

Depreciation expense was US$154.3 million and US$139.6 million for the nine months period September 30, 2014, and 2013, respectively.

Note 10 – Goodwill

In the three and nine month period ended September 30, 2014 there was no change in the total carrying value of goodwill. Net book value of goodwill was US$480.6 million as of September 30, 2014 and December 31, 2013.

Note 11 – Other non-current assets

(In millions of US$)	**September 30, 2014**	**December 31, 2013**
Deferred tax effect of internal transfer of assets - Long-term portion	104.3	111.1
Loan fees	17.7	14.4
Other	2.2	2.7
Total other non-current assets	**124.2**	**128.2**

Note 12 – Debt

As of September 30, 2014 and December 31, 2013, the Company had the following debt facilities:

(In millions of US$)	**September 30, 2014**	**December 31, 2013**
Credit facilities:		
US$2,000 facility	1,408.3	1,503.4
US$475 Facility	463.1	—
Total credit facilities	**1,871.4**	**1,503.4**
Bonds:		
Bond MNOK1500	233.7	244.5
Bond US$600 million*	600.0	—
Bond, subscribed in full by related party	—	500.0
Total bonds	**833.7**	**744.5**
Loan:		
Shareholder loan from related party	—	**5.0**
Loan provided by related party	**125.0**	**195.0**
Total debt	**2,830.1**	**2,447.9**
Less: current portion of long term debt	(218.1)	(166.7)
Less: Related party share of long term debt	(264.7)	(700.0)
Long-term portion of debt	**2,347.3**	**1,581.2**

* Seadrill is the owner of 23.3% of the bond, this portion is presented as related party liability in the Company's consolidated balance sheet.

The outstanding debt as of September 30, 2014 is repayable as follows:

(In millions of US$)

Twelve months ended September 30, 2015	218.1
Twelve months ended September 30, 2016	214.2
Twelve months ended September 30, 2017	1,122.5
Twelve months ended September 30, 2018	47.5
Twelve months ended September 30, 2019	1,102.8
Twelve months ended September 30, 2020 and thereafter	125.0
Total debt	**2,830.1**

Credit facilities

In October 2013, SFL Linus Ltd entered into a US$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. Subsequently US$40 million was repaid on the facility by Ship Finance International Limited ("Ship Finance") on behalf of SF Linus Ltd through a short-term parent loan as per March 31, 2014 and redrawn again as per June 30, 2014.

Bonds

On January 31, 2014, a US$600 million senior unsecured bond was issued with maturity date January 2019. The notes bear a fixed coupon of 6.25% and are due in February 2019. The net proceeds of this offering have been used to repay the US$500 million Seadrill bond, including a settlement premium of US$22.5 million. Seadrill is the holder of 23.3 % of the bond, which amounts to US$139.7 million.

For our US$600 million bond we are subject to certain financial and restrictive covenants contained in our indentures which restrict, among other things, our ability to pay dividends, incur indebtedness, incur liens, and make certain investments. In addition, these indentures contain other customary terms, including certain events of default, upon the occurrence of which, the bonds may be declared immediately due and payable.

In addition to the above, our bond indentures generally also contain restrictions which are customary for unsecured financings in this industry for similar unrated bonds, including limitations on indebtedness, payments, transactions with affiliates and restrictions on consolidation, merger and sale of assets.

Loans:

Seadrill has provided North Atlantic an unsecured revolving shareholder loan of US$85 million. The maturity date is set to January 30, 2015. As per September 30, 2014, US$0 million of the facility was drawn.

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

Note 13 – Other current liabilities

(In millions of US$)	September 30, 2014	December 31, 2013
Derivative financial instruments [(1)]	62.3	59.4
Accrued interest expense	11.8	19.3
Accrued expenses	73.4	79.2
Employee withheld taxes, social security and vacation payment	38.6	46.3
Short term portion of deferred revenues	21.2	19.2
Total other current liabilities	**207.3**	**223.4**

[(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 19.

Note 14 – Other non-current liabilities

(In millions of US$)	September 30, 2014	December 31, 2013
Deferred revenue	43.4	33.6
Derivative financial instruments [(1)]	1.7	2.3
Total other non-current liabilities	**45.1**	**35.9**

[(1)] Derivative financial instruments consist of unrealized losses on interest rate swaps. Additional disclosure has been provided in Note 19.

Note 15 – Share capital

All shares are common shares of US$5.00 par value each	**September 30, 2014**		**December 31, 2013**	
	Shares	US$ 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	230,003,000	1,150.0
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	227,629,137	1,138.1

On January 29, 2014 North Atlantic Drilling completed its initial public offering in the United States by issuing US$125 million in new shares and commenced trading on the New York Stock Exchange. The offering of 13,513,514 common shares at a price of US$9.25 less a underwriting discount of US$0.555 equaled a purchase price of US$8.695 per share. Net proceeds of the offer were US$114.0 million with IPO related expenses of US $3.5 million. The share capital element was US$67.6 million and US$46.4 million was recognized as additional paid in capital.

Note 16 – Accumulated Other Comprehensive Loss

(In millions of US$)	September 30, 2014	December 31, 2013
Actuarial loss relating to pension	(58.0)	(39.4)
Total accumulated other comprehensive loss, net of tax	**(58.0)**	**(39.4)**

For actuarial loss related to pension, the accumulated applicable amount of income taxes related to companies domiciled in Norway, where the tax rate is 27%, amounted to US$21.4 million at September 30, 2014 (December 31, 2013 US$15.3 million).

Note 17 – 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, 2014 and 2013 were as follows:

	Nine months period ended September 30,	
(In millions of US$)	**2014**	**2013**
Benefits earned during the period	12.8	11.3
Interest cost on prior years' benefit obligation	5.3	4.8
Gross pension cost for the period	18.1	16.1
Expected return on plan assets	(4.4)	(3.5)
Administration charges	0.7	0.7
Net pension cost for the period	14.4	13.3
Social security cost	2.0	1.9
Amortization of actuarial gains/losses	1.7	0.7
Amortization of prior service cost	(0.3)	—
Total net pension cost	**17.8**	**15.9**

Employer Contributions

In the nine months period ended September 30, 2014 and 2013, contributions of US$16.8 million and US$16.9 million, respectively, were made to the defined benefit pension plans. Currently, the company anticipates making additional contributions during the remainder of 2014 of approximately US$3.7 million to its pension plans, based on current tax and benefit laws. However, this estimate is subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest rates.

Note 18 – 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")

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

Seadrill Limited transactions

US$500 million bond.
Seadrill was the holder of all of the bonds in the US$500 million bond. The bond was entered into in April 2011 with a coupon of 7.75% per annum payable semi-annually in arrears. The bond was repaid on January 31, 2014, including a settlement premium of US$22.5 million, which was settled in cash.

US$600 million bond
Seadrill is the holder of 23.3% of the US$600 million bond, which amounts to US$139.7 million (no change from from June 30, 2014) The bond was entered into in January 2014 with a fixed coupon of 6.25% and matures in January 2019. Interest charged for the nine months ended September 30, 2014 was US$5.8 million.

US$85 million Revolving Credit Facility:
Seadrill has provided North Atlantic an unsecured revolving credit facility of US$85 million.The maturity date is January 30, 2015. The interest is Libor plus 3.00% per annum. Aggregate drawdowns and repayments on this facility during the nine months period ended September 30, 2014 were US$12 million and US$17 million, respectively. At September 30, 2014, the Company had drawn US$0 million from the facility.

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 $250 million at September 30, 2014 and US$300 million at September 30, 2013. The incurred fee was US$1.9 million and US$2.3 million for the nine months ended September 30, 2014 and 2013, respectively. The Company has agreed to reimburse Seadrill for all claims made against Seadrill under the performance guarantees.

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, we operated and managed this rig pursuant to an operational bareboat charter agreement that we entered into with Seadrill in July 2012. We have subsequently entered into a management agreement with Seadrill which replaced the bareboat charter agreement effective from November 1, 2013, pursuant to which we continue to operate and manage the *West Hercules* while it is employed under the drilling contract with Statoil. On August 26, 2014, the operation and management of the West Hercules was transfered to Seadrill.

Seadrill has charged North Atlantic Drilling a charter hire fee of US$51.9 million under the Bareboat Charter Agreement for the period from commencement date at January 31, 2013 until September 30, 2013. North

Atlantic Drilling has charged Seadrill US$63.8 million for its share of mobilization costs and US$47.3 million for its share of mobilization revenue in the nine month period ended September 30, 2013.

Under the management agreement, North Atlantic has charged Seadrill a management fee of US$7.1 million and crew costs of US$37.8 million for nine months ended September 30, 2014

Archer Engineering Services:
North Atlantic received engineering services from subsidiaries of Archer Ltd. The charged amount was less than US$1 million and US$3.6 million for the nine months period ended September 30, 2014 and 2013, respectively. Archer Ltd. is a company in which Seadrill Limited is a large shareholder.

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 us, we paid Seadrill a fee that includes the operating costs attributable to us plus a margin of 5% and, effective as of January 2013, we pay Seadrill a fee that includes the operating costs attributable to us plus a margin of 8%. For the nine month period ended September 30, 2014 and 2013, Seadrill had charged North Atlantic Management a total fee of US$13.0 million and US$21.6 million, respectively, for providing the services under the Services Agreement.

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 US$0.4 million and less than US$0.1 million for the nine month period ended September 30, 2014 and 2013, 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 US$600 million, The *West Linus* is chartered back to North Atlantic on a bareboat charter in a periode of 15 years, wherein North Atlantic has been granted four purchase options.

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.

At September 30, 2014, the unit is reported under Drilling Units in the Company’s balance sheet. Additional disclosure about the VIE has been provided in Note 21.

US$125 million Loan Facility:
Ship Finance granted the VIE company, SFL Linus Ltd, an unsecured loan of US$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 loan did not bear interest until the rig was delivered from the yard. The loan was reduced to US$125 million in the period ended March 31, 2014. At September 30, 2014 the balance is US$125 million and charged interest was US$3.5 million. The interest is 4.5% per annum. The proceeds of this loan was used to finance the acquisition of the *West Linus*. The loan is presented as long term debt to related parties on our balance sheet on September 30, 2014.

US$475 million Loan Facility:
In October 2013, SFL Linus Ltd entered into a US$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. Subsequently US$40 million was repaid on the facility by Ship Finance on behalf of SF Linus Ltd through a short-term parent loan as per September 30, 2014. As per June 30, 2014 the amount of US$40 million was redrawn on the credit facility and the short-term parent loan settled with the drawn funds. As of September 30, 2014 SFL Linus Ltd have repaid

US$11.8 million in monthly installments and the outstanding balance at September 30, 2014 is US$463.1 million.

Related Party Balances:

(In millions of US$)	**September 30, 2014**	**December 31, 2013**
Receivables		
Seadrill	47.3	5.8
Total receivables	**47.3**	**5.8**
Payables		
Seadrill	11.5	13
Sevan Drilling ASA	1.6	—
Ship Finance International	10.2	—
Total payables	**23.3**	**13.0**
Non-current shareholder loan from Seadrill Ltd	**—**	**5.0**
US$600 Bond, Seadrill Ltd share 23.3%	**139.7**	—
Bond loan, subscribed in full by Seadrill Ltd	**—**	**500.0**
Non-current related party loan from Ship Finance	**125.0**	**195.0**

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.

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.

Interest and commitment fee charged relating to the shareholder loan from Seadrill for the nine months ended September 30, 2014 and 2013 amounted to US$0.8 million and US$4.8 million, respectively.

Note 19 – Risk management and financial instruments

The majority of our gross earnings from our drilling units are receivable in U.S. dollars and the majority of our other transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. However, the Company has operations and assets in countries with currency other than U.S. 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

At September 30, 2014, the Company had interest rate swap agreements with an outstanding principal amount of US$1,300 million (December 31, 2013: US$1,100 million), principal amount of US$1,100 million were entered into after the Company commenced operations as a standalone entity on April 1, 2011, and principal amount of US $200 million was entered into in February 2014 with forward start in March 2016. 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 "income/loss on derivative financial instruments." The total fair value of the interest rate swaps outstanding at September 30, 2014 amounted to a liability of US$36.3 million and an asset of US$4.0 million (December 31, 2013: liability US$45.3 million and asset US$5.4 million).

The Company did not enter into any other new swap agreements, nor change any existing swap agreements, in the nine months period ended September 30, 2014.

The Company's interest rate swap agreements as of September 30, 2014 were as follows:

Outstanding principal	**Receive rate**	**Pay rate**	**Length of contract**
(In US$ millions)			
400	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
200	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 (refer to Note 21 - 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.

Variable interest entity	Outstanding principal	Receive rate	Pay rate	Length of contract
	(in US$ Millions)			
SFL Linus Ltd (West Linus)	222	3 month LIBOR	1.77%	Dec 2013 - Dec 2018
SFL Linus Ltd (West Linus)	4	1 month LIBOR	2.01%	Mar 2014 - Oct 2018
SFL Linus Ltd (West Linus)	4	1 month LIBOR	2.01%	Mar 2014 - Nov 2018

In the nine month period ended September 30, 2014, the above VIE Ship Finance subsidiary recorded fair value gain of US$0.9 million on interest rate swaps. This gain was recorded by the VIE in "other comprehensive income" but due to its ownership by Ship Finance this gain 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 periods ended September 30, 2014.

Cross currency interest rate swaps not qualified for hedge accounting

At September 30, 2014 we had outstanding cross currency interest rate swaps with a principal amount of US $253.5 million (December 31, 2013: US$253.5 million). These agreements, entered into in October 2013, 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, 2014 amounted to a liability of US $25.7 million (December 31, 2013: liability US$13.1 million). The fair value of the cross currency interest rate swaps are classified as 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 short-term liabilities if the contracts have a net negative fair value. At September 30, 2014, the Company had forward contracts to sell US$120 million between October 2014 and May 2015 at exchange rates ranging from NOK6.16 to NOK6.49 per US dollar. The total fair value of currency forward contracts at September 30, 2014 amounted to an asset of US$0.1 million and a liability of US$2 million (December 31, 2013: asset US$0.8 million and liability US$1 million).

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 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. As of September 30, 2014 there is no netting based on the 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.

Fair values

The carrying value and estimated fair value of the Company's financial instruments at September 30, 2014 and December 31, 2013 are as follows:

(In millions of US$)	September 30, 2014 Fair value	September 30, 2014 Carrying value	December 31, 2013 Fair value	December 31, 2013 Carrying value
Cash and cash equivalents	100.0	100.0	84.1	84.1
Restricted cash	7.8	7.8	25.3	25.3
Current portion of long-term debt	218.1	218.1	166.7	166.7
Long-term debt	2,267.3	2,347.3	1,581.2	1,581.2
Related party debt	247.8	264.7	728.4	700.0

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

(In millions of US$)	Fair value hierarchy	September 30, 2014 Fair value	September 30, 2014 Carrying value	December 31, 2013 Fair value	December 31, 2013 Carrying value
Assets					
Currency forward contracts	Level 2	0.1	0.1	0.8	0.8
Interest rate swaps	Level 2	4.0	4.0	5.4	5.4
Liabilities					
Currency forward contracts	Level 2	2.0	2.0	1.0	1.0
Interest rate swaps	Level 2	36.3	36.3	47.6	47.6
Cross currency swap	Level 2	25.7	25.7	13.1	13.1

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, 2014 and December 31, 2013 liabilities or assets related to financial and derivative instruments are presented at gross amounts and have not been presented net because we do not have the right of offset. The amounts are included in our fair value table above.

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 1 to 6 months. This debt is not freely tradable and cannot be purchased by the Company at prices other than the outstanding balance plus accrued interest. We have categorized this at level 2 on the fair value measurement hierarchy.

The fair value of the US$600 million bond at September 30, 2014 is based at the price it is trading at. We have categorized this at level 1 on the fair value measurement hierarchy.

Note 20 – Commitments and contingencies

Purchase Commitments

As of September 30, 2014, we had one contractual commitment under a newbuilding contract. The contract is for one semi-submersible rig which is scheduled to be delivered in Q2 2015.

The maturity schedule for the remaining payments is as follows:

(In millions of US$)

2014	—
2015	454.4
Total	**454.4**

Legal Proceedings:

The Company currently has no outstanding legal proceeding it considers material.

Note 21 - Variable Interest Entity (VIE)

As of September 30, 2014, the Company leased a jack-up rig from the VIE under a finance lease. The shares in North Atlantic Linus Ltd, that 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 following table gives a summary of the sale and leaseback arrangement, as of September 30, 2014:

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 to purchase the rig on the 15th anniversary for the price of US $100 million if North Atlantic doesn't exercise the final repurchase option.

The Company has determined that the Ship Finance subsidiary, which owns the rig, is a variable interest entity (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, 2014, the asset is reported under Drilling unit in the Company's balance sheet. Refer also to note 18 (Related party transactions) for additional details about the sales and leaseback contract.

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	From delivery date until commencement date	2014	2015	2016	2017	2018
West Linus	1%	85	222	222	222	222	222

The assets and liabilities in the accounts of the VIE as at September 30, 2014 are as follows:

(In millions of US$)	September 30, 2014 **SFL Linus Ltd**	December 31, 2013 **SFL Linus Ltd**
Related party receivables	20.5	—
Total current assets	**20.5**	**—**
Drilling unit	585.2	195.0
Total non-current assets	**585.2**	**195.0**
Total assets	**605.7**	**195.0**
Current position of long-term debt	51.4	—
Short-term related party liability	10.2	—
Total current liability	**61.6**	**—**
Interest bearing debt	411.7	—
Related party liability	125.0	195
Derivative instruments - payable	1.8	2.3
Total non-current liabilities	**538.5**	**197.3**
Accumulated Other Comprehensive Income	(1.3)	(2.3)
Retained earnings	6.9	—
Total stockholders' equity	**5.6**	**(2.3)**
Total liabilities and stockholders' equity	**605.7**	**195.0**
Book value of the unit in the Company's consolidated accounts	**584.8**	**162.0**