SEADRILL LTD
Form 20-F
April 28, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

[_] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

OR

[_] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report:

Commission file number: 001-34667

SEADRILL LIMITED
(Exact name of Registrant as specified in its charter)
(Address of principal executive offices)
Bermuda
(Jurisdiction of incorporation or organization)
Par-la-Ville Place, 4th Floor, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda
(Address of principal executive offices)
Georgina Sousa
Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda
Tel: +1 (441) 295-9500, Fax: +1 (441) 295-3494
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person
Securities registered or to be registered pursuant to Section 12(b) of the Act:

Common stock, $2.00 par value	New York Stock Exchange
Title of class	Name of exchange on which registered

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of December 31, 2015, there were 492,759,940 shares, par value $2.00 per share, of the Registrant's common stock outstanding.
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[X] Yes [_] No

If this report is an annual report or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
[_] Yes [X] No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
[X] Yes [_] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months
[X] Yes [_] No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [X] Accelerated filer [_]
Non-accelerated filer [_]
(Do not check if a smaller reporting company) Smaller reporting company [_]
Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

[X] U.S. GAAP

[_] International Financial Reporting Standards as issued by the International Accounting Standards Board

[_] Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow.

[_] Item 17

[_] Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
[_] Yes [X] No

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, or the PSLRA, and are including this cautionary statement in connection therewith. The PSLRA provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business.

Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical or present facts or conditions.

This Annual Report and any other written or oral statements made by us or on our behalf may include forward-looking statements which reflect our current views with respect to future events and financial performance. The words "believe," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect" and similar expressions forward-looking statements.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere in this Annual Report, and in the documents incorporated by reference in this Annual Report, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- factors related to the offshore drilling market, including changes in oil and gas prices and the state of the global economy on market outlook for our various geographical operating sectors and classes of rigs;
- supply and demand for drilling units and competitive pressure on utilization rates and dayrates;
- customer contracts, including contract backlog, contract commencements, contract terminations, contract option exercises, contract revenues, contract awards and rig mobilizations;
- the repudiation, nullification, modification or renegotiation of contracts;
- delays in payments by, or disputes with, our customers under our drilling contracts;
- fluctuations in the market value of our drilling units and the amount of debt we can incur under certain covenants in our debt financing agreements;
- the liquidity and adequacy of cash flow for our obligations;
- our ability to successfully employ our drilling units;
- our ability to procure or have access to financing;
- our expected debt levels;
- our ability to comply with certain covenants in our debt financing agreements;
- credit risks of our key customers;
- political and other uncertainties, including political unrest, risks of terrorist acts, war and civil disturbances, public health threats, piracy, corruption, significant governmental influence over many aspects of local economies, or the seizure, nationalization or expropriation of property or equipment;
- the concentration of our revenues in certain jurisdictions;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- any inability to repatriate income or capital;
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- the operation and maintenance of our drilling units, including complications associated with repairing and replacing equipment in remote locations and maintenance costs incurred while idle;
- newbuildings, upgrades, shipyard and other capital projects, including the completion, delivery and commencement of operation dates;
- import-export quotas;
- wage and price controls and the imposition of trade barriers;
- the recruitment and retention of personnel;
- regulatory or financial requirements to comply with foreign bureaucratic actions, including potential limitations on drilling activity, changing taxation policies and other forms of government regulation and economic conditions that are beyond our control;
- the level of expected capital expenditures, our expected financing of such capital expenditures, and the timing and cost of completion of capital projects;
- fluctuations in interest rates or exchange rates and currency devaluations relating to foreign or U.S. monetary policy;

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- tax matters, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, including those associated with our activities in Bermuda, Brazil, Norway, the United Kingdom and the United States;
- legal and regulatory matters, including the results and effects of legal proceedings, and the outcome and effects of internal and governmental investigations;
- hazards inherent in the drilling industry and marine operations causing personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties or customers and the suspension of operations;
- customs and environmental matters; and
- other important factors described from time to time in the reports filed or furnished by us with the Securities and Exchange Commission, or the Commission, and the New York Stock Exchange, or the NYSE.

We caution readers of this Annual Report not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to update any forward-looking statement or 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, we cannot assess the impact of each such factor on our 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.

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PART 1.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Throughout this Annual Report, unless the context otherwise requires, references to “Seadrill Limited,” “Seadrill,” the “Company,” “we,” “us,” “Group,” “our” and words of similar import refer to Seadrill Limited, its subsidiaries and its other consolidated entities.

References in this Annual Report to “Cosco,” “Samsung,” “DSME,” “Dalian,” “Jurong,” and “HSHI” refer to the shipyards Co (Qidong) Offshore Co. Limited, Samsung Heavy Industries, Daewoo Shipbuilding & Marine Engineering, Dalian Shipbuilding Industry Offshore Co., Ltd.,Jurong Shipyard Pte Ltd., and Hyundai Sambo Heavy Industries Co Ltd. respectively.

Unless otherwise indicated, all references to “US$” and “$” in this Annual Report are to, and amounts are presented in, U.S. dollars. All references to “€” are to euros, all references to “£” or “GBP” are to pounds sterling, all references to “NOK” are to Norwegian kroner and all references to “SEK” are to Swedish kroner.

A. SELECTED FINANCIAL DATA

The selected statement of operations and other financial data of the Company with respect to the fiscal years ended December 31, 2015, 2014 and 2013 and the selected balance sheet data of the Company as of December 31, 2015 and 2014 have been derived from the Company’s consolidated financial statements (the “Consolidated Financial Statements”) included in Item 18 of this Annual Report, which have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”).

The selected statement of operations and other financial data for the fiscal years ended December 31, 2012 and 2011 and the selected balance sheet data as of December 31, 2013, 2012 and 2011 have been derived from the Consolidated Financial Statements of the Company which are not included herein.

The following table should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the Company’s Consolidated Financial Statements and Notes thereto, which are included herein. The Company’s financial statements are maintained in U.S. dollars. We refer you to the Notes to our Consolidated Financial Statements for a discussion of the basis on which our Consolidated Financial Statements are presented.

The Company deconsolidated its investments in Seadrill Partners LLP, or Seadrill Partners, on January 2, 2014, and deconsolidated its investments in SeaMex Limited, or SeaMex, on March 10, 2015. Please see “Item 4. Information on the Company—A. History and Development of the Company” for further information.

	Year ended December 31,				
	2015	2014	2013	2012	2011

		(In millions of U.S. dollars except common share and per share data)			
Statement of Operations Data:					
Total operating revenues	4,335	4,997	5,282	4,478	4,192
Net operating income	1,019	2,279	2,098	1,791	1,774
Net (loss)/income	(750)	4,087	2,786	1,205	1,482
(Loss)/earnings per share, basic	(1.49)	8.32	5.66	2.37	3.05
(Loss)/earnings per share, diluted	(1.49)	8.30	5.47	2.34	2.96
Dividends paid	—	1,415	1,287	1,925	1,440
Dividends paid per share	—	2.98	2.74	4.31	3.14
Dividends declared per share *	—	2.00	3.72	3.51	3.06

* Includes the fourth quarter dividends for 2013, 2011 and 2010 that were declared subsequent to the year end in the first quarter of the following year.

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	Year ended December 31,				
	2015	2014	2013	2012	2011
		(In millions of U.S. dollars except common share and per share data)			
Balance Sheet Data (at end of period):					
Cash and cash equivalents	1,044	831	744	318	483
Drilling units	14,930	15,145	17,193	12,894	11,223
Newbuildings	1,479	2,030	3,419	1,882	2,531
Investment in associated companies	2,590	2,898	140	509	721
Goodwill	—	604	1,200	1,320	1,320
Total assets [(1), (2)]	23,470	26,297	26,048	19,321	18,052
Long-term debt (including current portion) [(2)]	10,543	12,475	13,314	10,663	9,902
Common share capital	985	985	938	938	935
Total equity	9,975	10,390	8,202	6,024	6,302
Common shares outstanding (in millions)	492.8	492.8	469.0	469.2	467.8
Weighted average common shares outstanding (in millions)	492.8	478.0	469.0	468.5	458.6
Other Financial Data:					
Net cash provided by operating activities	1,788	1,574	1,695	1,590	1,669
Net cash (used in)/provided by investing activities	(190)	66	(2,964)	(1,360)	(2,486)
Net cash (used in)/provided by financing activities	(1,370)	(1,521)	1,695	(395)	538
Capital expenditures [(3)]	(1,041)	(3,168)	(4,463)	(1,690)	(2,543)

(1) Historically, the Company presented balances due to/from Ship Finance International Limited (“Ship Finance”) (NYSE: “SFL”) on a gross basis. Beginning on June 30, 2015, the Company has elected to present this on a net basis due to the fact that the right of offset is established in the related long-term loan agreements with Ship Finance, 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 from amounts due from related parties (current assets) to offset against long-term debt due to related parties (non-current liabilities). The total amounts represented were $28 million as of December 31, 2015, $64 million as of December 31, 2014, $100 million as of December 31, 2013, $213 million as of December 31, 2012, and $161 million as of December 31, 2011.

(2) During the year ended December 31, 2015, the Company adopted 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. Accordingly, the previous year’s selected financial data has been represented to reflect the adoption of this ASU. The total amounts represented were $118 million as of December 31, 2015, $145 million as of December 31, 2014, $152 million as of December 31, 2013, $98 million as of December 31, 2012, and $91 million as of December 31, 2011. Please see “Note 2—Accounting policies” of the Notes to our Consolidated Financial Statements included herein.

(3) Capital expenditures include expenditure on our drilling units and newbuildings, as well as payments for long-term maintenance.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Our assets are primarily engaged in offshore contract drilling for the oil and gas industry in benign and harsh environments worldwide, including ultra-deepwater environments. The following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the market and ownership of our securities. The occurrence of any of the events described in this section could materially and negatively affect our business, financial condition, operating results, cash available for the payment of dividends or the trading price of our common shares. Unless otherwise indicated, all information concerning our business and our assets is as of December 31, 2015. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

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Risks Relating to Our Company

Our business in the offshore drilling sector depends on the level of activity in the offshore oil and gas industry, which is significantly affected by, among other things, volatile oil and gas prices, and may be materially and adversely affected by a decline in the offshore oil and gas industry.

The offshore contract drilling industry is cyclical and volatile. Our business in the offshore drilling sector depends on the level of activity in oil and gas exploration, development and production in offshore areas worldwide. The availability of quality drilling prospects, exploration success, relative production costs, the stage of reservoir development, and political and regulatory environments affect our customers' drilling programs. Oil and gas prices and market expectations of potential changes in these prices also significantly affect the level of activity and demand for drilling units.

Oil and gas prices are extremely volatile and are affected by numerous factors beyond our control, including, but not limited to, the following:

- worldwide production and demand for oil and gas and geographical dislocations in supply and demand;
- the cost of exploring for, developing, producing and delivering oil and gas;
- expectations regarding future energy prices and production;
- advances in exploration, development and production technology;
- the ability of the Organization of Petroleum Exporting Countries ("OPEC"), to set and maintain levels and pricing;
- the level of production in non-OPEC countries;
- international sanctions on oil-producing countries, or the lifting of such sanctions;
- government regulations, including restrictions on offshore transportation of oil and natural gas;
- local and international political, economic and weather conditions;
- domestic and foreign tax policies;
- the development and exploitation of alternative fuels and unconventional hydrocarbon production, including shale;
- worldwide economic and financial problems and the corresponding decline in the demand for oil and gas and, consequently, our services;
- the policies of various governments regarding exploration and development of their oil and gas reserves, accidents, severe weather, natural disasters and other similar incidents relating to the oil and gas industry; and
- the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East, eastern Europe or other geographic areas or further acts of terrorism in the United States, Europe or elsewhere.

In addition to oil and gas prices, the offshore drilling industry is influenced by additional factors, including:

- the availability of competing offshore drilling units;
- the availability of debt financing on reasonable terms;
- the level of costs for associated offshore oilfield and construction services;
- oil and gas transportation costs;
- the level of rig operating costs, including crew and maintenance;
- the discovery of new oil and gas reserves;
- the political and military environment of oil and gas reserve jurisdictions; and
- regulatory restrictions on offshore drilling.

Any of these factors could reduce demand for our services and adversely affect our business and results of operations.

The current downturn in activity in the oil and gas drilling industry has had and is likely to continue to have an adverse impact on our business and results of operations.

The oil and gas drilling industry is cyclical, and the industry is currently in a downcycle. The price of Brent crude has fallen from $115 per barrel in June 2014 to a low of $30 per barrel in January 2016. As of March 31, 2016, the price of Brent crude was approximately $39.60 per barrel. The significant decrease in oil and natural gas prices is expected to continue to reduce many of our customers' demand for our services in 2016 due to significant decreases in budgeted expenditures for offshore drilling. Declines in capital spending levels, coupled with additional newbuild supply, have and are likely to continue to put significant pressure on dayrates and utilization. The decline and the perceived risk of a further decline in oil and/or gas prices could cause oil and gas companies to further reduce their overall level of activity or spending, in which case demand for our services may further decline and revenues may continue to be adversely affected through lower drilling unit utilization and/or lower dayrates.

Declines in oil and gas prices for an extended period of time, or market expectations of potential decreases in these prices, have affected and could continue to negatively affect our business in the offshore drilling sector. Sustained periods of low oil prices have resulted in reduced

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exploration and drilling because oil and gas companies' capital expenditure budgets are subject to cash flow from such activities and are therefore sensitive to changes in energy prices. As a result of the low commodity prices, the majority of exploration and production companies have announced 2016 capital expenditure budgets with significant reductions in capital spending from prior years. These changes in commodity prices can have a dramatic effect on rig demand, and periods of low demand can cause excess rig supply and intensify the competition in the industry that often results in drilling units, particularly older and less technologically advanced drilling units, being idle for long periods of time. We cannot predict the future level of demand for our services or future conditions in the oil and gas industry. In response to the recent decrease in the prices of oil and gas, a number of our oil and gas company customers have recently announced decreases in budgeted expenditures for offshore drilling. Any future decrease in exploration, development or production expenditures by oil and gas companies could reduce our revenues and materially harm our business and results of operations.

We may not be able to set profitable utilization and dayrates or delay entry of newbuild drilling units into our active fleet.

During the recent period of high utilization and high dayrates, which we believe ended in early 2014, industry participants ordered the construction of new drilling units, which resulted in an over-supply and caused, in conjunction with deteriorating industry conditions, a subsequent decline in utilization and dayrates when the new drilling units entered the market. A relatively large number of the drilling units currently under construction have not been contracted for future work, and a number of units in the existing worldwide fleet are currently off-contract.

The over-supply of drilling units will be exacerbated by the entry of newbuild rigs into the market. We estimate that approximately 46 high-specification rigs are scheduled for delivery and entry into the global fleet between early 2016 and late 2018, many of which are without firm drilling contracts. The supply of available uncontracted units has intensified price competition as scheduled delivery dates occur and contracts terminate without renewal, reducing dayrates as the active fleet grows.

We currently have 13 rigs under construction comprised of four drillships, one semi-submersible rig and eight jack-up rigs. Of the rigs under construction, none have drilling contracts that commence upon delivery. We have reached agreements with Cosco, Samsung, DSME and Dalian to delay taking delivery of all the drilling units in our newbuilding program. In addition, North Atlantic Drilling Ltd. ("NADL"), our consolidated subsidiary, has agreed with Jurong to, among other things, delay taking delivery of the West Rigel until June 2016, at which point, if NADL has not secured acceptable employment for the rig, it will be sold into a joint asset holding company with Jurong. There is no assurance that we will be able to further delay the delivery of our newbuildings that do not have associated drilling contracts.

If we are unable to secure contracts for our drilling units, including for when newbuildings are delivered to us and upon the expiration of our existing contracts, we may continue to idle or stack our units. When idled or stacked, drilling units do not earn revenues, but continue to require cash expenditures for crews, fuel, insurance, berthing and associated items. As of March 31, 2016, we had twelve units either "warm stacked," which means the rig is kept operational and ready for redeployment, and maintains most of its crew, or "cold stacked," which means the rig is stored in a harbor, shipyard or a designated offshore area, and the crew is reassigned to an active rig or dismissed. Please see "—Our operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues." If our lenders are not confident that we are able to employ our assets, we may be unable to secure additional financing on terms acceptable to us or at all for the remaining installment payments we are obligated to make before the delivery of our remaining newbuildings and our other capital requirements, including principal repayments.The supply of available uncontracted units is intensifying price competition as scheduled delivery and re-delivery dates occur and additional contracts terminate without renewal, which will continue to reduce dayrates as the active fleet grows. Rig owners are bidding for available work extremely competitively with a focus on utilization over returns, which has driven rates down to or below cash breakeven levels. Any reductions in drilling activity by our customers may not be uniform across different geographic regions. Locations where costs of drilling and production are relatively higher, such as Arctic or deepwater locations, may be subject to greater reductions in activity. Such reductions in high cost regions may lead to the relocation of drilling units, increasing the supply of available drilling units in regions with relatively fewer reductions in activity. To maintain the continued employment of our units, we may also accept contracts at lower dayrates or on less favorable terms due to market conditions. In addition, customers have requested and may in the future request the renegotiation of existing contracts to lower dayrates. In an over-supplied market, we may have limited bargaining power to renegotiate on more favorable terms. Lower utilization and dayrates have affected and will adversely affect our revenues and profitability.

Our customers may seek to cancel or renegotiate their contracts at rates that are not profitable for us.

In the current environment our customers may seek to cancel or renegotiate our contracts using various techniques, including threatening breaches of contract and applying commercial pressure, resulting in lower dayrates or the cancellation of contracts with or without any applicable early termination payments. For example, on March 30, 2015, Sevan Drilling Limited (“Sevan”) and Brasiliero S.A. (“Petrobras”) agreed to terminate early the drilling contracts for the Sevan Driller and to reduce the contracted dayrate relating to the drilling contract for the Sevan Brasil, and on March 23, 2016, we extended the contract for the West Tellus with Petrobras by 18 months in exchange for a dayrate reduction on the current contract. In addition, on February 8, 2016, we secured a new drilling contract in Angola for the West Eclipse, which is expected to commence in the second quarter of 2016. The contract is for a firm period of two years and adds backlog of approximately $285 million inclusive of mobilization. As part of this agreement, the backlog for the West Polaris has been decreased by approximately $95 million, which reduces the contingent consideration that we receive from Seadrill Partners, following the sale of the West Polaris to Seadrill Partners in June 2015.

The possible termination or loss of contracts, prolonged periods of low dayrates and reduced values of our drilling units could negatively impact our ability to comply with certain financial covenants under the terms of our debt agreements. Our ability to comply with these restrictions and covenants, including meeting financial ratios and tests, is dependent on our future performance and may be affected by events beyond our control. If a default occurs under these agreements, lenders could terminate their commitments to lend or in some circumstances accelerate the outstanding loans and declare all amounts borrowed due and payable. In addition, our existing debt agreements contain cross-default provisions. In the event

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of a default by us under one of our debt agreements, the lenders under our other existing debt agreements could determine that we are in default under our other financing agreements. This could lead to an acceleration and enforcement of such agreements by our lenders. Please see "—We may be unable to comply with covenants in our credit facilities or any future financial obligations that impose operating and financial restrictions on us, which could result in a default under the terms of these agreements, which could accelerate our repayment of funds that we have borrowed" and "—Failure to comply with covenants and other provisions in our existing or future debt agreements could result in cross-defaults under our existing debt agreements, which would have a material adverse effect on us."

We do not know when the market for offshore drilling units may recover, or the nature or extent of any future recovery. There can be no assurance that the current demand for drilling rigs will not further decline in future periods. The continued or future decline in demand for drilling rigs would adversely affect our financial position, operating results and cash flows.

We may not be able to renew or obtain new and favorable contracts for drilling units with expiring or terminated contracts, which could adversely affect our revenues and profitability.

As of March 31, 2016, we had 12 contracts that expire in 2016, eight contracts that expire in 2017, six contracts that expire in 2018, and three contracts that expire in 2019. Our ability to renew existing contracts or obtain new contracts will depend on the prevailing market conditions, which may vary among different geographic regions, different types of drilling units, and specific customers. Likewise, our customers may reduce their activity levels or seek to terminate or renegotiate drilling contracts with us. If we are not able to obtain new contracts in direct continuation, or if new contracts are entered into at dayrates substantially below the existing dayrates or on terms otherwise less favorable compared to existing contracts terms, our revenues and profitability could be adversely affected. We may also be required to accept more risk in areas other than price to secure a contract which risk we may be unable to push down to other contractors, are unable or unwilling at competitive prices to insure against and which therefore have to be managed by applying other controls.

The offshore drilling markets in which we compete experience fluctuations in the demand for drilling services, as measured by the level of exploration and development expenditures and supply of capable drilling equipment. Upon the expiration or termination of their current contracts, we may not be able to obtain contracts for our drilling units and there may be a gap in employment of the rigs between current contracts and subsequent contracts. In particular, if, as is presently the case, oil and natural gas prices are low, or it is expected that such prices will decrease in the future, at a time when we are seeking to arrange contracts for our drilling units, we may not be able to obtain drilling contracts at attractive dayrates or at all.

If the dayrates that we receive for the re-employment of our current drilling units are less favorable, we will recognize less revenue from their operations. Our ability to meet our cash flow obligations will depend on our ability to consistently secure drilling contracts for our drilling units at sufficiently high dayrates. We cannot predict the future level of demand for our services or future conditions in the oil and gas industry. If oil and gas prices remain low and/or if companies do not continue to maintain or increase exploration, development and production expenditures, we may have difficulty securing drilling contracts, or we may be forced to enter into contracts at unattractive dayrates, which would have a material adverse effect on our financial position, results of operations and cash flows.

Our contract backlog for our fleet of drilling units may not be realized.

As of March 31, 2016, our contract backlog was approximately $4.8 billion. The contract backlog presented in this Annual Report and our other public disclosures is only an estimate. The actual amount of revenues earned and the actual periods during which revenues are earned will be different from the contract backlog projections due to various factors, including shipyard and maintenance projects, downtime and other events within or beyond our control. In addition, we or our customers may seek to cancel or renegotiate our contracts for various reasons, including adverse conditions, such as the current environment, resulting in lower dayrates. For example, we cancelled the construction contract for the West Mira due to the shipyard's inability to deliver the unit within the timeframe required under the contract, resulting in the termination of the drilling contract with Husky Oil Operations Limited ("Husky") with an estimated contract backlog of approximately $1 billion. Additionally, on March 30, 2015, Sevan Drilling and Petrobras agreed to terminate early the drilling contract for the Sevan Driller contract and to reduce the contracted dayrate relating to the drilling contract for the Sevan Brasil, which decreased the contract backlog by approximately $127 million. Subsequent to the effective cancellation of the Sevan Driller contract the unit was awarded a contract by Shell do Brasil ("Shell") in Brazil for 60 days. Further, on March 23, 2016, we extended the contract for the West Tellus with Petrobras by 18 months in exchange for a dayrate reduction on the current contract, resulting in an increase in contract backlog of $32 million. Our inability, or the inability of our customers to perform, under our or their contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

The market value of our current drilling units and those we acquire in the future may decrease, which could cause us to incur losses if we decide to sell them following a decline in their market values.

During 2015, the estimated fair value of our drilling units, based upon various broker valuations, has decreased by approximately 20%. If the offshore contract drilling industry suffers further adverse developments in the future, the fair market value of our drilling units may decline further. The fair market value of the drilling units that we currently own, or may acquire in the future, may increase or decrease depending on a number of factors, including:

- the general economic and market conditions affecting the offshore contract drilling industry, including competition from other offshore contract drilling companies;
- the types, sizes and ages of drilling units;
- the supply and demand for drilling units;

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- the costs of newbuildings;
- the prevailing level of drilling services contract dayrates;
- governmental or other regulations; and
- technological advances.

Additionally, if we sell one or more of our drilling units at a time when drilling unit prices have fallen and before we have recorded an impairment adjustment to our Consolidated Financial Statements, the sale price may be less than the drilling unit's carrying value in our Consolidated Financial Statements, resulting in a loss and a reduction in earnings. Furthermore, if drilling unit values fall significantly, we may have to record an impairment adjustment in our Consolidated Financial Statements, which could adversely affect our financial results and condition. Please also see "—The current downturn in activity in the oil and gas drilling industry has had and is likely to continue to have an adverse impact on our business and results of operations."

The market value of our drilling units may fall, which may impact our ability to incur additional indebtedness. Please see "—We may not have sufficient liquidity to service our debt or flexibility to obtain additional financing and pursue other business opportunities" below. If the market value of our drilling units falls, we may also be required to, among other things, make prepayments on certain of our secured credit facilities, which may adversely impact our liquidity. Please see "—We may be unable to comply with covenants in our credit facilities or any future financial obligations that impose operating and financial restrictions on us, which could result in a default under the terms of these agreements, which could accelerate our repayment of funds that we have borrowed."

A reduction in the market value of our drilling units or investments in other companies within our industry could lead to the recognition of further impairment charges on, among other things, our drilling units if future cash flow estimates, based on information available to management at the time, indicates that the carrying value of these drilling units or goodwill may not be recoverable. In addition, if the market value of our drilling units decreases, and we sell any drilling unit at a time when prices for drilling units have fallen, such a sale may result in a loss, which would negatively affect our results of operations. Please see "—The decreasing value of our drilling units could result in impairment charges or impact our ability to incur debt under our debt financing agreements."

The decreasing value of our drilling units could result in impairment charges or impact our ability to incur debt under our debt financing agreements.

During the year ended December 31, 2015 we recognized a charge of $563 million relating to the impairment of goodwill allocated to our floater segment, in addition to other impairment charges related to certain investments due to declining dayrates and future market expectations for dayrates in the sector. These have been trending lower as a result of the recent continued decline in the price of oil, which has impacted the spending plans of our customers. In the future, we may be required to record additional impairment charges to our investments or other assets. Such impairment charges could have a material adverse effect on our financial performance or results of operations. In addition, such impairment charges could adversely impact our ability to comply with the restrictions and covenants in our debt agreements, including meeting financial ratios and tests in those agreements. For example, under our secured bank credit facilities, we may be required to comply with loan-to-value or minimum-value-clauses, which could require us to post additional collateral or prepay a portion of the outstanding borrowings should the value of the drilling units securing borrowings under each of such agreements decrease below required levels. If we are unable to comply with the restrictions and covenants in the agreements governing our indebtedness or in current or future debt financing agreements, a default could occur under the terms of those agreements.

We may not have sufficient liquidity to service our debt or flexibility to obtain additional financing and pursue other business opportunities.

As of December 31, 2015, we had $11.1 billion in principal amount of interest-bearing debt (including related party debt of $0.4 billion), representing approximately 663% of our total market capitalization, of which $8.3 billion was secured by, among other things, liens on our drilling units. Our current indebtedness and future indebtedness that we may incur could affect our future operations, since a portion of our cash flow from operations will be dedicated to the payment of interest and principal on such debt and will not be available for other purposes. Covenants contained in our debt agreements require us to meet certain financial tests and non-financial tests, which may affect our flexibility in planning for, and reacting to, changes in our business or economic conditions, may limit our ability to dispose of assets or place restrictions on the use of proceeds from such dispositions, withstand current or future economic or industry downturns, and compete with others in our industry for strategic opportunities, and may limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes.

Our ability to meet our debt service obligations and to fund planned expenditures, including construction costs for our newbuilding projects, will be dependent upon our future performance, which will be subject to prevailing economic conditions, industry cycles and financial, business, regulatory and other factors affecting our operations, many of which are beyond our control. Our future cash flows may be insufficient to meet all our debt obligations and contractual commitments, and any insufficiency could negatively impact our business. To the extent that we are unable to repay our indebtedness as it becomes due or at maturity, we may need to refinance our debt, raise new debt, sell assets or repay the debt with the proceeds from equity offerings. Additional indebtedness or equity financing may not be available to us in the future for the refinancing or repayment of existing indebtedness, and we may not be able to complete asset sales in a timely manner sufficient to make such repayments. Please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.”

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We may be unable to comply with covenants in our credit facilities or any future financial obligations that impose operating and financial restrictions on us, which could result in a default under the terms of these agreements, which could accelerate our repayment of funds that we have borrowed.

Our debt agreements impose operating and financial restrictions on us, which may prohibit or otherwise limit our ability to, among other things:

- enter into other financing arrangements;
- incur additional indebtedness;
- create or permit liens on our assets;
- sell our drilling units or the shares of our subsidiaries;
- make investments;
- change the general nature of our business;
- pay dividends to our shareholders;
- change the management and/or ownership of the drilling units;
- make capital expenditures; and
- compete effectively to the extent our competitors are subject to less onerous restrictions.

Therefore, we may need to seek consent from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we may not be able to obtain our lenders' consent when needed. This may limit our ability to finance our future operations or capital requirements, make acquisitions or pursue business opportunities.

In addition, certain of our debt agreements require us to maintain specified financial ratios and to satisfy financial covenants, including ratios and covenants that pertain to, among other things, our total equity, our total indebtedness and the market value of our drilling units. We may seek and obtain waivers or amendments from our lenders with respect to these financial covenants contained in our debt agreements. For example, in May 2015, we agreed with our lenders to amend the leverage ratio covenant under our senior secured credit facilities until January 1, 2017, and as a result, so long as the amended ratio is in effect, we are restricted from, among other things, paying dividends and repurchasing our own shares. Further, under certain of these loan agreements, our indebtedness thereunder may be subject to an additional interest margin. In addition, in April 2016, we agreed with our lenders, among other things, to amend the equity ratio, leverage ratio, minimum value clauses, and minimum liquidity under our secured credit facilities until June 30, 2017.

If we are unable to comply with any of the restrictions and covenants in our debt agreements, or in current or future debt financing agreements, and we are unable to obtain a waiver or amendment from our lender for such noncompliance, a default could occur under the terms of those agreements. Our ability to comply with these restrictions and covenants, including meeting financial ratios and tests, is dependent on our future performance and may be affected by events beyond our control. If a default occurs under these agreements, lenders could terminate their commitments to lend or in some circumstances accelerate the outstanding loans and declare all amounts borrowed due and payable. Our drilling units serve as security for our commercial bank indebtedness. If our lenders were to foreclose their liens on our drilling units in the event of a default, this may impair our ability to continue our operations. As of December 31, 2015, we had $8.3 billion of interest-bearing debt secured by, among other things, liens on our drilling units. In addition, all of our loan agreements contain cross-default provisions, meaning that if we are in default under one of our loan agreements, amounts outstanding under our other loan agreements may also be in default, accelerated and become due and payable. We also consolidate certain subsidiaries of Ship Finance into our financial statements as variable interest entities ("VIEs"). To the extent that the VIEs may default under their indebtedness and their debt becomes classified as current in their financial statements, we would in turn make such indebtedness current in our Consolidated Financial Statements. The characterization of the indebtedness in our financial statements as current may adversely impact our compliance with the covenants contained in our existing and future debt agreements. In addition, Seadrill Partners has joint obligations with us under certain of our existing debt agreements. Furthermore, we are guarantor under Seadrill Partners' $420 million senior secured credit facility relating to the West Polaris. In the event Seadrill Partners defaults under its indebtedness, such default could trigger the cross-default provisions in our other debt agreements. If any of these events occur, we cannot guarantee that our assets will be sufficient to repay in full all of our outstanding indebtedness, and we may be unable to find alternative financing. Even if we could obtain alternative financing, that financing might not be on terms that are favorable or acceptable to us.

Moreover, in connection with any further waivers of or amendments to our credit facilities that we may obtain, our lenders may impose additional operating and financial restrictions on us or modify the terms of our existing credit facilities. These restrictions may further restrict our ability to, among other things, pay dividends, repurchase our common shares, make capital expenditures or incur additional indebtedness, including through the issuance of guarantees. Please see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources."

Failure to comply with covenants and other provisions in our existing or future debt agreements could result in cross-defaults under our existing debt agreements, which would have a material adverse effect on us.

Our existing debt agreements contain cross-default provisions that may be triggered if we default under the terms of our existing or future financing agreements. In the event of a default by us under one of our debt agreements, the lenders under our existing debt agreements could determine that we are in default under our other financing agreements. In addition, certain subsidiaries of Seadrill Partners have joint obligations with our subsidiaries under some of our existing debt agreements, and certain subsidiaries of Seadrill Partners have provided guarantees and collateral in relation to certain of our debt agreements in which they have a financial interest. Furthermore, we are guarantor under Seadrill Partners' $420 million senior secured credit facility relating to the West Polaris. In the event that the subsidiaries of Seadrill Partners default

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under their indebtedness, such default could trigger the cross-default provisions in our existing debt agreements or future debt agreements. Such cross-defaults could result in the acceleration of the maturity of such debt under these agreements and the lenders thereunder may foreclose upon any collateral securing that debt, including our drilling units, even if we were to subsequently cure such default. In the event of such acceleration and foreclosure, we might not have sufficient funds or other assets to satisfy all of our obligations, which would have a material adverse effect on our business, results of operations and financial condition for so long as such default is continuing.

Certain of our affiliated companies may be unable to service their debt requirements and comply with the provisions contained in their loan agreements, which would have a material adverse effect on us.

The failure of certain of our affiliated companies, including our majority-owned subsidiaries, NADL, Asia Offshore Drilling ("AOD") and Sevan, certain subsidiaries of Ship Finance that we consolidate in our financial statements as VIEs and Seadrill Partners and certain subsidiaries of Seadrill Partners, which are borrowers under our $440 million secured credit facility, to service their debt requirements and to comply with the provisions contained in their debt agreements may lead to an event of default under such agreements, which would have a material adverse effect on us.

If a default occurs under the debt agreements of our affiliated companies, the lenders could accelerate the outstanding borrowings and declare all amounts outstanding due and payable. In this case, if such entities are unable to obtain a waiver or an amendment to the applicable provisions of the debt agreements, or do not have enough cash on hand to repay the outstanding borrowings, the lenders may, among other things, foreclose their liens on the drilling units and other assets securing the loans, if applicable, or seek repayment of the loan from such entities. In addition, with respect to NADL's debt, which we have guaranteed, and in the case of our $440 million secured credit facility under which we are jointly and severally liable together with Seadrill Partners and certain of their subsidiaries, such lenders may seek repayment from us for which we may not have sufficient funds. Furthermore, to the extent such debt becomes classified as "current" in the financial statements of our affiliated companies, we may be required under applicable accounting standards to mark such indebtedness as "current" in our consolidated financial statements. The characterization of the indebtedness in our financial statements as "current" may, among other things, adversely impact our compliance with the covenants contained in our existing and future debt agreements.

In addition, our debt agreements contain cross-default provisions that may be triggered if the entities described above default under the terms of their debt agreements. In the event of a default by such entities under any of its debt agreements, the lenders under our debt agreements could determine that we are in default under our debt agreements. Such cross-defaults could result in the acceleration of the maturity of the debt under our agreements and our lenders may foreclose upon any collateral securing that debt, including our drilling units and other assets, even if such default was subsequently cured. In the event of such acceleration and foreclosure, we will not have sufficient funds or other assets to satisfy all of our obligations.

The occurrence of any of the events described above would have a material adverse effect on our business, results of operations and financial condition, would significantly reduce our ability or make us unable to pay dividends to our shareholders for so long as such default is continuing, and may impair our ability to continue as a going concern.

We may not be able to raise equity or debt financing sufficient to pay the cost of all of our newbuilding drilling units, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business is capital intensive and, to the extent we do not generate sufficient cash from operations, we may need to raise additional funds through public or private debt or equity offerings to fund our capital expenditures. Our ability to access the capital markets may be limited by our financial condition at the time, by changes in laws and regulations or interpretations thereof and by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control.

Borrowings under our current credit facilities, which are subject to certain conditions, and available cash on hand are not sufficient to pay the remaining installments related to our contracted commitments of all of our newbuilding drilling units, which as of March 31, 2016 was $4.0 billion. If we are not able to borrow additional funds, raise other capital or utilize available cash on hand, we may not be able to acquire these drilling units, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. If for any reason we fail to make a payment when due under our newbuilding contracts, which may result in a default under our newbuilding contracts, or otherwise fail to take delivery of our newbuild units, we would be prevented from realizing potential revenues from these projects, we could also lose all or a portion of our yard payments that were paid by us, which as of March 31, 2016 amounted to $0.8 billion, and we could be liable for penalties and damages under such contracts. Following such potential defaults we would also be exposed under cross-default provisions in our loan financing agreements.

Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Please also see "—We may be subject to litigation, arbitration and other proceedings that could have an adverse effect on us" and "—The current downturn in activity in the oil and gas drilling industry has had and is likely to continue to have an adverse impact on our business and results of operations."

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We rely on a small number of customers.

Our contract drilling business is subject to the risks associated with having a limited number of customers for our services. As of December 31, 2015, our five largest customers accounted for approximately 70% of our future contracted revenues, or contract backlog. Our results of operations could be materially adversely affected if any of our major customers fail to compensate us for our services, terminate our contracts with or without cause, fail to renew our existing contracts or refuse to award new contracts to us and we are unable to enter into contracts with new customers at comparable dayrates.

We are exposed to the credit risks of our key customers and certain other third parties, and nonpayment by these customers and other parties could adversely affect our financial position, results of operations and cash flows.

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers and certain other third parties. Some of these customers and other parties may be highly leveraged and subject to their own operating and regulatory risks. If any key customers or other parties default on their obligations to us, our financial results and condition could be adversely affected. Any material nonpayment or nonperformance by these entities, other key customers or certain other third parties could adversely affect our financial position, results of operations and cash flows.

Our international operations in the offshore drilling sector involve additional risks, which could adversely affect our business.

We operate in various regions throughout the world. As a result of our international operations, we may be exposed to political and other uncertainties, including risks of:

- terrorist acts, armed hostilities, war and civil disturbances;
- acts of piracy, which have historically affected ocean-going vessels;
- significant governmental influence over many aspects of local economies;
- the seizure, nationalization or expropriation of property or equipment;
- the repudiation, nullification, modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- political unrest;
- foreign and U.S. monetary policy and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls, and the imposition of trade barriers;
- U.S. and foreign sanctions or trade embargoes;
- regulatory or financial requirements to comply with foreign bureaucratic actions;
- changing taxation policies, including confiscatory taxation;
- other forms of government regulation and economic conditions that are beyond our control; and
- governmental corruption.

In addition, international contract drilling operations are subject to various laws and regulations of the countries in which we operate, including laws and regulations relating to:

- the equipping and operation of drilling units;
- the repatriation of foreign earnings and exchange controls;
- oil and gas exploration and development;
- the taxation of offshore earnings and the earnings of expatriate personnel; and
- the use and compensation of local employees and suppliers by foreign contractors.

Some foreign governments favor or effectively require (i) the awarding of drilling contracts to local contractors or to drilling rigs owned by their own citizens, (ii) the use of a local agent or (iii) foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These practices may adversely affect our ability to compete in those regions. It is difficult to predict what governmental regulations may be enacted in the future that could adversely affect the international drilling industry. The actions of foreign governments, including initiatives by OPEC, may adversely affect our ability to compete. Failure to comply with applicable laws and regulations, including those relating to sanctions and export restrictions, may subject us to criminal sanctions or civil remedies, including fines, the denial of export privileges, injunctions or seizures of assets.

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions and uncertainties, could adversely affect our Brazilian operations, our financial results and the market for our common shares.

In the years ended December 31, 2015, 2014 and 2013, 19%, 20% and 16%, respectively, of our revenues were derived from our Brazilian operation, particularly from our contract with Petrobras Brasileiro S.A., a national oil company customer, or Petrobras. The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition and results of operations may be adversely affected by changes in policy or regulations at the federal, state or municipal levels involving or affecting factors such as interest rates, monetary policy, currency fluctuations, inflation, the liquidity of domestic capital and lending markets, tax policies, changes in labor laws, the regulatory environment of our industry, exchange rates and exchange controls, and restrictions on remittances abroad, such as those that were briefly imposed in 1989 and early 1990; and other political, social and economic developments in or affecting Brazil.

In addition, current political conditions in Brazil may affect the confidence of investors and the public in general as well as the development of the economy. Uncertainty with regard to matters such as the presidential administration's future policies and appointments to influential governmental positions and ongoing investigations into allegations of corruption in state-controlled enterprises may also affect the confidence of investors and the general public.

Currently, Brazilian markets are experiencing heightened volatility due to the uncertainties derived from the ongoing Lava Jato investigation, being conducted by the Office of the Brazilian Federal Prosecutor, and its impact on the Brazilian economy and political environment. Certain of these companies are also facing investigations by the Brazilian Securities Commission (Comissão de Valores Mobiliários) ("CVM") and the Commission. Members of the Brazilian federal government and of the legislative branch, as well as senior officers of large state-owned companies, have faced allegations of political corruption, since they have allegedly accepted bribes by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas, and construction companies. The profits of these kickbacks allegedly financed the political campaigns of political parties of the current federal government coalition that were unaccounted for or not publicly disclosed and served to personally enrich the recipients of the bribery scheme. The potential outcome of these investigations is uncertain, but they have already an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. We cannot predict whether such allegations will lead to further political and economic instability or whether new allegations against government officials will arise in the future. In addition, we cannot predict the outcome of any such allegations or their effect on the Brazilian economy.

In the year ended December 31, 2015, Petrobras was our largest customer, accounting for approximately 19% of our revenues. On June 29, 2015, Sevan Drilling disclosed that it had initiated an internal investigation into activities with an agent under certain drilling contracts with Petrobras in Brazil, which were entered prior to the separation from the Sevan Marine Group. Please see "Item 8. Financial Information—Legal Proceedings—Other matters." In addition, on March 30, 2016, Sevan Drilling and Petrobras terminated early the Sevan Driller contract and reduced the contract dayrate on the drilling contract for the Sevan Brasil. Subsequent to the effective cancellation of the Sevan Driller contract the unit was awarded a contract by Shell in Brazil for 60 days. The combined impact of the cancellation, reduction and new award is a decrease in contract backlog of approximately $127 million.

We cannot assure you that these and other developments in Brazil's political conditions, economy and government policies will not, directly or indirectly, adversely affect our business and results of operations.

Newbuilding projects and surveys are subject to risks that could cause delays or cost overruns.

As of March 31, 2016, we had an outstanding newbuilding order book with various yards for an additional 13 drilling units with corresponding contractual yard and other payment commitments totaling $4.0 billion. These construction projects are subject to risks of delay or cost overruns inherent in any large construction project from numerous factors, including shortages of equipment, materials or skilled labor, unscheduled delays in the delivery of ordered materials and equipment or shipyard construction, the failure of equipment to meet quality and/or performance standards, financial or operating difficulties experienced by equipment vendors or the shipyard, unanticipated actual or purported change orders, the inability to obtain required permits or approvals, unanticipated cost increases between order and delivery, design or engineering changes, and work stoppages and other labor disputes, adverse weather conditions or any other events of force majeure, terrorist acts, war, piracy or civil unrest. Significant cost overruns or delays could adversely affect our financial position, results of operations and cash flows. Additionally, failure to complete a project on time may result in the delay of revenue from that rig. For example, on September 14, 2015, we cancelled the construction contract for the West Mira due to the shipyard’s inability to deliver the unit within the timeframe required under the contract, which thereby caused Husky to terminate the five-year drilling contract for the unit with us. In respect of the cancelled construction contract, the shipyard is seeking damages for wrongful termination of the contract, which we reject, and we are counter-claiming damages including for the installment prepaid by us. If we lose, our damages will include the difference in value between the contract price for the rig and the market value of the rig. New drilling rigs may also experience start-up difficulties following delivery or other unexpected operational problems that could result in uncompensated downtime, which also could adversely affect our financial position, results of operations and cash flows or the cancellation or termination of drilling contracts.

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Failure to secure a drilling contract prior to delivery of our newbuilding drilling rigs could adversely affect our results of operations.

We have entered into agreements with various shipbuilding yards in Singapore, South Korea and China for the construction of 13 new drilling units consisting of drillships, semi-submersible rigs and jack-up rigs. We have not yet secured any drilling contracts on these newbuilding drilling units. Historically, the industry has at times experienced periods of overcapacity, during which many rigs were idle for a period of time. Our failure to secure a drilling contract for any newbuild drilling units prior to their delivery could adversely affect our cash flows and results of operations. In addition, in the event we are unable to secure a contract for any newbuild drilling units prior to their delivery we may not be able to obtain financing for such drilling units, or we may not be able to obtain financing in the amounts or on the terms that we have obtained financing for other drilling units in the past. We have reached agreements with the shipyards Cosco, Samsung, DSME and Dalian to delay our taking delivery of all the drilling units in our newbuild program, and NADL, our consolidated subsidiary, agreed with Jurong to , among other things, delay taking delivery of the West Rigel until June 2016. There is no assurance that we will be able to further delay taking delivery of our newbuilding drilling rigs that do not have associated drilling contracts. To the extent we delay taking delivery of, or fail to take delivery of, our newbuilding drilling rigs, we would be prevented from realising potential revenues from these units, which would adversely affect our financial position, results of operations and cash flows.

Some of our offshore drilling contracts may be terminated early due to certain events.

Some of our customers have the right to terminate their drilling contracts without cause upon the payment of an early termination fee. The general principle is that such early termination fee shall compensate us for lost revenues less operating expenses for the remaining contract period; however, in some cases, such payments may not fully compensate us for the loss of the drilling contract. Under certain circumstances our contracts may permit customers to terminate contracts early without the payment of any termination fees, as a result of nonperformance, periods of downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events beyond our control. In addition, national oil company customers may have special termination rights by law. During periods of challenging market conditions, we may be subject to an increased risk of our customers seeking to repudiate their contracts, including through claims of nonperformance. Our customers' ability to perform their obligations under their drilling contracts with us may also be negatively impacted by the prevailing uncertainty surrounding the development of the world economy and the credit markets. If our customers cancel some of our contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, the events could adversely affect our consolidated statement of financial position, results of operations or cash flows.

The provisions of the majority of our offshore rig contracts that are term contracts at fixed dayrates may not permit us fully to recoup our costs in the event of a rise in our expenses.

The average remaining contract length as of March 31, 2016, was 1.5 years for our floaters and one year for our jack-up rigs. The majority of these contracts have dayrates that are fixed over the contract term. In order to mitigate the effects of inflation on revenues from term contracts, most of our long-term contracts include escalation provisions. These provisions allow us to adjust the dayrates based on stipulated cost increases, including wages, insurance and maintenance costs. However, actual cost increases may result from events or conditions that do not cause correlative changes to the applicable indices. Furthermore, certain indices are updated semiannually, and therefore may be outdated at the time of adjustment. The adjustments are typically performed on a semi-annual or annual basis. For these reasons, the timing and amount awarded as a result of such adjustments may differ from our actual cost increases, which could adversely affect our financial performance. Some of our long-term contracts contain rate adjustment provisions based on market dayrate fluctuations rather than cost increases. In such contracts, the dayrate could be adjusted lower during a period when costs of operation rise, which could adversely affect our financial performance. Shorter-term contracts normally do not contain escalation provisions. In addition, our contracts typically contain provisions for either fixed or dayrate compensation during mobilization. These rates may not fully cover our costs of mobilization, and mobilization may be delayed, increasing our costs, without additional compensation from the customer, for reasons beyond our control.

Our operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues.

Our operating expenses and maintenance costs depend on a variety of factors, including crew costs, provisions, equipment, insurance, maintenance and repairs, and shipyard costs, many of which are beyond our control and affect the entire offshore drilling industry. During periods after which a rig becomes idle, we may decide to “warm stack” the rig, which means the rig is kept fully operational and ready for redeployment, and maintains most of its crew. As a result, our operating expenses during a warm stacking will not be substantially different from those we would incur if the rig remained active. We may also decide to “cold stack” the rig, which the means the rig is stored in a harbor, shipyard or a designated offshore area, and the crew is reassigned to an active rig or dismissed. However, reductions in costs following the decision to cold stack a rig may not be immediate, as a portion of the crew may be required to prepare the rig for such storage. Moreover, as our drilling rigs are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly. Operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues. Operating revenues may fluctuate as a function of changes in supply of offshore drilling units and demand for contract drilling services, which in turn, affect dayrates, and the economic utilization and performance of our fleet of drilling units. However, our operating costs are generally related to the number of units in operation and the cost level in each country or region where the units are located. In addition, equipment maintenance costs fluctuate depending upon the type of activity that the unit is performing and the age and condition of the equipment. In connection with new assignments, we might incur expenses relating to preparation for operations under a new contract. Expenses may vary based on the scope and length of such required preparations and the duration of the contractual period over which such expenditures are amortized. In situations where our drilling units incur idle time between assignments, the opportunity to reduce the size of our crews on those drilling units is limited, as the crews will be engaged in preparing the unit for its next contract. When a unit faces longer idle periods, reductions in costs may not be immediate as some of the crew may be required to

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prepare drilling units for stacking and maintenance in the stacking period. Should units be idle for a longer period, we will seek to redeploy crew members, who are not required to maintain the drilling unit, to active rigs, to the extent possible. However, there can be no assurance that we will be successful in reducing our costs in such cases.

Competition within the offshore drilling industry may adversely affect our results of operations and financial condition.

The offshore drilling industry is highly competitive and fragmented and includes several large companies that compete in many of the markets we serve, as well as numerous small companies that compete with us on a local basis. Offshore drilling contracts are generally awarded on a competitive bid basis or through privately negotiated transactions. In determining which qualified drilling contractor is awarded a contract, the key factors are pricing, rig availability, rig location, the condition and integrity of equipment, its record of operating efficiency, including high operating uptime, technical specifications, safety performance record, crew experience, reputation, industry standing and customer relations. Our operations may be adversely affected if our current competitors or new market entrants introduce new drilling rigs with better features, performance, prices or other characteristics compared to our drilling rigs, or expand into service areas where we operate. In addition, mergers among oil and gas exploration and production companies have reduced, and may from time to time further reduce the number of available customers, which would increase the ability of potential customers to achieve pricing terms favorable to them.

The offshore drilling industry has historically been cyclical and is impacted by oil and gas price levels and volatility. There have been periods of high demand, short rig supply and high dayrates, followed by periods of low demand, excess rig supply and low dayrates. Changes in oil and gas prices can have a dramatic effect on rig demand, and periods of excess rig supply may intensify competition in the industry and result in the idling of drilling units. We have idled and stacked rigs, and may in the future idle or stack additional rigs or enter into lower dayrate drilling contracts in response to market conditions. We cannot predict when or if any idled or stacked rigs will return to service.

Competitive pressures and other factors may result in significant price competition, particularly during industry downturns, which could have a material adverse effect on our results of operations and financial condition.

An economic downturn could have a material adverse effect on our revenue, profitability and financial position.

We depend on our customers' willingness and ability to fund operating and capital expenditures to explore, develop and produce oil and gas, and to purchase drilling and related equipment. There has historically been a strong link between the development of the world economy and the demand for energy, including oil and gas. The world economy is currently facing a number of challenges. Concerns persist regarding the debt burden of certain eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for oil and natural gas and for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, results of operations and cash available for distribution. This includes uncertainty surrounding the sovereign debt and credit crises in certain European countries. In addition, turmoil and hostilities in Ukraine, Korea, the Middle East, North Africa and other geographic areas and countries are adding to the overall risk picture.

In addition, worldwide financial and economic conditions could cause our ability to access the capital markets to be severely restricted at a time when we would like, or need, to access such markets, which could impact our ability to react to changing economic and business conditions. Worldwide economic conditions have in the past impacted, and could in the future impact, the lenders participating in our credit facilities and our customers, causing them to fail to meet their obligations to us. In addition, a portion of the credit under our credit facilities is provided by European banking institutions. If economic conditions in Europe preclude or limit financing from these banking institutions, we may not be able to obtain financing from other institutions on terms that are acceptable to us, or at all, even if conditions outside Europe remain favorable for lending.

An extended period of adverse development in the outlook for the world economy could reduce the overall demand for oil and gas and for our services. Such changes could adversely affect our results of operations and cash flows beyond what might be offset by the simultaneous impact of possibly higher oil and gas prices.

Failure to obtain or retain highly skilled personnel could adversely affect our operations.

We require highly skilled personnel to operate and provide technical services and support for our business. Competition for skilled and other labor required for our drilling operations has increased in recent years as the number of rigs activated or added to worldwide fleets has increased. The number of rigs in operation may grow in the future as new units are delivered, which could increase the future demand for offshore drilling crews. Notwithstanding the general downturn in the drilling industry, in some regions, such as Brazil and Western Africa, the limited availability of qualified personnel in combination with local regulations focusing on crew composition, are expected to further increase the demand for qualified offshore drilling crews, which may increase our costs. Future expansion of the rig fleet, or improved demand for drilling services in general, coupled with shortages of qualified personnel, could further create and intensify upward pressure on wages and make it more difficult for us to staff and service our rigs. Such developments could adversely affect our financial results and cash flow. Furthermore, as a result of any increased competition for qualified personnel, we may experience a reduction in the experience level of our personnel, which could lead to higher downtime and more operating incidents.

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Our labor costs and the operating restrictions that apply to us could increase as a result of collective bargaining negotiations and changes in labor laws and regulations.

Some of our employees are represented by collective bargaining agreements. The majority of these employees work in Brazil, Mexico, Nigeria, Norway and the United Kingdom. In addition, some of our contracted labor works under collective bargaining agreements. As part of the legal obligations in some of these agreements, we are required to contribute certain amounts to retirement funds and pension plans and are restricted in our ability to dismiss employees. In addition, many of these represented individuals are working under agreements that are subject to salary negotiation. These negotiations could result in higher personnel costs, other increased costs or increased operating restrictions that could adversely affect our financial performance.

An inability to obtain visas and work permits for our employees on a timely basis could hurt our operations and have an adverse effect on our business.

Our ability to operate worldwide depends on our ability to obtain the necessary visas and work permits for our personnel to travel in and out of, and to work in, the jurisdictions in which we operate. Governmental actions in some of the jurisdictions in which we operate may make it difficult for us to move our personnel in and out of these jurisdictions by delaying or withholding the approval of these permits. If we are not able to obtain visas and work permits for the employees we need for operating our rigs on a timely basis, or for third-party technicians needed for maintenance or repairs, we might not be able to perform our obligations under our drilling contracts, which could allow our customers to cancel the contracts. If our customers cancel some of our contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, it could adversely affect our consolidated statement of financial position, results of operations or cash flows.

We have, and may continue, to suffer losses through our investments in other companies in the offshore drilling and oilfield services industry, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We currently hold investments in several other companies in our industry that own/operate offshore drilling rigs with similar characteristics to our fleet of rigs or deliver various other oilfield services. These investments include equity interests in Archer Limited (“Archer”), until recently SapuraKencana Petroleum Berhad, or SapuraKencana and Seabras Sapura Participacoes SA and Seabras Sapura Holding GmbH (together “Seabras Sapura”), among others. In addition, following the deconsolidation of Seadrill Partners on January 2, 2014, and SeaMex Limited, or SeaMex, in March 2015, our interest in Seadrill Partners, Seadrill Operating LP, Seadrill Capricorn Holdings LLC and SeaMex are all treated as investments in associates. The market value of our equity interest in these companies has been, and may continue to be, volatile and has fluctuated, and may continue to fluctuate, in response to changes in oil and gas prices and activity levels in the offshore oil and gas industry. If we sell our equity interest in an investment at a time when the value of such investment has fallen, we may incur a loss on the sale or an impairment loss being recognized, ultimately leading to a reduction in earnings.

In addition, as part of Archer’s broader refinancing package, Seadrill has also agreed to provide additional capital to Archer, in an aggregate amount of up to $75 million in the event that Archer does not have sufficient funds to meet its commitments under its debt facilities by April 30, 2016. As of the balance sheet date, we have not recognized a liability as no obligation existed; however, it is likely that we will be required to do so after April 30, 2016.

During the year ended December 31, 2015 we recorded a loss on impairment of our investments in Seadrill Partners and SapuraKencana totaling $1,274 million. Please see “Note 8—Impairment loss on marketable securities and investments in associated companies” to our Consolidated Financial Statements included herein for further discussion.

Interest rate fluctuations could affect our earnings and cash flow.

In order to finance our growth we have incurred significant amounts of debt. With the exception of some of our bonds, the majority of our debt arrangements have floating interest rates. As such, significant movements in interest rates could have an adverse effect on our earnings and cash flow. In order to manage our exposure to interest rate fluctuations, we use interest rate swaps to effectively fix a part of our floating rate debt obligations. The principal amount covered by interest rate swaps is evaluated continuously and determined based on our debt level, our expectations regarding future interest rates and our overall financial risk exposure. As of December 31, 2015, our total floating rate debt amounted to $8.6 billion, of which we had entered into interest rate swap agreements to fix the interest rate for a principal amount of $7.3 billion. Although we enter into various interest rate swap transactions to manage exposure to movements in interest rates, there can be no assurance that we will be able to continue to do so at a reasonable cost or at all. If we are unable to effectively manage our interest rate exposure through interest rate swaps, any increase in market interest rates would increase our interest rate exposure and debt service obligations, which would exacerbate the risks associated with our leveraged capital structure.

Fluctuations in exchange rates and the non-convertibility of currencies could result in losses to us.

As a result of our international operations, we are exposed to fluctuations in foreign exchange rates due to revenues being received and operating expenses paid in currencies other than U.S. dollars. Accordingly, we may experience currency exchange losses if we have not fully hedged our exposure to a foreign currency, or if revenues are received in currencies that are not readily convertible. We may also be unable to collect revenues because of a shortage of convertible currency available in the country of operation, controls over currency exchange or controls over the repatriation of income or capital.

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We use the U.S. dollar as our functional currency because the majority of our revenues and expenses are denominated in U.S. dollars. Accordingly, our reporting currency is also U.S. dollars. We do, however, earn revenues and incur expenses in other currencies, such as Norwegian kroner, U.K. pounds sterling and Brazilian reais, and there is a risk that currency fluctuations could have an adverse effect on our statements of operations and cash flows.

If one of our drilling units fails to maintain its class certification or fails any required survey, that drilling unit would be unable to operate, thereby reducing our revenues and profitability.

Every offshore drilling unit is a registered marine vessel and must be “classed” by a classification society. The classification society certifies that the drilling unit is “in-class,” signifying that such drilling unit has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the drilling unit’s country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned. Our drilling units are certified as being “in class” by the American Bureau of Shipping, or ABS, Det Norske Veritas and Germanisher Lloyd, or DNV GL, and the relevant national authorities in the countries in which our drilling units operate. If any drilling unit does not maintain its class and/or fails any periodical survey or special survey, the drilling unit will be unable to carry on operations and will be unemployable and uninsurable. Any such inability to carry on operations or be employed could have a material adverse impact on our financial condition and results of operations.

We cannot guarantee that the use of our drilling units will not infringe the intellectual property rights of others.

The majority of the intellectual property rights relating to our drilling units and related equipment are owned by our suppliers. In the event that one of our suppliers becomes involved in a dispute over an infringement of intellectual property rights relating to equipment owned by us, we may lose access to repair services or replacement parts, or could be required to cease using some equipment. In addition, our competitors may assert claims for infringement of intellectual property rights related to certain equipment on our drilling units and we may be required to stop using such equipment and/or pay damages and royalties for the use of such equipment. The consequences of technology disputes involving our suppliers or competitors could adversely affect our financial results and operations. We have provisions in some of our supply contracts to provide indemnity from the supplier against intellectual property lawsuits. However, we cannot make any assurances that these suppliers will be willing or financially able to honor their indemnity obligations, or guarantee that the indemnities will fully protect us from the adverse consequences of such technology disputes. We also have provisions in some of our client contracts to require the client to share some of these risks on a limited basis, but we cannot provide assurance that these provisions will fully protect us from the adverse consequences of such technology disputes.

A change in the tax laws of any country in which we operate could result in a higher tax expense or a higher effective tax rate on our worldwide earnings.

We conduct our operations through various subsidiaries in countries throughout the world. Tax laws, regulations and treaties are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, regulations and treaties in and between the countries in which we operate, including treaties between the United States and other nations. Our income tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, regulations or treaties, including those in and involving the United States, or in the interpretation thereof, or in the valuation of our deferred tax assets, which is beyond our control, could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings.

U.S. tax authorities may treat us as a "passive foreign investment company" for U.S. federal income tax purposes, which may have adverse tax consequences for U.S. shareholders.

A foreign corporation will be treated as a "passive foreign investment company" ("PFIC"), for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest and gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on the current and anticipated valuation of our assets, including goodwill, and composition of our income and assets, we intend to take the position that we will not be treated as a PFIC for U.S. federal income tax purposes for our current taxable year or in the foreseeable future. Our position is based on valuations and projections regarding our assets and income. While we believe these valuations and projections to be accurate, such valuations and projections may not continue to be accurate. Moreover, as we have not sought a ruling from the Internal Revenue Service, or IRS, on this matter, the IRS or a court could disagree with our position. In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, the nature of our operations may change in the future, and if so, we may not be able to avoid PFIC status in the future.

If the United States Internal Revenue Service (the "IRS") were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders may face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those shareholders make an election available under the United States Internal Revenue Code of 1986, as amended (the "Code") (which election could itself have adverse consequences for such shareholders, as discussed below under "Item 10. Additional Information—E. Taxation"), such shareholders would be liable to pay U.S. federal

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income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of the common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of the common shares. In the event that our shareholders face adverse U.S. federal income tax consequences as a result of investing in shares of our common stock, this could adversely affect our ability to raise additional capital through the equity markets. See "Item 10. Additional Information—E. Taxation" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders if we are treated as a PFIC.

Investors are encouraged to consult their own tax advisers concerning the overall tax consequences of the ownership of the common shares arising in an investor's particular situation under U.S. federal, state, local or foreign law.

We depend on directors who are associated with affiliated companies, which may create conflicts of interest.

Our principal shareholder is Hemen Holding Limited, or Hemen. All of our directors also serve as directors of other companies affiliated with Hemen. Our directors owe fiduciary duties to both us and other related parties, and may have conflicts of interest in matters involving or affecting us and our customers. In addition, they may have conflicts of interest when faced with decisions that could have different implications for other related parties than they do for us. We cannot assure you that any of these conflicts of interest will be resolved in our favor.

We may be restricted from competing with Seadrill Partners under the Omnibus Agreement with Seadrill Partners.

We have entered into an omnibus agreement with Seadrill Partners (the "Omnibus Agreement") in connection with its initial public offering, which may restrict our ability to, among other things, acquire, own, operate or contract for certain drilling units operating under drilling contracts of five or more years, unless we offer to sell such drilling units to Seadrill Partners. These restrictions could harm our business and adversely affect our financial position and results of operations and ability to implement our growth strategy. For additional information, please see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Seadrill Partners—Omnibus Agreement with Seadrill Partners."

We may not pay dividends in the future.

Under our bye-laws, any dividends declared will be in the sole discretion of our Board of Directors, or the Board, and will depend upon earnings, market prospects, current capital expenditure programs and investment opportunities. Under Bermuda law, we may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) we are, or would after the payment be, unable to pay our liabilities as they become due or (b) the realizable value of our assets would thereby be less than our liabilities. In addition, since we are a holding company with no material assets other than the shares of our subsidiaries through which we conduct our operations, our ability to pay dividends will depend on our subsidiaries distributing to us their earnings and cash flow. We suspended the payment of dividends in November 2014, and we cannot predict when, or if, dividends will be paid in the future. In connection with the amendments to our secured loan agreements in May 2015 to increase the leverage ratio contained in our senior secured credit facilities, we are restricted from paying dividends so long as the amended ratio is in effect, until January 1, 2017. In addition, in April 2016, as part of the amendments to the covenants contained in the Company's senior secured credit facilities, the Company is restricted from making dividend distributions during the amendment period until June 30, 2017.

We may be subject to litigation, arbitration and other proceedings that could have an adverse effect on us.

We are currently involved in various litigation matters, and we anticipate that we will be involved in litigation matters from time to time in the future. The operating hazards inherent in our business expose us to litigation, including personal injury litigation, environmental litigation, contractual litigation with customers, intellectual property litigation, tax or securities litigation and maritime lawsuits, including the possible arrest of our drilling units. We cannot predict with certainty the outcome or effect of any claim or other litigation matter, or a combination of these. If we are involved in any future litigation, or if our positions concerning current disputes are found to be incorrect, there may be an adverse effect on our business, financial position, results of operations and available cash, because of potential negative outcomes, the costs associated with asserting our claims or defending such lawsuits, and the diversion of management's attention to these matters. For example, we are currently a defendant in a class action lawsuit alleging that we made certain materially false and misleading statements in our public disclosure. One of our subsidiaries is also currently a party in an arbitration proceeding regarding its cancellation of the construction contract for the West Mira. Although we are vigorously defending these claims, we cannot predict the outcome of these cases, nor can we estimate the amount of any possible loss. Accordingly, no loss contingency has been recognized within our Consolidated Financial Statements. For additional information on these, and other, litigation matters that we are currently involved in, please see "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings."

Risks Relating to Our Industry

Our business and operations involve numerous operating hazards, and our insurance and indemnities from our customers may not be adequate to cover potential losses from our operations.

Our operations are subject to hazards inherent in the drilling industry, such as blowouts, reservoir damage, loss of production, loss of well control, lost or stuck drill strings, equipment defects, punch-throughs, craterings, fires, explosions and pollution. Contract drilling and well servicing require the use of heavy equipment and exposure to hazardous conditions, which may subject us to liability claims by employees, customers and third parties. These hazards can cause personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties or customers and suspension of operations. Our offshore fleet is also subject to hazards inherent in marine operations, either while on-site or during mobilization, such as capsizing, sinking, grounding, collision, damage from severe weather and marine life infestations. Operations may also be suspended because of machinery breakdowns, abnormal drilling conditions, failure of subcontractors to perform or supply goods or services or personnel shortages. We customarily provide contract indemnity to our customers for claims that could be asserted by us relating to damage to or loss of our equipment, including rigs and claims that could be asserted by us or our employees relating to personal injury or loss of life.

Damage to the environment could also result from our operations, particularly through spillage of fuel, lubricants or other chemicals and substances used in drilling operations, or extensive uncontrolled fires. We may also be subject to property, environmental and other damage claims by oil and gas companies. Our insurance policies and contractual rights to indemnity may not adequately cover losses, and we do not have insurance coverage or rights to indemnity for all risks. Consistent with standard industry practice, our customers generally assume, and indemnify us against, well control and subsurface risks under dayrate contracts. These are risks associated with the loss of control of a well, such as blowout or cratering, the cost to regain control of or re-drill the well and associated pollution. However, there can be no assurances that these customers will be willing or financially able to indemnify us against all these risks. In addition, a court may decide that certain indemnities in our current or future contracts are not enforceable. For example, in a 2012 case related to the fire and explosion that took place on the unaffiliated Deepwater Horizon Mobile Offshore Drilling Unit in the Gulf of Mexico in April 2010, or the Deepwater Horizon Incident (to which we were not a party), the U.S. District Court for the Eastern District of Louisiana invalidated certain contractual indemnities for punitive damages and for civil penalties under the U.S. Clean Water Act under a drilling contract governed by U.S. maritime law as a matter of public policy. Further, pollution and environmental risks generally are not totally insurable.

If a significant accident or other event occurs that is not fully covered by our insurance or an enforceable or recoverable indemnity from a customer, the occurrence could adversely affect our consolidated statement of financial position, results of operations or cash flows. The amount of our insurance may also be less than the related impact on enterprise value after a loss. Our insurance coverage will not in all situations provide sufficient funds to protect us from all liabilities that could result from our drilling operations. Our coverage includes annual aggregate policy limits. As a result, we retain the risk through self-insurance for any losses in excess of these limits. Any such lack of reimbursement may cause us to incur substantial costs. In addition, we could decide to retain more risk through self-insurance in the future. This self-insurance results in a higher risk of losses, which could be material, which are not covered by third-party insurance contracts. Specifically, we have at times in the past elected to self-insure for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico due to the substantial costs associated with such coverage. Beginning April 1, 2014 we have insured a limited part of this windstorm risk in a combined single limit annual aggregate policy. We have elected to place an insurance policy for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico with a combined single limit of $100 million in the annual aggregate, which includes loss of hire. We have renewed our policy to insure a limited part of this windstorm risk for a further period starting May 1, 2016 through April 30, 2017. If we elect to self-insure such risks again in the future and such windstorms cause significant damage to any rig and equipment we have in the U.S. Gulf of Mexico, it could have a material adverse effect on our financial position, results of operations or cash flows. Moreover, no assurance can be made that we will be able to maintain adequate insurance in the future at rates that we consider reasonable, or that we will be able to obtain insurance against certain risks.

Governmental laws and regulations, including environmental laws and regulations, may add to our costs, expose us to liability or limit our drilling activity.

Our business in the offshore drilling industry is affected by laws and regulations relating to the energy industry and the environment in the geographic areas where we operate. The offshore drilling industry is dependent on demand for services from the oil and gas exploration and production industry, and, accordingly, we are directly affected by the adoption of laws and regulations that, for economic, environmental or other policy reasons, curtail exploration and development drilling for oil and gas. We may be required to make significant capital expenditures or operational changes to comply with governmental laws and regulations. It is also possible that these laws and regulations may, in the future, add significantly to our operating costs or significantly limit drilling activity. Our ability to compete in international contract drilling markets may be limited by foreign governmental regulations that favor or require the awarding of contracts to local contractors or by regulations requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Governments in some countries are increasingly active in regulating and controlling the ownership of concessions, the exploration for oil and gas, and other aspects of the oil and gas industries. Offshore drilling in certain areas, including arctic areas, has been curtailed and, in certain cases, prohibited because of concerns over protecting of the environment. Operations in less developed countries can be subject to legal systems that are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings.

To the extent new laws are enacted or other governmental actions are taken that prohibit or restrict offshore drilling or impose additional environmental protection requirements that result in increased costs to the oil and gas industry, in general, or to the offshore drilling industry, in particular, our business or prospects could be materially adversely affected. The operation of our drilling units will require certain governmental approvals, the number and prerequisites of which cannot be determined until we identify the jurisdictions in which we will operate on securing contracts for the drilling units. Depending on the jurisdiction, these governmental approvals may involve public hearings and costly undertakings on our part. We may not obtain such approvals or such approvals may not be obtained in a timely manner. If we fail to timely secure the necessary approvals or permits, our customers may have the right to terminate or seek to renegotiate their drilling contracts to our detriment. The amendment or modification of existing laws and regulations or the adoption of new laws and regulations curtailing or further regulating exploratory or development drilling and production of oil and gas could have a material adverse effect on our business, results of operations or financial condition. Future earnings may be negatively affected by compliance with any such new legislation or regulations.

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As an operator of mobile drilling units, we may be liable for damages and costs incurred in connection with spills of oil and other chemicals and substances related to our operations, and we may also be subject to significant fines in connection with spills. For example, an oil spill could result in significant liability, including fines, penalties, criminal liability and remediation costs for natural resource damages under other international laws, as well as third-party damages, to the extent that the contractual indemnification provisions in our drilling contracts are not sufficient, or if our customers are unwilling or unable to contractually indemnify us from these risks. Additionally, we may not be able to obtain such indemnities in our future contracts and our customers may not have the financial capability to fulfill their contractual obligations to us. Also, these indemnities may be held to be unenforceable in certain jurisdictions, as a result of public policy or for other reasons. Laws and regulations protecting the environment have become more stringent in recent years, and may in some cases impose strict liability, rendering a person liable for environmental damage without regard to negligence. These laws and regulations may expose us to liability for the conduct of or conditions caused by others, or for acts that were in compliance with all applicable laws at the time when such acts were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on our financial position, results of operations or cash flows.

We are subject to complex environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous international, national, state and local laws and regulations, treaties and conventions in force in international waters and the jurisdictions in which our drilling units operate or are registered, which can significantly affect the ownership and operation of our drilling units. These requirements include, but are not limited to the United Nation's International Maritime Organization (the "IMO"), the International Convention for the Prevention of Pollution from Ships of 1973, as from time to time amended ("MARPOL"), including the designation of Emission Control Areas ("ECAs") thereunder, the IMO International Convention on Civil Liability for Oil Pollution Damage of 1969, as from time to time amended (the "CLC"), the International Convention on Civil Liability for Bunker Oil Pollution Damage (the "Bunker Convention"), the International Convention for the Safety of Life at Sea of 1974, as from time to time amended ("SOLAS"), the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention (the "ISM Code"), the IMO International Convention on Load Lines in 1966, as from time to time amended, the International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004 (the "BWM Convention"), the U.S. Oil Pollution Act of 1990 (the "OPA"), requirements of the U.S. Coast Guard (the "USCG"), the U.S. Environmental Protection Agency (the "EPA"), the U.S. Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the U.S. Maritime Transportation Security Act of 2002, the U.S. Outer Continental Shelf Lands Act, certain regulations of the European Union, and Brazil's National Environmental Policy Law (6938/81), Environmental Crimes Law (9605/98) and Federal Law (9966/2000) relating to pollution in Brazilian waters. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or implementation of operational changes and may affect the resale value or useful lifetime of our drilling units. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with them or the impact thereof on the resale prices or useful lives of our rigs. Additional conventions, laws and regulations may be adopted which could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations.

Environmental laws often impose strict liability for the remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. An oil or chemical spill, for which we are deemed a responsible party, could result in us incurring significant liability, including fines, penalties, criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Furthermore, the 2010 explosion of the Deepwater Horizon well and the subsequent release of oil into the Gulf of Mexico, or other similar events, may result in further regulation of the shipping industry, and modifications to statutory liability schemes, thus exposing us to further potential financial risk in the event of any such oil or chemical spill.

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations, and satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although we have arranged insurance to cover certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, results of operations, cash flows and financial condition.

Although our drilling units are separately owned by our subsidiaries, under certain circumstances a parent company and all of the unit-owning affiliates in a group under common control engaged in a joint venture could be held liable for damages or debts owed by one of the affiliates, including liabilities for oil spills under OPA or other environmental laws. Therefore, it is possible that we could be subject to liability upon a judgment against us or any one of our subsidiaries.

Our drilling units could cause the release of oil or hazardous substances. Any releases may be large in quantity, above our permitted limits or occur in protected or sensitive areas where public interest groups or governmental authorities have special interests. Any releases of oil or hazardous substances could result in fines and other costs to us, such as costs to upgrade our drilling rigs, clean up the releases and comply with more stringent requirements in our discharge permits. Moreover, these releases may result in our customers or governmental authorities suspending or terminating our operations in the affected area, which could have a material adverse effect on our business, results of operations and financial condition.

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If we are able to obtain from our customers some degree of contractual indemnification against pollution and environmental damages in our contracts, such indemnification may not be enforceable in all instances or the customer may not be financially able to comply with its indemnity obligations in all cases, and we may not be able to obtain such indemnification agreements in the future. In addition, a court may decide that certain indemnities in our current or future contracts are not enforceable. For example, in a 2012 case related to the Deepwater Horizon Incident (to which we were not a party), the U.S. District Court for the Eastern District of Louisiana invalidated certain contractual indemnities for punitive damages and for civil penalties under the U.S. Clean Water Act under a drilling contract governed by U.S. maritime law as a matter of public policy.

Our insurance coverage may not be available in the future, or we may not obtain certain insurance coverage. Even if insurance is available and we have obtained the coverage, it may not be adequate to cover our liabilities or our insurance underwriters may be unable to pay compensation if a significant claim should occur. Any of these scenarios could have a material adverse effect on our business, results of operations and financial condition.

Climate change and the regulation of greenhouse gases could have a negative impact on our business.

Due to concern over the risk of climate change, a number of countries and the IMO have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. The 2015 United Nations Climate Change Conference in Paris did not result in an agreement that directly limits greenhouse gas emissions from ships. As of January 1, 2013, all ships (including rigs and drillships) must comply with mandatory requirements adopted by the IMO's Maritime Environment Protection Committee (the "MEPC") in July 2011, relating to greenhouse gas emissions. The European Union has indicated that it intends to propose an expansion of the existing EU Emissions Trading Scheme to include emissions of greenhouse gases from marine vessels.

Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our assets, and might also require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Any passage of climate control legislation or other regulatory initiatives by the IMO, the European Union, the United States or other countries in which we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, which restricts emissions of greenhouse gases, could require us to make significant financial expenditures which we cannot predict with certainty at this time.

Additionally, adverse effects upon the oil and gas industry relating to climate change, including growing public concern about the environmental impact of climate change, may also adversely affect demand for our services. For example, increased regulation of greenhouse gases or other concerns relating to climate change may reduce the demand for oil and gas in the future or create greater incentives for the use of alternative energy sources. Any long-term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business, including capital expenditures to upgrade our drilling rigs, which we cannot predict with certainty at this time.

The aftermath of the moratorium on offshore drilling in the U.S. Gulf of Mexico, and new regulations adopted as a result of the investigation into the Macondo well blowout, could negatively impact us.

In the near-term aftermath of the Deepwater Horizon Incident, in which we were not involved, which led to the Macondo well blowout, the U.S. government on May 30, 2010 imposed a six-month moratorium on certain drilling activities in water deeper than 500 feet in the U.S. Gulf of Mexico and subsequently implemented Notices to Lessees

2010-N05 and 2010 N-06, providing enhanced safety requirements applicable to all drilling activity in the U.S. Gulf of Mexico, including drilling activities in water shallower than 500 feet. On October 12, 2010, the U.S. government lifted the moratorium subject to compliance with the requirements set forth in Notices to Lessees 2010-N05 and 2010-N06. Additionally, all drilling in the U.S. Gulf of Mexico must comply with the Interim Final Rule to Enhance Safety Measures for Energy Development on the Outer Continental Shelf (the "Drilling Safety Rule") and the Workplace Safety Rule on Safety and Environmental Management Systems and various requirements imposed through Notices to Lessees and Operators ("SEMS"). Operators were required to implement a SEMS program by November 15, 2011 and submit their first completed SEMS audit to the U.S Bureau of Safety and Environmental Enforcement (the "BSEE") by November 15, 2013. The original SEMS rule was later modified by the SEMS II final rule which became effective June 4, 2013. SEMS II enhanced and supplemented operators' SEMS programs with employee training, empowering field level personnel with safety management decisions and strengthening auditing procedures by requiring them to be completed by independent third parties. Operators had until June 4, 2014 to comply with SEMS II, except for certain auditing requirements. All SEMS audits must have complied with SEMS II by June 4, 2015. The U.S. Occupational Safety and Health Act (OSHA) imposes additional recordkeeping obligations concerning occupational injuries and illnesses for Mobile Offshore Drilling UNits, or MODUs, attached to the outer continental shelf.

In addition, in order to obtain drilling permits, operators must submit applications that demonstrate compliance with the enhanced regulations, which require independent third-party inspections, certification of well design and well control equipment and emergency response plans in the event of a blowout, among other requirements. Operators have previously had, and may in the future have, difficulties obtaining drilling permits in the U.S. Gulf of Mexico. In addition, the oil and gas industry has adopted new equipment and operating standards, such as the American Petroleum Institute Standard 53 relating to the installation and testing of well control equipment. Likewise, in August 2015, the U.S Bureau of Ocean Energy Management (the "BOEM") issued a Notice to Lessees (NTL 2015-NO4), regarding things such as the general financial assurance required before drilling. In December 2015, the BSEE announced a new pilot inspection program for offshore facilities. These new and proposed guidelines and standards for safety, environmental and financial assurance and any other new guidelines or standards the U.S. government or

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industry may issue or any other steps the U.S. government or industry may take, could disrupt or delay operations, increase the cost of operations, increase out-of-service time or reduce the area of operations for drilling rigs in U.S. and non-U.S. offshore areas.

We continue to evaluate these new measures to ensure that our rigs and equipment are in full compliance, where applicable. As new standards and procedures are being integrated into the existing framework of offshore regulatory programs, we anticipate that there may be increased costs associated with regulatory compliance and delays in obtaining permits for other operations such as re-completions, workovers and abandonment activities.

Additional requirements could be forthcoming based on further recommendations by regulatory agencies investigating the Macondo incident. For example, in April 2015 it was announced that new regulations are expected to be imposed in the United States regarding offshore oil and gas drilling. We are not able to predict the likelihood, nature or extent of additional rulemaking or when the interim rules, or any future rules, could become final. The current and future regulatory environment in the U.S. Gulf of Mexico could impact the demand for drilling units in the U.S. Gulf of Mexico in terms of overall number of rigs in operations and the technical specification required for offshore rigs to operate in the U.S. Gulf of Mexico. It is possible that short-term potential migration of rigs from the U.S. Gulf of Mexico could adversely impact dayrate levels and fleet utilization in other regions. Additional governmental regulations concerning licensing, taxation, equipment specifications, training requirements or other matters could increase the costs of our operations, and escalating costs borne by our customers, along with permitting delays, could reduce exploration and development activity in the U.S. Gulf of Mexico and, therefore, reduce demand for our services. In addition, insurance costs across the industry are expected to increase as a result of the Macondo incident and, in the future, certain insurance coverage is likely to become more costly, and may become less available or not available at all. We cannot predict if the U.S. government will issue new drilling permits in a timely manner, nor can we predict the potential impact of new regulations that may be forthcoming as the investigation into the Macondo well incident continues. Nor can we predict if implementation of additional regulations might subject us to increased costs of operating and/or a reduction in the area of operation in the U.S. Gulf of Mexico. As such, our cash flow and financial position could be adversely affected if our three ultra-deepwater semi-submersible drilling rigs and three ultra-deepwater drillships operating in the U.S. Gulf of Mexico were subject to the risks mentioned above.

If our drilling units are located in countries that are subject to economic sanctions or other operating restrictions imposed by the United States. or other governments, our reputation and the market for our common shares could be adversely affected.

In 2010, the United States enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to non-U.S. companies such as ours, and introduced limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. On August 10, 2012, the U.S. signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which places further restrictions on the ability of non-U.S. companies to do business or trade with Iran and Syria. Perhaps the most significant provision in the Iran Threat Reduction Act is that prohibitions in the existing Iran sanctions applicable to U.S. persons will now apply to any foreign entity owned or controlled by a U.S. person. These new sanctions were codified within the Iranian Transactions Regulations on or about December 26, 2012. The other major provision in the Iran Threat Reduction Act is that issuers of securities must disclose to the Commission in their annual and quarterly reports filed after February 6, 2013 if the issuer or “any affiliate” has “knowingly” engaged in certain sanctioned activities involving Iran during the timeframe covered by the report. The disclosure must describe the nature and extent of the activity in detail and the Commission will publish the disclosure on its website. The President of the United States must then initiate an investigation and determine whether sanctions on the issuer or its affiliate will be imposed. Such negative publicity and the possibility that sanctions could be imposed would present a risk for any issuer that is knowingly engaged in sanctioned conduct or that has an affiliate that is knowingly engaged in such conduct. At this time, we are not aware of any violative activity, conducted by us or by any affiliate, which is likely to trigger a Commission disclosure requirement.

Sanctions affecting non-U.S. companies like us were expanded yet again under the 2013 National Defense Authorization Act, with the passage of the Iran Freedom and Counter-Proliferation Act, and we believe that these sanctions will continue to become more restrictive for the foreseeable future. In addition to the sanctions against Iran, subject to certain exceptions, U.S. law continues to restrict U.S. owned or controlled entities from doing business with Cuba and various U.S. sanctions have certain other extraterritorial effects that need to be considered by non-U.S. companies. Moreover, any U.S. persons who serve as officers, directors or employees of our subsidiaries would be fully subject to U.S. sanctions. It should also be noted that other governments are more frequently implementing sanctions regimes.

From time to time, we may enter into drilling contracts with countries or government-controlled entities that are subject to sanctions and embargoes imposed by the U.S. government and/or identified by the U.S. government as state sponsors of terrorism where entering into such contracts would not violate U.S. law, or may enter into drilling contracts involving operations in countries or with government-controlled entities that are subject to sanctions and embargoes imposed by the U.S government and/or identified by the U.S. government as state sponsors of terrorism. However, this could negatively affect our ability to obtain investors. In some cases, U.S. investors would be prohibited from investing in an arrangement in which the proceeds could directly or indirectly be transferred to or may benefit a sanctioned entity. Moreover, even in cases where the investment would not violate U.S. law, potential investors could view such drilling contracts negatively, which could adversely affect our reputation and the market for our shares. With the exception of certain drilling contracts between our majority-owned subsidiary NADL and Rosneft Oil Company, or Rosneft, for activity in Russian Arctic and deepwater areas, we do not currently have any drilling contracts or plans to initiate any drilling contracts involving operations in countries or with government-controlled entities that are subject to sanctions and embargoes imposed by the U.S. government and/or identified by the U.S. government as state sponsors of terrorism.

On November 24, 2013, the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) entered into an interim agreement with Iran entitled the “Joint Plan of Action,” or the JPOA. Under the JPOA it was agreed that, in exchange for Iran taking certain voluntary measures to ensure that its nuclear program is only used for peaceful purposes, the United States and the European Union would voluntarily suspend certain sanctions for a period of six months. On January 20, 2014, the United States and the European Union indicated that they would begin implementing the temporary relief measures provided for under the JPOA. These measures include, among other things, the suspension of certain sanctions on the Iranian petrochemicals, precious metals and automotive industries from January 20, 2014 to July 20, 2014.

The JPOA was subsequently extended twice. On July 14, 2015, the P5+1 and the E.U. announced that they reached a landmark agreement with Iran titled the Joint Comprehensive Plan of Action Regarding the Islamic Republic of Iran’s Nuclear Program, or the JCPOA, which is intended to significantly restrict Iran’s ability to develop and produce nuclear weapons for 10 years while simultaneously easing sanctions directed toward non-U.S. persons for conduct involving Iran, but taking place outside of U.S. jurisdiction and does not involve U.S. persons. On January 16, 2016 (“Implementation Day”), the United States joined the E.U. and the U.N. in lifting a significant number of their nuclear-related sanctions on Iran following an announcement by the International Atomic Energy Agency, or the IAEA, that Iran had satisfied its respective obligations under the JCPOA.

U.S. sanctions prohibiting certain conduct that is now permitted under the JCPOA have not actually been repealed or permanently terminated at this time. Rather, the U.S. government has implemented changes to the sanctions regime by: (1) issuing waivers of certain statutory sanctions provisions; (2) committing to refrain from exercising certain discretionary sanctions authorities; (3) removing certain individuals and entities from OFAC's sanctions lists; and (4) revoking certain Executive Orders and specified sections of Executive Orders. These sanctions will not be permanently "lifted" until the earlier of “Transition Day,” set to occur on October 20, 2023, or upon a report from the IAEA stating that all nuclear material in Iran is being used for peaceful activities.

Certain of our customers or other parties with whom we have entered into contracts may be the subject of sanctions imposed by the United States, the European Union or other international bodies as a result of the annexation of Crimea by Russia in March 2014 and the subsequent conflict in eastern Ukraine, or may be affiliated with persons or entities that are the subject of such sanctions. If we determine that such sanctions require us to terminate existing contracts or if we are found to be in violation of such applicable sanctions, our results of operations may be adversely affected or we may suffer reputational harm. In addition, such sanctions may prevent us from closing the previously announced transactions between our subsidiary NADL and Rosneft, or performing some or all of our obligations under any potential drilling contracts with Rosneft, which could impact our future revenue, contract backlog and results of operations.

As stated above, we believe that we are in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance. However, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in our shares. Additionally, some investors may decide to divest their interest, or not to invest, in our shares simply because we may do business with companies that do business in sanctioned countries. Moreover, our drilling contracts may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us, or our drilling rigs, and those violations could in turn negatively affect our reputation. Investor perception of the value of our shares may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Any failure to comply with the complex laws and regulations governing international trade could adversely affect our operations.

The shipment of goods, services and technology across international borders subjects our offshore drilling segment to extensive trade laws and regulations. Import activities are governed by unique customs laws and regulations in each of the countries of operation. Moreover, many countries, including the United States, control the export and re-export of certain goods, services and technology and impose related export recordkeeping and reporting obligations. Governments also may impose economic sanctions against certain countries, persons and other entities that may restrict or prohibit transactions involving such countries, persons and entities. U.S. sanctions in particular are targeted against countries (such as Russia, Venezuela, Iran, Myanmar and Sudan, among others) that are heavily involved in the petroleum and petrochemical industries, which includes drilling activities.

The laws and regulations concerning import activity, export recordkeeping and reporting, export control and economic sanctions are complex and constantly changing. These laws and regulations may be enacted, amended, enforced or interpreted in a manner materially impacting our operations. Shipments can be delayed and denied export or entry for a variety of reasons, some of which are outside our control and some of which may result from the failure to comply with existing legal and regulatory regimes. Shipping delays or denials could cause unscheduled operational downtime. Any failure to comply with applicable legal and regulatory trading obligations could also result in criminal and civil penalties and sanctions, such as fines, imprisonment, debarment from government contracts, the seizure of shipments, and the loss of import and export privileges.

Our ability to operate our drilling units in the U.S. Gulf of Mexico could be restricted by governmental regulation.

Hurricanes have from time to time caused damage to a number of drilling units unaffiliated to us in the Gulf of Mexico. The Bureau of Ocean Energy Management, Regulation and Enforcement (the “BOEMRE”) formerly the Minerals Management Service of the U.S. Department of the Interior, effective October 1, 2011, reorganized into two new organizations: the BOEM and the BSEE, and issued guidelines for tie-downs on drilling units and permanent equipment and facilities attached to outer continental shelf production platforms, and moored drilling unit fitness. The BSEE subsequently issued additional guidelines requiring MODUs to be outfitted with global positioning systems (“GPS”) and to provide the BSEE with real-time GPS location data for MODUs effective March 19, 2013. These guidelines effectively impose new requirements on the offshore oil and natural gas industry in an attempt to increase the likelihood of the survival of offshore drilling units during a hurricane. The

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guidelines also provide for enhanced information and data requirements from oil and natural gas companies that operate properties in the U.S. Gulf of Mexico region of the outer continental shelf. The BOEM and the BSEE may issue similar guidelines for future hurricane seasons and may take other steps that could increase the cost of operations or reduce the area of operations for our ultra-deepwater drilling units, thereby reducing their marketability. Implementation of new guidelines or regulations that may apply to ultra-deepwater drilling units may subject us to increased costs and limit the operational capabilities of our drilling units, although such risks should rest with our customers, to the extent possible.

We currently do not have any jack-up rigs or moored drilling units operating in the U.S. Gulf of Mexico. However, we do have one ultra-deepwater semi-submersible drilling rig and one ultra-deepwater drillship operating in the U.S. Gulf of Mexico, both of which are self-propelled and equipped with thrusters and other machinery, that enable the rigs to move between drilling locations and remain in position while drilling without the need for anchors.

Violations of the U.S. Foreign Corrupt Practices Act of 1977 or the Bribery Act 2010 of the United Kingdom could result in fines, criminal penalties, drilling contract terminations and an adverse effect on our business.

We currently operate, and historically have operated, our drilling units in a number of countries throughout the world, including some with developing economies. Also, our business interaction with national oil companies as well as state or government-owned shipbuilding enterprises and financing agencies puts us in contact with persons who may be considered to be “foreign officials” under the U.S. Foreign Corrupt Practices Act of 1977 (the “FCPA”) and the Bribery Act 2010 of the United Kingdom (the “UK Bribery Act”). We are subject to the risk that we or our affiliated companies or our or their respective officers, directors, employees and agents may take actions determined to be in violation of anti-corruption laws, including the FCPA and the U.K. Bribery Act. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. For instance, our controlled subsidiary Sevan has previously disclosed that its predecessor entity, Sevan Drilling ASA, has been accused of breaches of Norwegian law in respect of payments made in connection with the performance during 2012 to 2015 of drilling contracts originally awarded by Petrobras to subsidiaries of Sevan Marine ASA in the period between 2005 and 2008. Furthermore, detecting, investigating and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

In order to effectively compete in some foreign jurisdictions, we utilize local agents and/or establish entities with local operators or strategic partners. All of these activities may involve interaction by our agents with government officials. Even though some of our agents and partners may not themselves be subject to the FCPA, the U.K. Bribery Act or other anti-bribery laws to which we may be subject, if our agents or partners make improper payments to government officials or other persons in connection with engagements or partnerships with us, we could be investigated and potentially found liable for violations of such anti-bribery laws and could incur civil and criminal penalties and other sanctions, which could have a material adverse effect on our business and results of operation.

The consolidation of suppliers may increase the cost of obtaining supplies, or restrict our ability to obtain needed supplies, which may have a material adverse effect on our results of operations and financial condition.

We rely on certain third parties to provide supplies and services necessary for our offshore drilling operations, including, but not limited to, drilling equipment suppliers, catering and machinery suppliers. Recent mergers have reduced the number of available suppliers, resulting in fewer alternatives for sourcing key supplies. With respect to certain items, such as blow-out preventors (“BOPs”), we are dependent on the original equipment manufacturer for repair and replacement of the item or its spare parts. Such consolidation, combined with a high volume of drilling units under construction, may result in a shortage of supplies and services, thereby increasing the cost of supplies and/or potentially inhibiting the ability of suppliers to deliver on time. These cost increases or delays could have a material adverse effect on our results of operations and result in rig downtime, and delays in the repair and maintenance of our drilling rigs.

Acts of terrorism, piracy and political and social unrest could affect the markets for drilling services, which may have a material adverse effect on our results of operations.

Acts of terrorism, piracy, and political and social unrest, brought about by world political events or otherwise, have caused instability in the world's financial and insurance markets in the past and may occur in the future. Such acts could be directed against companies such as ours. Our drilling operations could also be targeted by acts of sabotage carried out by environmental activist groups. In addition, acts of terrorism and social unrest could lead to increased volatility in prices for crude oil and natural gas and could affect the markets for drilling services and result in lower dayrates. Insurance premiums could also increase and coverage may be unavailable in the future. Increased insurance costs or increased costs of compliance with applicable regulations may have a material adverse effect on our results of operations.

A cyber-attack could materially disrupt our business.

We rely on information technology systems and networks in our operations and administration of our business. Our drilling operations or other business operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to an unauthorized release of information or alteration of information on our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business and results of operations.

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We may not be able to keep pace with the continual and rapid technological developments that characterize the market for our services, and our failure to do so may result in our loss of market share.

The market for our services is characterized by continual and rapid technological developments that have resulted in, and will likely continue to result in, substantial improvements in equipment functions and performance. As a result, our future success and profitability will be dependent in part upon our ability to keep pace with technological developments. If we are not successful in acquiring new equipment or upgrading our existing equipment in a timely and cost-effective manner in response to technological developments or changes in standards in our industry, we could lose business and profits. The cost of upgrading our equipment may increase as our fleet ages, which could adversely affect our financial performance. In addition, current competitors or new market entrants may develop new technologies, services or standards that could render some of our services or equipment obsolete, which could have a material adverse effect on our operations.

Public health threats could have an adverse effect on our operations and financial results.

Public health threats, such as ebola, influenza, SARS, the Zika virus, and other highly communicable diseases or viruses, outbreaks of which have from time to time occurred in various parts of the world in which we operate, could adversely impact our operations, and the operations of our customers. In addition, public health threats in any area, including areas where we do not operate, could disrupt international transportation. Our crews generally work on a rotation basis, with a substantial portion relying on international air transport for rotation. Any such disruptions could impact the cost of rotating our crews, and possibly impact our ability to maintain a full crew on all rigs at a given time. Any of these public health threats and related consequences could adversely affect our financial results.

Risks Relating to Our Common Shares

The market price of our common shares has recently declined significantly. If the average closing price of our common shares declines to less than $1.00 over 30 consecutive trading days, our common shares could be delisted from the NYSE or trading could be suspended.

Our common shares are currently listed on the NYSE. In order for our common shares to continue to be listed on the NYSE, we are required to comply with various listing standards, including the maintenance of a minimum average closing price of at least $1.00 per share during a consecutive 30 trading-day period. A renewed or continued decline in the closing price of our common shares on the NYSE could result in a breach of these requirements. Although we would have an opportunity to take action to cure such a breach, if we did not succeed, the NYSE could commence suspension or delisting procedures in respect of our common shares. The commencement of suspension or delisting procedures by an exchange remains, at all times, at the discretion of such exchange and would be publicly announced by the exchange. If a suspension or delisting were to occur, there would be significantly less liquidity in the suspended or delisted securities. In addition, our ability to raise additional necessary capital through equity or debt financing would be greatly impaired. Furthermore, with respect to any suspended or delisted common shares, we would expect decreases in institutional and other investor demand, analyst coverage, market making-activity and information available concerning trading prices and volume, and fewer broker-dealers would be willing to execute trades with respect to such common shares. A suspension or delisting would likely decrease the attractiveness of our common shares to investors and cause the trading volume of our common shares to decline, which could result in a further decline in the market price of our common shares.

Because we are a foreign corporation, you may not have the same rights that a shareholder in a U.S. corporation may have.

We are a Bermuda exempted company limited by shares. Our memorandum of association and bye-laws and the Companies Act, 1981 of Bermuda (the “Companies Act”) govern our affairs. The Companies Act does not clearly establish your rights and the fiduciary responsibilities of our directors as do statutes and judicial precedent in some U.S. jurisdictions. Therefore, it may be more difficult to protect your interests as a shareholder in relation to the actions of management, directors or controlling shareholders, than it would be for shareholders of U.S. corporations to do the same. There is a statutory remedy under Section 111 of the Companies Act which provides that a shareholder may seek redress in the courts as long as such shareholder can establish that our affairs are being conducted, or have been conducted, in a manner oppressive or prejudicial to the interests of some part of the shareholders, including such shareholder.

We are incorporated in Bermuda and it may not be possible for our investors to enforce U.S. judgments against us.

We are incorporated in Bermuda and substantially all of our assets are located outside the United States. In addition, all but one of our directors and all but one of our executive officers are non-residents of the United States, and all or a substantial portion of the assets of these nonresidents are located outside the U.S. As a result, it may be difficult or impossible for U.S. investors to serve process in the United States upon us or our directors and executive officers, or to enforce a judgment against us for civil liabilities in U.S. courts.

In addition, you should not assume that courts in the countries in which we are incorporated or where our assets are located would enforce judgments of U.S. courts obtained in actions against us based upon the civil liability provisions of applicable U.S. federal and state securities laws or would enforce, in original actions, liabilities against us based on those laws.

We are subject to certain anti-takeover provisions in our constitutional documents.

Several provisions of our bye-laws may have anti-takeover effects. These provisions are intended to avoid costly takeover battles, lessen our vulnerability to a hostile change of control and enhance the ability of our Board to maximize shareholder value in connection with any unsolicited offer to acquire us. However, these anti-takeover provisions could also discourage, delay or prevent the merger, amalgamation or acquisition of

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our company by means of a tender offer, a proxy contest or otherwise, that a shareholder may consider to be in its best interests. For more detailed information, please see “Item 10. Additional Information.”

The market price of our common shares has fluctuated widely and may fluctuate widely in the future

The market price of our common shares has fluctuated widely and may continue to do so as a result of many factors, such as actual or anticipated fluctuations in our operating results, changes in financial estimates by securities analysts, economic and regulatory trends, general market conditions, rumors and other factors, many of which are beyond our control. Further, there may be no continuing active or liquid public market for our common shares. If an active trading market for our common shares does not continue, the price of our common shares may be more volatile and it may be more difficult and time consuming to complete a transaction in the common shares, which could have an adverse effect on the realized price of the common shares. In addition, an adverse development in the market price for our common shares could negatively affect our ability to issue new equity to fund our activities.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company
Seadrill Limited was incorporated in Bermuda under the Companies Act on May 10, 2005 as an exempted company limited by shares. Our shares of common stock have been listed under the symbol “SDRL” on the Oslo Stock Exchange (the “OSE”) since November 2005 and on the NYSE since April 2010. Our principal executive offices are located at Par-la-Ville Place, 4th Floor, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda and our telephone number is +1 (441) 295-6935.

We are an offshore drilling contractor providing worldwide offshore drilling services to the oil and gas industry. Our primary business is the ownership and operation of drillships, semi-submersible rigs and jack-up rigs for operations in shallow-, mid-, deep-, and ultra deepwater areas, and in benign and harsh environments. We contract our drilling units primarily on a dayrate basis to drill wells for our customers, who are oil super-majors and major integrated oil and gas companies, state-owned national oil companies, and independent oil and gas companies. A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well or group of wells or covering a stated term. We also provide management services to certain unconsolidated companies in which we hold investments.

Through a number of acquisitions of companies, secondhand units and contracts for newbuildings, we have developed into one of the world’s largest international offshore drilling contractors, employing approximately 6,995 skilled employees. At March 31, 2016, we had a fleet of 38 offshore drilling units consisting of 12 semi-submersible rigs, seven drillships and 19 jack-up rigs in operation, and contracts for the construction of 13 offshore drilling units. Of the total fleet, 12 are currently idle. Please see “Item 4. Information on the Company—D. Property, Plant and Equipment,” for further information on our fleet of drilling units and newbuildings.

Our Majority-Owned Subsidiaries
NADL is a Bermuda company formed in 2011 that focuses entirely on harsh environment offshore drilling operations. In January 2014, NADL completed its initial public offering (“IPO”) in the United States of 13,513,514 common shares at $9.25 per share. As of March 31, 2016, we owned approximately 70.4% of NADL’s outstanding common shares, which are listed for trading on the NYSE and the Norwegian Over-the-Counter Exchange (the “Norwegian OTC”) under the symbol “NADL.” For the year ended December 31, 2015, NADL contributed $748 million (or 17%) to our revenues, and $98 million (or 10%) to our operating income. The outstanding debt of NADL as of December 31, 2015 amounted

to $2,128 million (or 20%), of which $1,715 million is guaranteed by Seadrill.

Sevan Drilling, a controlled subsidiary, is a Bermuda company that focuses on owning and operating drilling units and specializes in the ultra-deepwater segment. As of March 31, 2016, we owned 50.1% of the outstanding shares in Sevan Drilling. Sevan Drilling’s common shares trade on the OSE under the symbol “SEVDR.” For the year ended December 31, 2015, Sevan Drilling contributed $478 million (or 11%), and $217 million (or 21%) to our revenue and operating income, respectively. The outstanding debt of Sevan Drilling as of December 31, 2015 amounted to $1,085 million (or 10%), all of which is guaranteed by Seadrill.

AOD, a controlled subsidiary, is a company incorporated in Bermuda that owns and operates three high-specification jack-up drilling rigs. As of March 31, 2016, we owned 66.2% of the outstanding shares in AOD. For the year ended December 31, 2015, AOD contributed $214 million (or 5%) and $105 million (or 10%) to our revenue and operating income, respectively. The outstanding debt of AOD as of December 31, 2015 amounted to $273 million (or 3%), all of which is guaranteed by Seadrill.

Investments in Other Companies

In addition to owning and operating our offshore drilling units through our subsidiaries, we also, from time to time, make investments in other offshore drilling and oil services companies. We currently have the following significant equity investments, among others, in other companies in our industry:

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- Seadrill Partners, an associated company, is a Marshall Islands limited liability company formed in 2012 that focuses on owning and operating offshore drilling rigs under long-term contracts with major oil companies. In October 2012, Seadrill Partners completed its IPO in the United States of 8,750,000 common units at $22.00 per unit. Seadrill Partners was a consolidated subsidiary of Seadrill, but as of January 2, 2014, we deconsolidated Seadrill Partners from our financial statements. As of December 31, 2015, we own 46.6% of the outstanding limited liability interests of Seadrill Partners, which includes outstanding common and subordinated units. Seadrill Partners' common units trade on the NYSE under the symbol "SDLP." We also own significant non-controlling interests in various subsidiaries of Seadrill Partners. Furthermore, we are a guarantor under certain of Seadrill Partners' credit facilities, and we also have joint and several liability under certain of Seadrill Partners' credit facilities. Please see Note 23 of our Consolidated Financial Statements included herein for more information.
- Archer is a global oilfield service company that specializes in drilling and well services. We currently own 39.9% of the outstanding common shares of Archer and provide various financial and performance guarantees on behalf of Archer. The total outstanding guarantees to Archer as of December 31, 2015 was $326 million. In addition, we have agreed to inject additional capital to Archer, in an aggregate amount of up to $75 million in the event that Archer will not have sufficient funds to repay and cancel commitments under its facilities by April 30, 2016.
- Seabras Sapura is a group of related companies that construct, own and operate pipe-laying service vessels in Brazil. We have a 50% ownership stake in each of these companies. We have provided Seabras Sapura with various loans to finance working capital and financial guarantees. The total amount of loans outstanding as of December 31, 2015 was $46 million, and the total amount guaranteed as of December 31, 2015 was $498 million. In addition, we provide bank guarantees in relation to certain credit facilities to cover six months of debt service costs and three months of operating expenses under retention accounts. The total amount guaranteed as of December 31, 2015 was $52 million.
- SeaMex, a joint venture, that owns and operates five jack-up drilling units located in Mexico under contract with Petróleos Mexicano, or Pemex. We and an investment fund controlled by Fintech Advisory Inc., or Fintech, have a 50% ownership stake in SeaMex, respectively. SeaMex was deconsolidated from our financial statements on March 10, 2015. We have provided a $250 million seller's credit to SeaMex divided into two facilities: (a) a term loan facility for an amount up to $230 million and (b) a revolving loan facility of up to $20 million, and made available a subordinated unsecured credit facility of $20 million, which is to be provided by both Seadrill and Fintech at a ratio of 50.0% each. As of December 31, 2015 the facility remained undrawn. We have also provided loan facilities for a $30 million bank guarantee to the lenders of SeaMex's external bank facility, $51 million under a joint and several guarantee for potential prepayment deficits that SeaMex might face under its loan agreements, and performance guarantees for the SeaMex drilling units, up to a total of $30 million as of December 31, 2015.
- Ship Finance is a related party of the Company through which we have entered into sale and leaseback agreements for three drilling units: the West Taurus, West Hercules and West Linus. As of December 31, 2015, through our VIEs we had gross loans outstanding to Ship Finance amounting to $415 million and net loans of $387 million.

Please see the Notes to our Consolidated Financial Statements included herein for further information on our investments.

Management of the Company

Overall responsibility for the management of Seadrill Limited and its subsidiaries rests with the Board. The Board has organized the provision of management services through Seadrill Management Ltd., or Seadrill Management, one of our subsidiaries incorporated in the United Kingdom. The Board has defined the scope and terms of the services to be provided by Seadrill Management, authorizing it to run day-to-day operations. The Board must be consulted on all matters of material importance and/or of an unusual nature and, for such matters, will provide specific authorization to personnel in Seadrill Management to act on its behalf.

Seadrill Management also has service and other management agreements with Seadrill Partners and SeaMex (our associated companies) and SapuraKencana, pursuant to which Seadrill Management provides management and operational services relating to various drilling units owned by these companies.

Recent Developments

Significant Developments for the Period from January 1, 2013 Through and Including December 31, 2015

Capital expenditures

We had total capital expenditures on our drilling units and newbuildings of approximately $1.0 billion, $3.2 billion and $4.5 billion in the years ended 2015, 2014 and 2013, respectively. This includes maintenance expenditures of $0.1 billion, $0.3 billion and $0.2 billion in the years ended 2015, 2014 and 2013, respectively. Our capital expenditures related primarily to our newbuild drilling unit program, capital additions and equipment to our existing drilling units and payments for long-term maintenance of our fleet. We financed this capital expenditure through cash generated from operations, secured and unsecured debt arrangements, and the sale of partial ownership interests in certain subsidiaries and investments. Please see “Item 4. Information on the Company—D. Property, Plant and Equipment” and “Item 5. Operating and Financial Review and Prospects” for further information on our fleet.

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Sale of investments
On April 27, 2016 the Company sold all of its investment in shares of SapuraKencana resulting in net cash proceeds of approximately $195 million.

Disposals
In 2013, we sold the entities that own and operate ten tender rigs to SapuraKencana for an enterprise value of $2.9 billion. The sale included the following tender rigs: T-4, T-7, T-11, T-12, West Alliance, West Berani, West Jaya, West Menang, West Pelaut, West Setia, and the newbuild rigs T-17, T-18, and West Esperanza. In addition, our 49% ownership in Varia Perdana and Tioman Drilling was sold as part of this transaction, which included the following rigs: T-3, T-6, T-9, T-10, and the Teknik Berkat. We also sold the entities that own and operate the tender rigs T-15 and T-16 and semi-submersible rigs West Leo and West Sirius to subsidiaries of Seadrill Partners. As of December 31, 2013, Seadrill Partners was a consolidated subsidiary and therefore no gain or loss was recorded on our sale.

In 2014, we sold the entities that own and operate the West Auriga to Seadrill Capricorn Holdings LLC, which is owned 49% by the Company and 51% by Seadrill Partners, for $1.24 billion, of which Seadrill Partners' 51% share was $632 million, along with the entities that own and operate the West Vela for $900 million, of which Seadrill Partners' 51% share was $459 million. We also sold an additional 28% interest in Seadrill Operating LP, a limited partnership controlled by Seadrill Partners, for $373 million to Seadrill Partners, which reduced our ownership interest in Seadrill Operating LP to 42%. In addition, during the twelve months ended December 31, 2014, we sold a portion of our investment in SapuraKencana and received proceeds of $297 million, net of transaction costs. As a result of the sale, a gain of $131 million was recognized, which is included in the consolidated statement of operations in "Gain on realization of marketable securities." As a result of this transaction, our ownership interest in SapuraKencana's outstanding common shares decreased to 8.18%.

In 2015, we sold the entities that own and operate the West Polaris to Seadrill Operating LP, a consolidated subsidiary of Seadrill Partners and an entity in which we own a 42% limited partner interest. Please see "Note 11–Disposals of businesses and deconsolidation of subsidiaries" to our Consolidated Financial Statements included herein, for more information.

Deconsolidations
We deconsolidated Seadrill Partners on January 2, 2014. As a result of the deconsolidation, we derecognized the assets and liabilities of Seadrill Partners and recognized our ownership interests in Seadrill Partners and its subsidiaries,at fair value. Please see "Note 11–Disposals of businesses and deconsolidation of subsidiaries" to our Consolidated Financial Statements included herein for further discussion on deconsolidation of Seadrill Partners.

On March 10, 2015, Fintech subscribed for a 50% ownership interest in SeaMex, which was previously 100% owned by us. As a result of the transaction we deconsolidated certain entities as of March 10, 2015 and recognized our remaining 50% investment in the joint venture at fair value. Please refer to "Note 11 - Disposals of businesses and deconsolidation of subsidiaries" to our Consolidated Financial Statements included herein, for more information.

Newbuilding Deferrals and Cancellations
In August 2015, Samsung agreed to postpone the delivery of the West Dorado and the West Draco until the end of the first quarter of 2017, and Dalian agreed to defer one jack-up rig until the end of December 2015, five jack-up rigs to 2016 and two jack-up rigs to 2017.

On September 14, 2015, we cancelled the construction contract for the West Mira due to HSHI inability to deliver the unit within the timeframe required under the contract, which thereby caused Husky to terminate the five-year drilling contract for the unit with us. Please see "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Company—We may be subject to litigation, arbitration and other proceedings that could have an adverse effect on us."

On October 30, 2015, we mutually agreed with Cosco to exercise the first six-month option to extend the deferral agreement for the delivery of the Sevan Developer. In addition, on April 15, 2016, we exercised our second six-month deferral option, until October 15, 2016. Sevan Drilling and Cosco have two remaining six-month deferral options available.

On January 15, 2016, we entered into an agreement with DSME to defer the delivery of two ultra-deepwater drillships, the West Aquila and West Libra, until the second quarter 2018 and the first quarter of 2019, respectively.

On April 18, 2016, we entered into agreements with Dalian to further defer the deliveries of all eight jack-up rigs under construction, which were previously due to be delivered in 2016 and 2017. Following this latest deferral agreement, one unit is scheduled to be delivered to us at the end of 2016, four units in 2017, and three units in 2018.

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On December 3, 2015, NADL entered into an agreement with Jurong, effective until June 2016, regarding the delivery of the West Rigel. During the period until June 2016, NADL will continue to market the unit for an acceptable drilling contract and the unit will remain at the Jurong yard in Singapore. Jurong and NADL can also consider other commercial opportunities for the unit during this period. In the event no employment is secured and no alternative transaction is completed before the period concludes, NADL and Jurong have agreed to form a joint asset holding company for joint ownership of the unit to be owned 23% by NADL and 77% by Jurong. NADL will continue to market the unit for the joint asset holding company .

Acquisitions
In December 2013, we acquired the high specification jack-up newbuild in process, Prospector 3, from Prospector Offshore Drilling Rig Construction S.à.r.l., an unrelated party, for a total purchase price of $235 million. The rig was subsequently renamed West Titania.

In July 2013, we obtained control of 50.1% of the total outstanding shares of Sevan Drilling, which resulted in Sevan Drilling becoming a consolidated subsidiary from July 2, 2013 and triggered the requirement to make a mandatory offer in accordance with the OSE rules for the remaining outstanding shares in Sevan, bringing our total interest in Sevan to 50.11%.

In March 2013, we signed a shareholder resolution with Mermaid Maritime Plc that aligned the percentage of our voting rights with our majority ownership of AOD. Based on this change, we obtained control of the board of directors of AOD and consolidated its results and financial position from March 25, 2013. We currently own 66.23% of the outstanding common shares of AOD.

For the year ended December 31, 2013 we also entered into agreements with yards to construct eight high-specification jack-up rigs and four ultra-deepwater drillships with a total estimated project price for all rigs of $4.2 billion including project management, drilling and handling tools, spares, operations preparation and capitalized interest.

In December 2014, we exercised a purchase option for the West Polaris, an ultra-deepwater drillship, from Ship Finance. The West Polaris was acquired from us by Ship Finance in 2008 and subsequently bareboat chartered back to us with purchase options commencing in 2012. The purchase option price was $456 million and total consideration payable to Ship Finance was $111 million after debt, which settled in January 2015.

Rosneft Framework Agreement
On May 26, 2014, we entered into an investment and co-operation agreement (the “Investment and Co-Operation Agreement”) with NADL and Rosneft to pursue onshore and offshore growth opportunities in the Russian market. In connection with the Investment and Co-Operation Agreement, we entered into a framework agreement (the “Framework Agreement”) with NADL and Rosneft, pursuant to which, among other things, Rosneft agreed to sell, and NADL agreed to purchase, 100% of the capital of Rosneft’s Russian land drilling subsidiary, RN Burenie LLC, together with its subsidiaries, in exchange for such number of newly issued common shares of NADL, based on an agreed share price of $9.25 per share, as payment of the agreed purchase price, subject to certain cash adjustments. The Framework Agreement provided for an original closing date of no earlier than November 10, 2014, which was first extended until May 31, 2015 and further extended until May 31, 2017.

The parties have agreed to use their reasonable endeavors to renegotiate, by no later than May 31, 2017, the terms of the transactions contemplated in the Framework Agreement, the characteristics of the transactions contemplated in the Framework Agreement and the terms of the related offshore drilling contracts. During this time, NADL is permitted to market its offshore drilling rigs subject to existing drilling contracts with Rosneft, enter into binding contracts with third parties in respect of those rigs, delay the mobilization of those rigs under the Rosneft contracts in order to comply with the terms of any contracts with third parties, delay the construction or delivery of any of those rigs, and extend the construction period or shipyard stay of any of those rigs.

In June 2015, the parties agreed to cancel any restrictions of business included in the terms of the Framework Agreement and replaced such restrictions with a requirement for us, subject to applicable law, to inform Rosneft of any material developments affecting NADL. We can provide no assurance that we will be able to reach an agreement with Rosneft by May 31, 2017. Even if an agreement is reached, the terms of such agreement may differ materially from the terms contemplated in the original Framework Agreement.

Other significant developments

On December 9, 2013, Seadrill Partners closed a public offering of 12,880,000 common units representing liability company interests at a price of $29.50 per common unit (including the underwriters' allotment), and we purchased 3,394,916 common units directly from Seadrill Partners at a price of $29.50 per unit. On March 17, 2014, Seadrill Partners issued 10,400,000 common units in a public offering, and we subscribed directly for 1,633,987 common units. On June 18, 2014, Seadrill Partners issued 6,100,000 common units to the public and 3,183,700 to us. On September 29, 2014, Seadrill Partners issued a further 8,000,000 common units to the public. As a result of these transactions, our equity ownership interest in Seadrill Partners increased to 46.6%, including both common and subordinated units.

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B. BUSINESS OVERVIEW

Our Company

We are an offshore drilling contractor providing worldwide offshore drilling services to the oil and gas industry. Our primary business is the ownership and operation of drillships, semi-submersible rigs and jack-up rigs for operations in shallow-, mid-, deep- and ultra deepwater areas, and in benign and harsh environments. We contract our drilling units primarily on a dayrate basis for periods between one and seven years to drill wells for our customers, typically oil super-majors and major integrated oil and gas companies, state-owned national oil companies and independent oil and gas companies.

Through a number of acquisitions of other companies and contracts for newbuildings, we have developed into one of the world's largest international offshore drilling contractors, employing approximately 6,995 skilled employees. As of December 31, 2015, we owned and operated a fleet of 38 offshore drilling units, which consisted of 7 drillships, 12 semi-submersible rigs and 19 jack-up rigs. In addition, we also have 13 rigs currently under construction ("newbuilds" or "newbuildings"), consisting of 4 drillships, 1 semi-submersible rigs and 8 jack-up rigs. While we are one of the largest offshore drilling companies, we also have one of the youngest rig fleets in our industry, with an average fleet age of approximately six years.

Shares of our common stock have traded on the Oslo Stock Exchange ("OSE"), since November 22, 2005, under the symbol "SDRL" and our common stock commenced trading on the NYSE on April 15, 2010, also under the symbol "SDRL." As of March 31, 2016 our nonaffiliated public float represented 75.8% of total shares outstanding, and our principal shareholder, Hemen Holding Ltd. ("Hemen"), held 24.2%. Hemen is indirectly held in Trusts established by Mr. John Fredriksen, our President and Chairman, for the benefit of his immediate family.

Our Fleet

We believe that we have one of the most modern fleets in the offshore drilling industry with the majority of our rigs, which are set forth in the fleet table in "–D. Property, Plants and Equipment." We believe a modern fleet allows us to enjoy improved utilization rates and the daily rates obtainable for our drilling units.

Drillships

Our drillships are self-propelled ships equipped for drilling in deep waters, and are positioned over the well through a computer-controlled thruster system similar to that used on semi-submersible rigs. Drillships are suitable for drilling in remote locations because of their mobility and large load-carrying capacity. Depending on country of operation, drillships operate with crews of 65 to 100 people.

Semi-submersible drilling rigs

Semi-submersible drilling rigs (which include cylindrical designed units) consist of an upper working and living quarters deck connected to a lower hull, such as columns and pontoons. Such rigs operate in a "semi-submerged" floating position, in which the lower hull is below the waterline and the upper deck protrudes above the surface. The rig is situated over a wellhead location and remains stable for drilling in the semi-submerged floating position, due in part to its wave transparency characteristics at the water line.

There are two types of semi-submersible rigs, moored and dynamically positioned. Moored semi-submersible rigs are positioned over the wellhead location with anchors, while the dynamically positioned semi-submersible rigs are positioned over the wellhead location by a computer-controlled thruster system. Depending on country of operation, semi-submersible rigs generally operate with crews of 65 to 100 people.

Jack-Up Rigs

Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the ocean floor. A jack-up rig is towed to the drill site with its hull riding in the sea as a vessel and its legs raised. At the drill site, the legs are lowered until they penetrate the sea bed and the hull is elevated until it is above the surface of the water. After completion of the drilling operations, the hull is lowered until it rests on the water, the legs are raised and the rig can be relocated to another drill site. Jack-ups are generally suitable for water depths of 450 feet or less and operate with crews of 40 to 60 people.

Our Competitive Strengths

We believe that our competitive strengths include:

One of the largest offshore drilling contractors

Since our inception in 2005, we have developed into one of the world's largest international offshore drilling contractors. As of December 31, 2015, we owned and operated a fleet of 38 offshore drilling units, which consisted of 7 drillships, 12 semi-submersible rigs and 19 jack-up rigs. In addition, we also have 13 rigs currently under construction ("newbuilds" or "newbuildings"), consisting of 4 drillships, 1 semi-submersible rigs and 8 jack-up rigs.

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In addition we hold investments in several other companies in our industry that own and/or operate offshore drilling units with similar characteristics to our own fleet of drilling units or deliver various oil services.

Technologically advanced and young fleet

Our drilling units are among the most technologically advanced in the world. The majority of our rigs were built after 2007, which is among the lowest average fleet age in the industry. Although current offshore drilling demand in weak, the demand that does exist if for new and modern units that offer superior technical capabilities, operational flexibility and reliability. We believe, based on our proven track record of operating these types of units and diverse fleet composition, we will be better placed to capture new drilling contracts than some of our competitors with older, less advanced rig fleets.

Offshore industry fundamentals

We believe offshore production will be required to meet global demand, even with lower demand levels now evident in the market. This production will require drilling rigs both for infill and maintenance drilling, and to complete new projects that have already been committed. We also believe this is true in shallow and deepwater drilling areas.

Strong and diverse customer relationships

We have strong relationships with our customers that we believe are based on our operational performance, operational track record and quality of our fleet. Our customers are oil and gas exploration and production companies, including oil super-majors, major integrated oil companies, state-owned national oil companies and independent oil and gas producers. As of March 31, 2016, our four largest customers in terms of revenue were certain subsidiaries of Petròleo Brasileiro S.A. (“Petrobras”), Total S.A. Group (“Total”), Exxon Mobil Corp (“ExxonMobil”) and Statoil ASA (“Statoil”).

Commitment to safety and the environment

We believe that the combination of our quality drilling units and experienced and skilled employees allows us to provide our customers with safe and effective operations, to establish, develop and maintain a position as a preferred provider of offshore drilling services for our customers and to facilitate the procurement of term contracts and premium daily rates.

Our Business Strategy

Our immediate objective during the current industry downturn is to complete a refinancing plan in order to provide a bridge to the industry recovery and realize the value of our high specification, modern fleet. To this end, our strategies include the following:

Protect our revenue and contract backlog by continuing to provide excellent service to our customers

We are a leading offshore deepwater drilling company and our mission is to continue to be a preferred offshore drilling contractor and to deliver excellent performance to our clients by consistently exceeding their expectations for performance and safety standards. We believe that we have one of the most modern fleets in the industry and believe that by combining quality assets and experienced and skilled employees we will be able to provide our customers with safe and effective operations, and maintain our position as a preferred provider of offshore drilling services for our customers. We believe that a combination of quality drilling rigs, highly skilled employees and strong operations will facilitate the procurement of term contracts at premium dayrates. By doing this we intend to maximize opportunities for new drilling contracts, while minimizing chances of contract terminations.

Continue cost-cutting measures and deliver steady, stable cash flow

We intend to continue to implement our cost savings program and drive operational efficiencies in order to reduce our cost base while maintaining our excellent operating performance. We made significant progress in 2015 in reducing capital and operating expenditures. Total onshore and offshore headcount reduced from 9,450 to 6,995 during the year. In 2016, we have identified a further $260 million of cost savings relative to levels achieved in 2015 as we continue to focus on headcount reductions, insurance savings, supplier discounts, travel costs and compensation adjustments.

Strengthen our balance sheet

On April 28, 2016 we entered into agreements with our banking group to amend the financial covenants on all of our secured credit facilities. In addition to the covenant waiver we have also deferred the maturities of three facilities maturing prior to May 2017, significantly improving our liquidity profile over the next 15 months.

This agreement is the first stage is one component of a broader effort to refinance our indebtedness, and provides a more stable platform from which to work with all parts of our capital structure to achieve a more comprehensive refinancing solution that we aim to communicate later in the year. The second stage of the effort is expected to address medium- to long-term liquidity requirements and create an investable platform for new capital.

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In addition, we expect to take additional steps to further delay newbuild deliveries until the dayrates justify taking delivery. We do not expect to take delivery of any units in 2016 and currently have $4.0 billion of newbuild yard installments due in 2017, 2018 and 2019 that we will be working with shipyards to defer.

Our longer term strategy is to:

- Grow through newbuildings and strategic acquisitions.
- Pursue long-term contracts and maintain stable cash flow.
- Provide excellent customer service and continue to prioritize safety as a key element of the company's operations.
- maintain a modern and reliable fleet.

Please see “Item 5. Operating and Financial Review—B. Liquidity and Capital Resources” for further information.

Market Overview

We provide operations in oil and gas exploration and development in regions throughout the world and our customers include integrated oil and gas companies, state-owned national oil companies and independent oil and gas companies. Due to a significant decline in oil prices many of our customers are focused on conserving cash and have reduced capital expenditures for exploration and development projects. As a result, the offshore drilling market is encountering a significant reduction in demand.

The global fleet of drilling units

The global fleet of offshore drilling units consists of drillships, semi-submersible rigs, jack-up rigs and tender rigs. As of March 31, 2016, the existing worldwide drilling rig fleet totaled 879 units including 121 drillships, 185 semi-submersible rigs, 536 jack-up rigs and 37 tender rigs. In addition, at such date there were 46 drillships, 122 jack-up rigs, 23 semi-submersible rigs and 8 tender rigs under construction.

The water depth capacities for various drilling rig types depend on rig specifications, capabilities and equipment outfitting. Jack-up rigs normally work in water depths up to 450ft while semi-submersible rigs and drillships can work in water depths up to 12,000ft and tender rigs work in water depths up to 410ft for tender barges and up to 6,000ft for semi-tenders. All offshore rigs are capable of working in benign environment but there are certain additional requirements for rigs to operate in harsh environments due to extreme marine and climatic conditions. The number of units outfitted for such operations are limited and the present number of rigs capable of operating in harsh environments total 153 units.

Semi-submersible rigs and drillships

The worldwide fleet of semi-submersible rigs and drillships currently totals 306 units. Of the total delivered fleet, 165 units are capable of ultra-deepwater operations above 7500 feet, 51 are classed for deepwater operations up to 7,500 feet and the remainder for operations up to 4500 feet. Overall, the average global fleet is 17 years old. The average age of ultra-deepwater units is 7 years, 27 years for units classed for deepwater operations up to 7,500 feet and 31 years for units classed for operations up to 4,500 feet.

Included in the global floater fleet are units classed for operations in harsh environments. The global harsh environment floater fleet is comprised of 78 units and is 20 years old on average.

Oil companies continue to prefer newer and more capable equipment, demonstrated by the utilization rates of different asset classes. Ultra-deepwater units are currently experiencing 65% capacity utilization versus 41% for deepwater and 46% for mid-water floaters. Utilization for harsh environment floaters is currently 54%. Older units are believed to be at a competitive disadvantage due to the customer preferences and the availability of more modern and efficient equipment.

Based on the level of current activity and the aging floater fleet, we expect accelerated stacking and scrapping activity is expected to continue. We believe a total of 49 floaters have been been scrapped since the end of 2013, equivalent to 14% of the total fleet, and currently there are 55 cold stacked units that are 15 years old or older, which are prime scrapping candidates. In the next 18 months 37 units that are 15 years old or older and will be coming off contract with no follow on work identified which represents additional scrapping candidates. A key rational for scrapping is the 15 year classing expenditures that can cost upwards of $100 million. Many rig owners will choose to retire the unit rather than incur this cost without a visible recovery in demand on the horizon.

The current newbuilding orderbook stands at approximately 69 units, comprised of 46 drillships and 23 semi-submersibles. 26 new rigs are scheduled for delivery in 2016, 18 in 2017 and 25 in 2018 and beyond. Due to the subdued level of contracting activity it is likely that a significant number of newbuild orders will be delayed or cancelled pending an improved market.

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Jack-up rigs

The worldwide fleet of jack-up rigs currently totals 536 units. Of the total delivered fleet, 223 units are termed as high specification or capable of operations in 350-450 feet of water and 313 units are termed as standard jack-ups and can work at water depths up to 350 feet. Overall, the global jack-up fleet is 22 years old on average. The average age of high specification units is 11 years and 31 years for standard units.

Included in the global jack-up fleet are units classed for operations in harsh environments. The global harsh environment jack-up fleet is comprised of 75 units and is 14 years old on average.

Oil companies continue to prefer newer and more capable equipment, demonstrated by the utilization rates of different asset classes. High specification jack-ups are currently experiencing 67% capacity utilization versus 58% for standard units. Harsh environment jack-ups are currently operating at 72% capacity utilization.

A total of 25 jack-ups have been been scrapped since the end of 2013, equivalent to 4% of the total fleet, and currently there are 59 cold stacked units that are 30 years old or older, which are prime scrapping candidates. In the next 18 months 75 units that are 30 years old or older will be coming off contact with no follow on work identified which represent additional scrapping candidates, however scrapping activity in the jack-up segment is subdued relative to the floater segment due to the lower cost of stacking and classing these units.

The current newbuilding orderbook stands at approximately 122 units. 83 are scheduled for delivery in 2016, 28 in 2017 and 11 in 2018 and beyond. Due to the subdued level of contracting activity it is likely that a significant number of newbuild orders will be delayed or cancelled until an improved market justifies taking delivery.

The above overview of the various offshore drilling sectors is based on historical market developments and current market conditions. Future markets conditions and developments cannot be predicted and may materially differ from our current expectations.

Reporting Segments

We report our business in the following reportable segments:

- Floaters: We offer services encompassing drilling, completion and maintenance of offshore exploration and production wells. The drilling contract results reported in this segment relate to semi-submersible rigs and drillships.

- Jack-ups: We offer services encompassing drilling, completion and maintenance of offshore exploration and production wells. The drilling contract results reported in this segment relate to jack-up rigs.

In prior periods, we reported a Tender Rigs segment, which related to services encompassing drilling, completion and maintenance of offshore production wells in Southeast Asia, West Africa and the Americas. In these periods, we had drilling contracts related to self-erecting tender rigs and semi-submersible tender rigs. Following the sale of the majority of the tender rig business to SapuraKencana, which closed on April 30, 2013, and after the deconsolidation of Seadrill Partners as of January 2, 2014, we no longer have any drilling contracts in the Tender rig segment.

Information regarding our revenues, segment operating profit or loss and total assets attributable to each operating segment for the last three fiscal years is presented in Note 3 to our Consolidated Financial Statements included in this Annual Report. Information regarding our operating revenues and identifiable assets attributable to each of our geographic areas of operations for the last three fiscal years is also presented in Note 3 to our Consolidated Financial Statements included in this Annual Report.

Seasonality

In general, seasonal factors do not have a significant direct effect on our business. However, we have operations in certain parts of the world where weather conditions during parts of the year could adversely impact the operational utilization of the rigs and our ability to relocate rigs between drilling locations, and as such, limit contract opportunities in the short term. Such adverse weather could include the hurricane season for our operations in the Gulf of Mexico, the winter season in offshore Norway and Canada, and the monsoon season in Southeast Asia.

Customers

Our customers are oil and gas exploration and production companies, including major integrated oil companies, independent oil and gas producers and government-owned oil and gas companies. In the year ended December 31, 2015 our largest customers were:

- Petroleo Brasileiro S.A., or Petrobras, which accounted for approximately 19% of our revenues;
- Total S.A. Group, or Total, which accounted for approximately 16% of our revenues;
- Exxon Mobil Corp, or Exxon, which accounted for approximately 14% of our revenues; and
- Statoil ASA, or Statoil, which accounted for approximately 12% of our revenues.

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Our contract backlog, at March 31, 2016 totaled approximately $4.8 billion. Of the total contract backlog, $3.7 billion is attributable to our semi-submersible rigs and drillships and $1.1 billion attributable to our jack-up units. We expect approximately $2.9 billion of our contract backlog to be realized in the remainder of 2016. Contract backlog for our drilling fleet is calculated as the contract dayrate multiplied by the number of days remaining on the contract, assuming full utilization. Contract backlog excludes revenues for mobilization and demobilization, contract preparation, and customer reimbursables. The amount of actual revenues earned and the actual periods during which revenues are earned will be different from the backlog projections due to various factors. Downtime, caused by unscheduled repairs, maintenance, weather and other operating factors, may result in lower applicable dayrates than the full contractual operating dayrate.

In light of the current environment, we are encountering, and may in the future encounter, situations where counterparties request relief to contracted dayrates or seek early contract termination. In the event of early termination for the customer’s convenience, an early termination fee is typically payable to Seadrill, in accordance with the terms of the drilling agreement. While we are confident that our contract terms are enforceable, we may be willing to engage in discussions to modify such contracts if there is a commercial agreement that is beneficial to both parties.

Examples of such negotiations, at our request or counterparties, include:

- On February 8, 2016, we secured a new drilling contract in Angola for the West Eclipse, which is expected to commence in the second quarter of 2016. The contract is for a firm period of 2 years and adds backlog of approximately $285 million inclusive of mobilization. As part of this agreement, the backlog for the West Polaris has been decreased by approximately $95 million, which reduces the contingent consideration that we receive from Seadrill Partners, following the sale of the West Polaris to Seadrill Partners in June 2015.

- On March 23, 2016, we extended the contract for the West Tellus with Petrobras by 18 months, commencing in April 2018 to the end of October 2019. The total backlog for the contract extension is approximately $164 million. As part of the agreement to extend the West Tellus, we agreed to a dayrate reduction on the current contract effective from February 26, 2016, resulting in a $132 million reduction in our backlog. The resulting net effect of this agreement is an increase in contract backlog of $32 million.

- On March 30, 2016, Sevan Drilling and Petrobras terminated early the Sevan Driller contract and reduced the contract dayrate on the drilling contract for the Sevan Brasil. Subsequent to the effective cancellation of the Sevan Driller contract the unit was awarded a contract by Shell in Brazil for 60 days. The combined impact of the cancellation, reduction and new award is a decrease in contract backlog of approximately $127 million.

The following table shows the percentage of rig days committed by year as of March 31, 2016. The percentage of rig days committed is calculated as the ratio of total days committed under contracts to total available days in the period. This excludes our newbuilding units under construction.

	Year ending December 31,		
% of rig-days committed	2016	2017	2018
Floaters	65 %	42 %	21 %
Jack-up rigs	56 %	25 %	10 %

Competition

The offshore drilling industry is highly competitive, with market participants ranging from large multinational companies to small locally-owned companies.

The demand for offshore drilling services is driven by oil and gas companies' exploration and development drilling programs. These drilling programs are affected by oil and gas companies' expectations regarding oil and gas prices, anticipated production levels, worldwide demand for oil and gas products and many other factors. The availability of quality drilling prospects, exploration success, availability of qualified rigs and operating personnel, relative production costs, availability and lead time requirements for drilling and production equipment, the stage of reservoir development and political and regulatory environments also affect our customers' drilling programs. Oil and gas prices are volatile, which has historically led to significant fluctuations in expenditures by our customers for drilling services. Variations in market conditions during cycles impact us in different ways, depending primarily on the length of drilling contracts in different regions. For example, contracts in shallow waters for jack-up rig activities are shorter term, so a deterioration or improvement in market conditions for such units tends to quickly impact revenues and cash flows from those operations. On the other hand, contracts in deepwater for semi-submersible rigs and drillships tend to be longer term, so a change in market conditions tends to have a more delayed impact. Accordingly, short-term changes in these markets may have a minimal short-term impact on revenues and cash flows, unless the timing of contract renewals coincides with short-term movements in the market.

Offshore drilling contracts are generally awarded on a competitive bid basis. In determining which qualified drilling contractor is awarded a contract, the key factors are pricing, rig availability and sustainability, rig location, condition of equipment, operating integrity, safety performance record, crew experience, reputation, industry standing and client relations.

Furthermore, competition for offshore drilling rigs is generally on a global basis, as rigs are highly mobile. However, the cost associated with mobilizing rigs between regions is sometimes substantial, as entering a new region could necessitate upgrades of the unit and its equipment to specific regional requirements. In particular, for rigs to operate in harsh environments, such as offshore Norway and Canada, as opposed to

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benign environments, such as the Gulf of Mexico, West Africa, Brazil, the Mediterranean and Southeast Asia, more demanding weather conditions would require more costly investment in the outfitting and maintenance of the drilling units.

We believe that the market for drilling contracts will continue to be highly competitive for the foreseeable future.

For further information on current market conditions and global offshore drilling fleet, please see "Item 5D - Trend Information."

Risk of Loss and Insurance

Our operations are subject to hazards inherent in the drilling of oil and gas wells, including blowouts and well fires, which could cause personal injury, suspend drilling operations, or seriously damage or destroy the equipment involved. Offshore drilling contractors such as us are also subject to hazards particular to marine operations, including capsizing, grounding, collision and loss or damage from severe weather. Our marine insurance package policy provides insurance coverage for physical damage to our rigs, loss of hire for some of our rigs and third party liability.

Our insurance claims are subject to a deductible, or non-recoverable, amount. We currently maintain a deductible per occurrence of up to $5 million related to physical damage to our rigs. However, a total loss of, or a constructive total loss of, a drilling unit is recoverable without being subject to a deductible. For general and marine third-party liabilities, we generally maintain a deductible of up to $500,000 per occurrence on personal injury liability for crew claims, non-crew claims and third-party property damage including oil pollution from the drilling units. Furthermore, for some of our rigs we purchase insurance to cover loss due to the drilling unit being wholly or partially deprived of income as a consequence of damage to the unit. The loss of hire insurance has a deductible period of 60 days after the occurrence of physical damage. Thereafter, our insurance policies are limited to 290 days. If the repair period for any physical damage exceeds the number of days permitted under our loss of hire policy, we will be responsible for the costs in such period. We do not have loss of hire insurance on our benign environment jack-up rigs.

We have elected to place an insurance policy for physical damage to rigs and equipment caused by named windstorms in the Gulf of Mexico with a Combined Single Limit of $100 million in the annual aggregate, which includes Loss of Hire. The Company has renewed its policy to insure a limited part of this windstorm risk for a further period starting May 1, 2016 through April 30, 2017.

Environmental and Other Regulations in the Offshore Drilling Industry

Our operations are subject to numerous laws and regulations in the form of international treaties and maritime regimes, flag state requirements, national environmental laws and regulations, navigation and operating permits requirements, local content requirements, and other national, state and local laws and regulations in force in the jurisdictions in which our drilling units operate or are registered, which can significantly affect the ownership and operation of our drilling units. See "Item 3. Key Information – D. Risk Factors – Governmental laws and regulations, including environmental laws and regulations, may add to our costs or limit our drilling activity."

Flag State Requirements

All of our drilling units are subject to regulatory requirements of the flag state where the drilling unit is registered.

The flag state requirements are international maritime requirements and in some cases further interpolated by the flag state itself. These requirements include, but are not limited to, MARPOL, the CLC, ILO, the Bunker Convention, SOLAS, the ISM Code, MODU Code and the BWM Convention. These various conventions regulate air emissions and other discharges to the environment from our drilling units worldwide, and we may incur costs to comply with these regimes and continue to comply to these regimes as they may be amended in the future. In addition, these conventions impose liability for certain discharges, including strict liability in some cases.

The requirements are recognized minimum standard agreed to be able to work worldwide, some flag states are working outside these international convention and for those flag states a drilling unit or ship will not be able to work world wide

Class Societies

These include engineering, safety and other requirements related to the Maritime industry. In addition, each of our drilling units must be “classed” by a classification society. The classification society certifies that the drilling rig is “in-class,” signifying that such drilling rig has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the flag state and the international conventions of which that country is a member. Maintenance of class certification requires expenditure of substantial sums, and can require taking a drilling unit out of service from time to time for repairs or modifications to meet class requirements. Our drilling units must generally undergo a class survey once every five years.

For some of the international required certification the Class society will act on flag state behalf, such as the MODU code certificate.

Environmental Laws and Regulations

These laws and regulations include the U.S. Oil Pollution Act of 1990, (OPA), the Comprehensive Environmental Response, Compensation and Liability Act, (CERCLA), the U.S. Clean Water Act (CWA), the U.S. Clean Air Act (CAA), the U.S. Outer Continental Shelf Lands Act, the U.S. Maritime Transportation Security Act of 2002, or the “MTSA, European Union regulations, and Brazil’s National Environmental Policy

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Law (6938/81), Environmental Crimes Law (9605/98) and Federal Law (9966/2000) relating to pollution in Brazilian waters. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection.

In April 2016, the BSEE issued a final rule on well control regulations that set new and revised safety and operational standards for owners and operators of offshore wells and facilities. Among other requirements, the new regulation sets standards for blow-out preventers that include baseline requirements for their design, manufacture, inspection and repair, requires third-party verification of the equipment, and calls for real-time monitoring of certain drilling activities, to name just a few of the many requirements. These new regulations grow out of the findings made in connection with the Deepwater Horizon incident and include a number of requirements that will add to the costs of exploring for, developing and producing of oil and gas in offshore settings. These new rules add new requirements and amend existing ones to, among other things, set new baseline standards for the design, manufacture, inspection, repair and maintenance of blow-out preventers including their inspection and the use of double shear rams. These rules contain a number of other requirements including third-party verification and certifications, real-time monitoring of deepwater and certain other activities, and sets criteria for safe drilling margins.

In certain circumstances, these laws may impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault on our part. Implementation of new environmental laws or regulations that may apply to ultra deepwater drilling units may subject us to increased costs or limit the operational capabilities of our drilling units and could materially and adversely affect our operations and financial condition. See "Item 3 Key Information – D. Risk Factors – We are subject to complex environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business."

Safety Requirements

Our operations are subject to special safety regulations relating to drilling and to the oil and gas industry in many of the countries where we operate. The United States undertook substantial revision of the safety regulations applicable to our industry following the Deepwater Horizon Incident, in which we were not involved, that led to the Macondo well blow out situation, in 2010. Other countries are also undertaking a review of their safety regulations related to our industry. These safety regulations may impact our operations and financial results. For instance, the revisions to the regulations in the United States have resulted in new requirements, such as specific requirements for maintenance and certification of BOP's, which may cause us to incur cost and may result in additional downtime for our drilling units in the U.S. Gulf of Mexico. Please see "Item 3 Key Information – D. Risk Factors – The aftermath of the moratorium on offshore drilling in the Gulf of Mexico, and new regulations adopted as a result of the investigation into the Macondo well blowout, could negatively impact us."

Navigation and Operating Permit Requirements

Numerous governmental agencies issue regulations to implement and enforce the laws of the applicable jurisdiction, which often involve lengthy permitting procedures, impose difficult and costly compliance measures, particularly in ecologically sensitive areas, and subject operators to substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. Some of these laws contain criminal sanctions in addition to civil penalties.

Local Content Requirements

Governments in some countries have become increasingly active in local content requirements on the ownership of drilling companies, local content requirements for equipment utilized in our operations, and other aspects of the oil and gas industries in their countries. These regulations include requirements for participation of local investors in our local operating subsidiaries in countries such as Angola and Nigeria, and local content requirements in relation to drilling unit construction contracts in which we are participating in Brazil. Although these requirements have not had material impact on our operations in the past, they could have a material impact on our earnings, operations and financial condition in the future.

Other Laws and Regulations

In addition to the requirements described above, our international operations in the offshore drilling segment are subject to various other international conventions and laws and regulations in countries in which we operate, including laws and regulations relating to the importation of and operation of drilling units and equipment, currency conversions and repatriation, oil and gas exploration and development, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of drilling units and other equipment.

C. ORGANIZATIONAL STRUCTURE

Please see "Item 4. Information on the Company – A. History and Development of the Company" for further information on the Seadrill Limited group of companies.

A full list of our significant management, operating and rig-owning subsidiaries is shown in Exhibit 8.1.

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D. PROPERTY, PLANT AND EQUIPMENT

We own a substantially modern fleet of drilling units. The following table sets forth the units that we own or have contracted for delivery as of March 31, 2016:

Unit	Year built	Water depth (feet)	Drilling depth (feet)	Area of location	Month of contract expiry
Jack-up rigs					
West Epsilon (2)	1993	400	30,000	Norway	December 2016
West Resolute	2007	350	30,000	Sharjah, U.A.E.	available
West Prospero	2007	400	30,000	Malaysia	May 2016
West Vigilant	2008	350	30,000	Malaysia	available
West Ariel	2008	400	30,000	Republic of Congo	February 2018
West Triton	2008	375	30,000	Sharjah, U.A.E.	available
West Freedom	2009	350	30,000	Venezuela	April 2017
West Cressida	2009	375	30,000	Thailand	April 2016
West Mischief	2010	350	30,000	Abu Dhabi	November 2017
West Callisto	2010	400	30,000	Saudi Arabia	November 2018
West Leda	2010	375	30,000	Vietnam	available
West Elara (2)	2011	450	40,000	Norway	March 2017
West Castor	2013	400	30,000	Brunei	May 2016
West Telesto	2013	400	30,000	Malaysia	available
West Tucana	2013	400	30,000	In transit, Angola	June 2017
AOD-1 (3)	2013	400	30,000	Saudi Arabia	May 2016
AOD-2 (3)	2013	400	30,000	Saudi Arabia	July 2016
AOD-3 (3)	2013	400	30,000	Saudi Arabia	October 2016
West Linus (2) (5)	2014	450	40,000	Norway	May 2019
West Titan (NB)(1)	2016	400	30,000	Dalian Shipyard (China)	
West Proteus (NB)(1)	2016	400	30,000	Dalian Shipyard (China)	
West Rhea (NB)(1)	2016	400	30,000	Dalian Shipyard (China)	
West Tethys (NB)(1)	2016	400	30,000	Dalian Shipyard (China)	
West Hyperion (NB)(1)	2016	400	30,000	Dalian Shipyard (China)	
West Umbriel (NB)(1)	2016	400	30,000	Dalian Shipyard (China)	
West Dione (NB)(1)	2017	400	30,000	Dalian Shipyard (China)	
West Mimas (NB)(1)	2017	400	30,000	Dalian Shipyard (China)	
Semi-submersible rigs					
West Alpha (2)	1986	2,000	23,000	Norway	July 2016
West Venture (2)	2000	2,600	30,000	Norway	available

West Phoenix [2] [6]	2008	10,000	30,000	United Kingdom	September 2016
West Hercules [5]	2008	10,000	35,000	Canada	January 2017
West Taurus [5]	2008	10,000	35,000	Spain	available
West Eminence	2009	10,000	30,000	Spain	available
Sevan Driller [4] [7]	2009	10,000	40,000	Brazil	July 2016
West Orion	2010	10,000	35,000	Brazil	July 2016
West Pegasus	2011	10,000	35,000	Mexico	August 2018
West Eclipse	2011	10,000	40,000	Angola	June 2018
Sevan Brasil [4]	2012	10,000	40,000	Brazil	July 2018

Unit	Year built	Water depth (feet)	Drilling depth (feet)	Area of location	Month of contract expiry
Sevan Louisiana (4)	2013	10,000	40,000	USA	May 2017
Sevan Developer (NB)(1)(4)	2015	10,000	40,000	Cosco Shipyard (China)	
Drillships					
West Navigator (2)	2000	7,500	35,000	Norway	available
West Gemini	2010	10,000	35,000	Angola	October 2017
West Tellus	2013	12,000	40,000	Brazil	October 2019
West Neptune	2014	12,000	40,000	USA	December 2017
West Jupiter	2014	12,000	40,000	Nigeria	December 2019
West Saturn	2014	12,000	40,000	Nigeria	December 2016
West Carina	2015	12,000	40,000	Brazil	June 2018
West Draco (NB)(1)	2017	12,000	40,000	Samsung Heavy Industries (South Korea)	
West Dorado (NB)(1)	2017	12,000	40,000	Samsung Heavy Industries (South Korea)	
West Aquila (NB)(1)	2018	12,000	40,000	DSME Shipyard (South Korea)	
West Libra (NB)(1)	2019	12,000	40,000	DSME Shipyard (South Korea)	

(1) Newbuild under construction or in mobilization to its first drilling assignment.
(2) Owned by our subsidiary NADL, in which we own 70.4% of the outstanding shares.
(3) Owned by AOD, in which we own 66.2% of the outstanding shares.
(4) Owned by Sevan Drilling, in which we own 50.1% of the outstanding shares.
(5) Owned 100% by Ship Finance and leased back under bareboat charter agreements. These are consolidated in our financial statements as variable interest entities. Please see Note 35 of our Consolidated Financial Statements included herein for more information. The West Linus is 100% owned by Ship Finance and leased back to NADL.
(6) The West Phoenix receives a reduced dayrate whilst being warm stacked during the winter period, and subsequently commenced drilling operations in April 2016.
(7) The Sevan Driller contract with Shell in Brazil is for 60 days.

In addition to the drilling units listed above, as of December 31, 2015, we have buildings, plant and equipment with a net book value of $46 million, including office equipment. Our offices, including Stavanger and Oslo in Norway, Singapore, Houston in the United States, Rio de Janeiro in Brazil, Dubai in the United Arab Emirates, and Aberdeen, Liverpool and London in the United Kingdom are leased and the aggregate office operating costs were $23 million in 2015.

We do not have any material intellectual property rights.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following presentation of management's discussion and analysis of results of operations and financial condition should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included herein. You should also carefully read the following discussion with the sections of this Annual Report entitled "Cautionary Statement Regarding Forward-Looking Statements," "Item 3. Key Information—A. Selected Financial Data," "Item 3. Key Information—D. Risk Factors" and "Item 4. Information on the Company." Our Consolidated Financial Statements have been prepared in accordance with U.S. GAAP and are presented in U.S. dollars unless otherwise indicated.

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Fleet Development

The following table summarizes the development of our fleet of drilling units for the periods presented, based on the dates when the units began operations:

Unit type	Jack-up rigs	Floaters Drillships	Floaters Semi-submersible rigs	Tender rigs	Total units
December 31, 2012	16	4	12	11	43
additions	5	3	3	2	13
(disposals)	(1)	—	—	(10)	(11)
December 31, 2013	20	7	15	3	45
additions	4	3	1	—	8
(disposals)	—	(3)	(4)	(3)	(10)
December 31, 2014	24	7	12	—	43
additions	—	1	—	—	1
(disposals)	(5)	(1)			