

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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2022**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-8097

Valaris Limited

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction of
incorporation or organization)

98-1589854

(I.R.S. Employer
Identification No.)

Clarendon House, 2 Church Street

Hamilton Bermuda

(Address of principal executive offices)

HM 11

(Zip Code)

Registrant's telephone number, including area code: **+44 (0) 20 7659 4660**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Ticker Symbol(s)	Name of each exchange on which registered
Common Shares, \$0.01 par value share	VAL	New York Stock Exchange
Warrants to purchase Common Shares	VAL WS	New York Stock Exchange

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. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☒ No ☐

As of July 28, 2022, there were 75,178,547 common shares of the registrant issued and outstanding.

VALARIS LIMITED
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FOR THE QUARTER ENDED JUNE 30, 2022

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FORWARD-LOOKING STATEMENTS

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "likely," "plan," "project," "could," "may," "might," "should," "will" and similar words and specifically include statements regarding expected financial performance; expected utilization, day rates, revenues, operating expenses, cash flows, contract status, terms and duration, contract backlog, capital expenditures, insurance, financing and funding; the effect, impact, potential duration and other implications of the ongoing COVID-19 pandemic; impact of our emergence from bankruptcy; the offshore drilling market, including supply and demand, customer drilling programs, stacking of rigs, effects of new rigs on the market and effect of the volatility of commodity prices; expected work commitments, awards, contracts and letters of intent; the availability, delivery, mobilization, contract commencement or relocation or other movement of rigs and the timing thereof; future rig reactivations, enhancement, upgrade or repair and timing and cost thereof; the suitability of rigs for future contracts; performance of our joint venture with Saudi Arabian Oil Company ("Saudi Aramco"); expected divestitures of assets; general market, business and industry conditions, trends and outlook; general political conditions, including political tensions, conflicts and war (such as the ongoing conflict in Ukraine); future operations; the impact of increasing regulatory complexity; the outcome of tax disputes, assessments and settlements; expense management; and the likely outcome of litigation, legal proceedings, investigations or insurance or other claims or contract disputes and the timing thereof.

Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including:

- delays in contract commencement dates or cancellation, suspension, renegotiation or termination with or without cause of drilling contracts or drilling programs as a result of general or industry-specific economic conditions, mechanical difficulties, performance, delays in the delivery of critical drilling equipment, failure of the customer to receive final investment decision (FID) for which the drilling rig was contracted or other reasons;
- changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild drilling rigs or reactivation of stacked drilling rigs;
- requirements to make significant expenditures in connection with rig reactivations, customer drilling requirements and to comply with governing laws or regulations in the regions we operate;
- loss of a significant customer or customer contract, as well as customer consolidation and changes to customer strategy, including focusing on renewable energy projects;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, rising wages, unionization, or otherwise, or to retain employees;
- governmental policies that could reduce demand for hydrocarbons, including mandating or incentivizing the conversion from internal combustion engine powered vehicles to electric-powered vehicles;
- consumer preferences for alternative fuels and electric-powered vehicles, as part of the global energy transition, may lead to reduced demand for our services;
- increased scrutiny from regulators, market and industry participants, stakeholders and others in regards to our Environmental, Social and Governance practices and reporting responsibilities;
- the occurrence of cybersecurity incidents, attacks or other breaches to our information technology systems, including our rig operating systems;
- potential additional asset impairments;
- the adequacy of sources of liquidity for us and our customers;

- the COVID-19 pandemic, the related public health measures implemented by governments worldwide, the duration and severity of the outbreak and its impact on global oil demand, the volatility in prices for oil and natural gas and the extent of disruptions to our operations;
- downtime or temporary shutdown of operations of our rigs as a result of an outbreak of COVID-19 on one or more of our rigs;
- disruptions to the operations and business of our key customers, suppliers and other counterparties, including impacts affecting our supply chain and logistics;
- risks inherent to drilling rig reactivations, repair, modification or upgrades, unexpected delays in equipment delivery, engineering, design or commissioning issues following delivery, or changes in the commencement, completion or service dates;
- internal control risk due to significant employee reductions and changes in management;
- our ability to generate operational efficiencies from our shared services center and potential risks relating to the processing of transactions and recording of financial information;
- downtime and other risks associated with offshore rig operations, including rig or equipment failure, damage and other unplanned repairs, the limited availability of transport vessels, hazards, self-imposed drilling limitations and other delays due to severe storms and hurricanes and the limited availability or high cost of insurance coverage for certain offshore perils, such as hurricanes in the Gulf of Mexico or associated removal of wreckage or debris;
- our customers cancelling or shortening the duration of our drilling contracts, cancelling future drilling programs and seeking pricing and other contract concessions from us;
- decreases in levels of drilling activity and capital expenditures by our customers, whether as a result of the global capital markets and liquidity, prices of oil and natural gas, changes in tax policy (such as the U.K.'s recently announced windfall tax on oil and gas producers in the British North Sea), climate change concerns or otherwise, which may cause us to idle, stack or retire additional rigs;
- general economic and business conditions, including recessions, inflation, and adverse changes in the level of international trade activity;
- governmental action, terrorism, cyber-attacks, piracy, military action and political and economic uncertainties, including civil unrest, political demonstrations, mass strikes, or an escalation or additional outbreak of armed hostilities or other crises in oil or natural gas producing areas of the Middle East, North Africa, West Africa, Southeast Asia, Eastern Europe or other geographic areas, which may result in expropriation, nationalization, confiscation or deprivation or destruction of our assets; suspension and/or termination of contracts based on force majeure events or adverse environmental safety events; or volatility in prices of oil and natural gas;
- disputes over production levels among members of the Organization of Petroleum Exporting Countries and other oil and gas producing nations ("OPEC+"), which could result in increased volatility in prices for oil and natural gas that could affect the markets for our services;
- our ability to enter into, and the terms of, future drilling contracts, including contracts for newbuild rigs and acquired rigs, for rigs currently idled and for rigs whose contracts are expiring;
- any failure to execute definitive contracts following announcements of letters of intent, letters of award or other expected work commitments;
- the outcome of litigation, legal proceedings, investigations or other claims or contract disputes, including any inability to collect receivables or resolve significant contractual or day rate disputes, and any renegotiation, nullification, cancellation or breach of contracts with customers or other parties;

- governmental regulatory, legislative and permitting requirements affecting drilling operations, including limitations on drilling locations (such as the Gulf of Mexico during hurricane season), limitations on new oil and gas leasing in U.S. federal lands and waters, and regulatory measures to limit or reduce greenhouse gas emissions;
- potential impacts on our business resulting from climate-change or greenhouse gas legislation or regulations, and the impact on our business from climate-change related physical changes or changes in weather patterns;
- new and future regulatory, legislative or permitting requirements, future lease sales, changes in laws, rules and regulations that have or may impose increased financial responsibility, additional oil spill abatement contingency plan capability requirements and other governmental actions that may result in claims of force majeure or otherwise adversely affect our existing drilling contracts, operations or financial results;
- environmental or other liabilities, risks, damages or losses, whether related to storms, hurricanes or other weather-related events (including wreckage or debris removal), collisions, groundings, blowouts, fires, explosions, cyberattacks, terrorism or otherwise, for which insurance coverage and contractual indemnities may be insufficient, unenforceable or otherwise unavailable;
- tax matters, including our effective tax rates, tax positions, results of audits, changes in tax laws, treaties and regulations, tax assessments and liabilities for taxes;
- our ability to realize the expected benefits of our joint venture with Saudi Aramco, including our ability to fund any required capital contributions or to enforce any payment obligations of the joint venture pursuant to outstanding shareholder notes receivable;
- the impact of our emergence from bankruptcy on our business and relationships and comparability of our financial results, as well as the potentially dilutive impacts of warrants issued pursuant to the plan of reorganization;
- the costs, disruption and diversion of our management's attention associated with campaigns by activist securityholders;
- economic volatility and political, legal and tax uncertainties following the U.K.'s exit from the European Union; and
- adverse changes in foreign currency exchange rates, including their effect on the fair value measurement of any derivative instruments that we may enter into.

In addition to the numerous risks, uncertainties and assumptions described above, you should also carefully read and consider "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I and "Item 1A. Risk Factors" in Part II of this report, and "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our annual report on Form 10-K for the year ended December 31, 2021, which is available on the U.S. Securities and Exchange Commission website at www.sec.gov. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

PART I - FINANCIAL INFORMATION

Item 1. *Financial Statements*

VALARIS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
OPERATING REVENUES	\$ 413.3	\$ 202.8	\$ 90.3
OPERATING EXPENSES			
Contract drilling (exclusive of depreciation)	361.8	168.6	90.2
Loss on impairment	34.5	—	—
Depreciation	22.3	16.6	37.5
General and administrative	19.0	12.7	6.4
Total operating expenses	437.6	197.9	134.1
EQUITY IN EARNINGS OF ARO	8.7	4.8	1.2
OPERATING INCOME (LOSS)	(15.6)	9.7	(42.6)
OTHER INCOME (EXPENSE)			
Interest income	11.2	7.8	1.0
Interest expense, net (Unrecognized contractual interest expense for debt subject to compromise was \$32.6 million for the one month ended April 30, 2021)	(11.6)	(8.0)	(1.1)
Reorganization items, net	(0.7)	(4.1)	(3,532.4)
Other, net	149.7	5.6	3.4
	148.6	1.3	(3,529.1)
INCOME (LOSS) BEFORE INCOME TAXES	133.0	11.0	(3,571.7)
PROVISION (BENEFIT) FOR INCOME TAXES			
Current income tax expense	12.9	14.0	3.6
Deferred income tax expense (benefit)	7.3	1.1	(19.1)
	20.2	15.1	(15.5)
NET INCOME (LOSS)	112.8	(4.1)	(3,556.2)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(1.2)	(2.1)	(0.8)
NET INCOME (LOSS) ATTRIBUTABLE TO VALARIS	\$ 111.6	\$ (6.2)	\$ (3,557.0)
EARNINGS (LOSS) PER SHARE			
Basic	\$ 1.49	\$ (0.08)	\$ (17.81)
Diluted	\$ 1.48	\$ (0.08)	\$ (17.81)
WEIGHTED-AVERAGE SHARES OUTSTANDING			
Basic	75.0	75.0	199.7
Diluted	75.6	75.0	199.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALARIS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
OPERATING REVENUES	\$ 731.7	\$ 202.8	\$ 397.4
OPERATING EXPENSES			
Contract drilling (exclusive of depreciation)	693.1	168.6	343.8
Loss on impairment	34.5	—	756.5
Depreciation	44.8	16.6	159.6
General and administrative	37.8	12.7	30.7
Total operating expenses	810.2	197.9	1,290.6
EQUITY IN EARNINGS OF ARO	13.0	4.8	3.1
OPERATING INCOME (LOSS)	(65.5)	9.7	(890.1)
OTHER INCOME (EXPENSE)			
Interest income	22.1	7.8	3.6
Interest expense, net (Unrecognized contractual interest expense for debt subject to compromise was \$132.9 million for the four months ended April 30, 2021)	(23.1)	(8.0)	(2.4)
Reorganization items, net	(1.7)	(4.1)	(3,584.6)
Other, net	160.7	5.6	25.9
	158.0	1.3	(3,557.5)
INCOME (LOSS) BEFORE INCOME TAXES	92.5	11.0	(4,447.6)
PROVISION FOR INCOME TAXES			
Current income tax expense	12.8	14.0	34.4
Deferred income tax expense (benefit)	6.7	1.1	(18.2)
	19.5	15.1	16.2
NET INCOME (LOSS)	73.0	(4.1)	(4,463.8)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	(2.1)	(3.2)
NET INCOME (LOSS) ATTRIBUTABLE TO VALARIS	\$ 73.0	\$ (6.2)	\$ (4,467.0)
EARNINGS (LOSS) PER SHARE			
Basic	\$ 0.97	\$ (0.08)	\$ (22.38)
Diluted	\$ 0.97	\$ (0.08)	\$ (22.38)
WEIGHTED-AVERAGE SHARES OUTSTANDING			
Basic	75.0	75.0	199.6
Diluted	75.5	75.0	199.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALARIS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
NET INCOME (LOSS)	\$ 112.8	\$ (4.1)	\$ (3,556.2)
OTHER COMPREHENSIVE INCOME (LOSS), NET			
Net reclassification adjustment for amounts recognized in net income as a component of net periodic benefit	(0.1)	—	—
Other	0.3	(0.2)	(0.2)
NET OTHER COMPREHENSIVE INCOME (LOSS)	0.2	(0.2)	(0.2)
COMPREHENSIVE INCOME (LOSS)	113.0	(4.3)	(3,556.4)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(1.2)	(2.1)	(0.8)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO VALARIS	\$ 111.8	\$ (6.4)	\$ (3,557.2)

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALARIS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
NET INCOME (LOSS)	\$ 73.0	\$ (4.1)	\$ (4,463.8)
OTHER COMPREHENSIVE LOSS, NET			
Net reclassification adjustment for amounts recognized in net income (loss) as a component of net periodic benefit	(0.1)	—	0.1
Reclassification of net gains on derivative instruments from other comprehensive loss into net loss	—	—	(5.6)
Other	—	(0.2)	—
NET OTHER COMPREHENSIVE LOSS	(0.1)	(0.2)	(5.5)
COMPREHENSIVE INCOME (LOSS)	72.9	(4.3)	(4,469.3)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	(2.1)	(3.2)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO VALARIS	\$ 72.9	\$ (6.4)	\$ (4,472.5)

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALARIS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except treasury shares and par value amounts)

	June 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 553.5	\$ 608.7
Restricted cash	23.8	35.9
Accounts receivable, net	544.6	444.2
Other current assets	159.0	117.8
Total current assets	1,280.9	1,206.6
PROPERTY AND EQUIPMENT, AT COST	1,042.6	957.0
Less accumulated depreciation	110.9	66.1
Property and equipment, net	931.7	890.9
LONG-TERM NOTES RECEIVABLE FROM ARO	264.5	249.1
INVESTMENT IN ARO	99.6	86.6
OTHER ASSETS	184.1	176.0
	\$ 2,760.8	\$ 2,609.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 287.0	\$ 225.8
Accrued liabilities and other	260.1	196.2
Total current liabilities	547.1	422.0
LONG-TERM DEBT	545.7	545.3
OTHER LIABILITIES	527.6	581.1
Total liabilities	1,620.4	1,548.4
COMMITMENTS AND CONTINGENCIES		
VALARIS SHAREHOLDERS' EQUITY		
Common shares, \$0.01 par value, 700 shares authorized, 75 shares issued as of June 30, 2022 and December 31, 2021	0.8	0.8
Preference shares, \$0.01 par value, 150 shares authorized, no shares issued as of June 30, 2022 and December 31, 2021	—	—
Stock warrants	16.4	16.4
Additional paid-in capital	1,089.9	1,083.0
Retained earnings (deficit)	40.0	(33.0)
Accumulated other comprehensive loss	(9.2)	(9.1)
Treasury shares, at cost, 3 thousand shares as of June 30, 2022	(0.2)	—
Total Valaris shareholders' equity	1,137.7	1,058.1
NONCONTROLLING INTERESTS	2.7	2.7
Total equity	1,140.4	1,060.8
	\$ 2,760.8	\$ 2,609.2

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALARIS LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
OPERATING ACTIVITIES			
Net income (loss)	\$ 73.0	\$ (4.1)	\$ (4,463.8)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
(Gain) loss on asset disposals	(137.6)	0.1	(6.0)
Depreciation expense	44.8	16.6	159.6
Loss on impairment	34.5	—	756.5
Accretion of discount on shareholders note	(15.4)	(6.0)	—
Equity in earnings of ARO	(13.0)	(4.8)	(3.1)
Net periodic pension and retiree medical income	(8.1)	(2.4)	(5.4)
Share-based compensation expense	6.9	—	4.8
Deferred income tax expense (benefit)	6.7	1.1	(18.2)
Amortization, net	(1.6)	(0.3)	(4.8)
Amortization of debt issuance cost	0.4	0.4	—
Non-cash reorganization items, net	—	—	3,487.3
Other	0.3	(0.2)	7.3
Changes in operating assets and liabilities	(102.3)	(25.7)	68.5
Contributions to pension plans and other post-retirement benefits	(2.7)	(0.6)	(22.5)
Net cash used in operating activities	(114.1)	(25.9)	(39.8)
INVESTING ACTIVITIES			
Net proceeds from disposition of assets	146.5	0.2	30.1
Additions to property and equipment	(99.6)	(8.1)	(8.7)
Net cash provided by (used in) investing activities	46.9	(7.9)	21.4
FINANCING ACTIVITIES			
Issuance of first lien notes	—	—	520.0
Payments to Predecessor creditors	—	—	(129.9)
Other	(0.2)	—	(1.4)
Net cash provided by (used in) financing activities	(0.2)	—	388.7
Effect of exchange rate changes on cash and cash equivalents and restricted cash	0.1	(0.3)	(0.1)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(67.3)	(34.1)	370.2
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	644.6	696.0	325.8
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	\$ 577.3	\$ 661.9	\$ 696.0

The accompanying notes are an integral part of these condensed consolidated financial statements.

VALARIS LIMITED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Unaudited Condensed Consolidated Financial Statements

We prepared the accompanying condensed consolidated financial statements of Valaris Limited and its subsidiaries ("Valaris" or "Successor") in accordance with accounting principles generally accepted in the United States of America ("GAAP"), pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") included in the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial information included in this report is unaudited but, in our opinion, includes all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented. The December 31, 2021 Condensed Consolidated Balance Sheet data was derived from our 2021 audited consolidated financial statements but does not include all disclosures required by GAAP. The preparation of our condensed consolidated financial statements requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the related revenues and expenses and disclosures of gain and loss contingencies as of the date of the financial statements. Actual results could differ from those estimates.

Results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2022, or for any future period. We recommend these condensed consolidated financial statements be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 22, 2022 (our "Annual Report").

Summary of Significant Accounting Policies

Please refer to "Note 1. Description of the Business and Summary of Significant Accounting Policies" of our Consolidated Financial Statements from our Annual Report for the discussion of our significant accounting policies. Certain previously reported amounts have been reclassified to conform to the current year presentation.

Emergence from Chapter 11 Bankruptcy and Fresh Start Accounting

As described in "Note 1. Description of the Business and Summary of Significant Accounting Policies", "Note 2. Chapter 11 Proceedings" and "Note 3. Fresh Start Accounting" from our Annual Report, we filed voluntary petitions for bankruptcy on August 19, 2020 (the "Petition Date"), and on April 30, 2021 (the "Effective Date") emerged from bankruptcy.

References to the financial position and results of operations of the "Successor" relate to the financial position and results of operations of Valaris Limited, together with its consolidated subsidiaries, after the Effective Date. References to the financial position and results of operations of the "Predecessor" refer to the financial position and results of operations of Valaris plc ("Legacy Valaris"), together with its consolidated subsidiaries, on and prior to the Effective Date. References to the "Company," "we," "us" or "our" in this Quarterly Report are to Valaris Limited, together with its consolidated subsidiaries, when referring to periods following the Effective Date, and to Legacy Valaris, together with its consolidated subsidiaries, when referring to periods prior to and including the Effective Date.

On the Effective Date, we qualified for and applied fresh start accounting. The application of fresh start accounting resulted in a new basis of accounting, and we became a new entity for financial reporting purposes. Accordingly, our financial statements and notes after the Effective Date are not comparable to our financial statements and notes on and prior to that date. The condensed consolidated financial statements and notes have been presented with a black line division to delineate the lack of comparability between the Predecessor and Successor. Historical financial statements on or before the Effective Date are not a reliable indicator of the Company's financial condition and results of operations for any period after the adoption of fresh start accounting.

New Accounting Pronouncements

Recently adopted accounting pronouncements

Leases - In July 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-05, *"Leases (Topic 842); Lessors - Certain Leases with Variable Lease Payments,"* ("Update 2021-05") which requires a lessor to classify a lease with entirely or partially variable payments that do not depend on an index or rate as an operating lease if another classification (i.e. sales-type or direct financing) would trigger a day-one loss. Update 2021-05 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. We adopted this update January 1, 2022 using a prospective method, with no material impact to our condensed consolidated financial statements.

Accounting pronouncements to be adopted

Reference Rate Reform - In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("Update 2020-04"), which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in Update 2020-04 apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, for which an entity has elected certain optional expedients and that are retained through the end of the hedging relationship. The provisions in Update 2020-04 are effective upon issuance and can be applied prospectively through December 31, 2022. Our notes receivable with ARO, from which we generate interest income on a LIBOR-based rate, are impacted by the application of this standard. As the notes bear interest on the LIBOR rate determined at the end of the preceding year, the rate governing our interest income in 2022 has already been determined. We expect to be able to modify the terms of our notes receivable to a comparable interest rate before the applicable LIBOR rate is no longer available and as such, do not expect this standard to have a material impact to our condensed consolidated financial statements.

Business Combinations - In October 2021, the FASB issued ASU No. 2021-08, *"Accounting for Contract Assets and Contract Liabilities from Contracts with Customers"* ("Update 2021-08"). ASU No. 2021-08 requires an entity (acquirer) to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 and provides practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination. The amendments also apply to contract assets and contract liabilities from other contracts to which the provisions of Topic 606 apply, such as contract liabilities for the sale of nonfinancial assets within the scope of Subtopic 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets*. The FASB issued the update to improve the accounting for acquired revenue contracts with customers in a business combination. Update 2021-08 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years, with early adoption permitted. We will adopt Update 2021-08 in the period required and will apply it to any business combination completed subsequent to the adoption.

With the exception of the updated standards discussed above, there have been no accounting pronouncements issued and not yet effective that have significance, or potential significance, to our condensed consolidated financial statements.

Note 2 - Revenue from Contracts with Customers

Our drilling contracts with customers provide a drilling rig and drilling services on a day rate contract basis. Under day rate contracts, we provide an integrated service that includes the provision of a drilling rig and rig crews for which we receive a daily rate that may vary between the full rate and zero rate throughout the duration of the contractual term, depending on the operations of the rig.

We also may receive lump-sum fees or similar compensation generally for the mobilization, demobilization, capital upgrades of our rigs. Our customers bear substantially all of the costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well.

Our drilling contracts contain a lease component and we have elected to apply the practical expedient provided under Accounting Standards Codification ("ASC") 842 to not separate the lease and non-lease components and apply the revenue recognition guidance in ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606)"*. Our drilling service provided under each drilling contract is a single performance obligation satisfied over time and comprised of a series of distinct time increments, or service periods. Total revenue is determined for each individual drilling contract by estimating both fixed and variable consideration expected to be earned over the contract term. Fixed consideration generally relates to activities such as mobilization, demobilization and capital upgrades of our rigs that are not distinct performance obligations within the context of our contracts and is recognized on a straight-line basis over the contract term. Variable consideration generally relates to distinct service periods during the contract term and is recognized in the period when the services are performed.

The amount estimated for variable consideration is only recognized as revenue to the extent that it is probable that a significant reversal will not occur during the contract term. We have applied the optional exemption afforded in ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606)"*, and have not disclosed the variable consideration related to our estimated future day rate revenues. The remaining duration of our drilling contracts based on those in place as of June 30, 2022 was between approximately 1 month and 3 years.

Contract Termination - VALARIS DS-11

In July 2021, a contract was awarded to VALARIS DS-11 for an eight-well deepwater project in the U.S. Gulf of Mexico that was expected to commence in mid-2024. The contract required the rig to be upgraded with 20,000 psi well-control equipment. In February 2022, the customer decided not to sanction and therefore withdrew from the project associated with this contract. In March 2022, the contract was novated to another customer, which was a partner on the project. No material changes to the contract resulted from the novation, including with respect to the termination provisions in the event the project did not receive final investment decision (FID). In June 2022, the customer terminated the contract awarded to VALARIS DS-11.

As a result of the contract termination, we received an early termination fee of \$51.0 million which is included in revenues on our condensed consolidated statements of operations for the three and six months ended June 30, 2022. As of June 30, 2022, the \$51.0 million termination fee was included in Accounts receivable, net on our Condensed Consolidated Balance Sheet and was subsequently collected in July 2022.

As of the date of the termination, we had incurred costs to upgrade the rig pursuant to the requirements of the contract. Costs incurred for capital upgrades specific to the customer requirements were considered to be impaired and as such, we recorded a pre-tax, non-cash loss on impairment in the second quarter of 2022 of \$34.5 million. Additional costs were recorded for penalties and other costs incurred upon cancellation of equipment ordered. See ["Note 5 - Property and Equipment"](#) for additional information on the impairment.

Day Rate Drilling Revenue

Our drilling contracts provide for payment on a day rate basis and include a rate schedule with higher rates for periods when the drilling rig is operating and lower rates or zero rates for periods when drilling operations are interrupted or restricted. The day rate invoiced to the customer is determined based on the varying rates applicable to specific activities performed on an hourly or other time increment basis. Day rate consideration is allocated to the distinct hourly or other time increment to which it relates within the contract term and is generally recognized consistent with the contractual rate invoiced for the services provided during the respective period. Invoices are typically issued to our customers on a monthly basis and payment terms on customer invoices are typically 30 days.

Certain of our contracts contain performance incentives whereby we may earn a bonus based on pre-established performance criteria. Such incentives are generally based on our performance over individual monthly time periods or individual wells. Consideration related to performance bonus is generally recognized in the specific time period to which the performance criteria was attributed.

We may receive termination fees if certain drilling contracts are terminated by the customer prior to the end of the contractual term. Such compensation is recognized as revenue when our performance obligation is satisfied, the termination fee can be reasonably measured and collection is probable.

Mobilization / Demobilization Revenue

In connection with certain contracts, we receive lump-sum fees or similar compensation for the mobilization of equipment and personnel prior to the commencement of drilling services or the demobilization of equipment and personnel upon contract completion. Fees received for the mobilization or demobilization of equipment and personnel are included in Operating revenues. The costs incurred in connection with the mobilization and demobilization of equipment and personnel are included in Contract drilling expense.

Mobilization fees received prior to commencement of drilling operations are recorded as a contract liability and amortized on a straight-line basis over the contract term. Demobilization fees expected to be received upon contract completion are estimated at contract inception and recognized on a straight-line basis over the contract term. In some cases, demobilization fees may be contingent upon the occurrence or non-occurrence of a future event. In such cases, this may result in cumulative-effect adjustments to demobilization revenues upon changes in our estimates of future events during the contract term.

Capital Upgrade / Contract Preparation Revenue

In connection with certain contracts, we receive lump-sum fees or similar compensation generally for requested capital upgrades to our drilling rigs or for other contract preparation work. Fees received for requested capital upgrades and other contract preparation work are recorded as a contract liability and amortized on a straight-line basis over the contract term to Operating revenues.

Contract Assets and Liabilities

Contract assets represent amounts recognized as revenue but for which the right to invoice the customer is dependent upon our future performance. Once the previously recognized revenue is invoiced, the corresponding contract asset, or a portion thereof, is transferred to accounts receivable.

Contract liabilities generally represent fees received for mobilization, capital upgrades or in the case of our 50/50 joint venture with Saudi Aramco, represent the difference between the amounts billed under the bareboat charter arrangements and lease revenues earned up to the respective period end. See "[Note 3](#) – Equity Method Investment in ARO" for additional details regarding our balances with ARO.

Contract assets and liabilities are presented net on our Condensed Consolidated Balance Sheets on a contract-by-contract basis. Current contract assets and liabilities are included in Other current assets and Accrued liabilities and other, respectively, and noncurrent contract assets and liabilities are included in Other assets and Other liabilities, respectively, on our Condensed Consolidated Balance Sheets.

The following table summarizes our contract assets and contract liabilities (in millions):

	June 30, 2022	December 31, 2021
Current contract assets	\$ 0.5	\$ 0.3
Noncurrent contract assets	\$ 0.8	\$ —
Current contract liabilities (deferred revenue)	\$ 63.5	\$ 45.8
Noncurrent contract liabilities (deferred revenue)	\$ 13.9	\$ 10.8

Changes in contract assets and liabilities during the period are as follows (in millions):

	Contract Assets	Contract Liabilities
Balance as of December 31, 2021	\$ 0.3	\$ 56.6
Revenue recognized in advance of right to bill customer	4.4	—
Increase due to cash received	—	53.2
Decrease due to amortization of deferred revenue that was included in the beginning contract liability balance	—	(25.5)
Decrease due to amortization of deferred revenue added during the period	—	(6.9)
Decrease due to transfer to receivables during the period	(3.4)	—
Balance as of June 30, 2022	\$ 1.3	\$ 77.4

Deferred Contract Costs

Costs incurred for upfront rig mobilizations and certain contract preparations are attributable to our future performance obligation under each respective drilling contract. These costs are deferred and amortized on a straight-line basis over the contract term. Demobilization costs are recognized as incurred upon contract completion. Costs associated with the mobilization of equipment and personnel to more promising market areas without contracts are expensed as incurred. Deferred contract costs were included in Other current assets and Other assets on our Condensed Consolidated Balance Sheets and totaled \$73.7 million and \$31.4 million as of June 30, 2022 and December 31, 2021, respectively. For the Successor, during the three and six months ended June 30, 2022 and two months ended June 30, 2021, amortization of such costs totaled \$10.5 million, \$22.2 million and \$1.8 million, respectively. For the Predecessor, during the one month and four months ended April 30, 2021, amortization of such costs totaled \$1.8 million and \$7.6 million, respectively.

Deferred Certification Costs

We must obtain certifications from various regulatory bodies in order to operate our drilling rigs and must maintain such certifications through periodic inspections and surveys. The costs incurred in connection with maintaining such certifications, including inspections, tests, surveys and drydock, as well as remedial structural work and other compliance costs, are deferred and amortized on a straight-line basis over the corresponding certification periods. Deferred regulatory certification and compliance costs were included in Other current assets and Other assets on our Condensed Consolidated Balance Sheets and totaled \$10.5 million and \$3.3 million as of June 30, 2022 and December 31, 2021, respectively. For the Successor, during the three and six months ended June 30, 2022 and two months ended June 30, 2021, amortization of such costs totaled \$0.8 million, \$1.1 million and \$0.1 million, respectively. For the Predecessor, during the one month and four months ended April 30, 2021, amortization of such costs totaled \$0.5 million and \$3.1 million, respectively.

Future Amortization of Contract Liabilities and Deferred Costs

Our contract liabilities and deferred costs are amortized on a straight-line basis over the contract term or corresponding certification period to Operating revenues and Contract drilling expense, respectively, with the exception of the contract liabilities related to our bareboat charter arrangements with ARO which would not be contractually payable until the end of the lease term or termination, if sooner. See "[Note 3 - Equity Method Investment in ARO](#)" for additional information on ARO and related arrangements. The table below reflects the expected future amortization of our contract liabilities and deferred costs recorded as of June 30, 2022. In the case of our contract liabilities related to our bareboat charter arrangements with ARO, the contract liability is not amortized and as such, the amount is reflected in the table below at the end of the lease term.

	(In millions)			
	Remaining 2022	2023	2024	Total
Amortization of contract liabilities	\$ 46.9	\$ 23.0	\$ 7.5	\$ 77.4
Amortization of deferred costs	\$ 35.3	\$ 40.9	\$ 8.0	\$ 84.2

Note 3 - Equity Method Investment in ARO

Background

ARO is a 50/50 unconsolidated joint venture between the Company and Saudi Aramco that owns and operates offshore drilling rigs in Saudi Arabia. As of June 30, 2022, ARO owns seven jackup rigs, has ordered two newbuild jackup rigs, and leases seven rigs from us through bareboat charter arrangements (the "Lease Agreements") whereby substantially all operating costs are incurred by ARO. At June 30, 2022, each of the leased rigs were operating under three-year drilling contracts with Saudi Aramco. The seven rigs owned by ARO are currently operating under contracts with Saudi Aramco for an aggregate 15 years provided that the rigs meet the technical and operational requirements of Saudi Aramco.

ARO has plans to purchase 20 newbuild jackup rigs over an approximate 10-year period. In January 2020, ARO ordered the first two newbuild jackups, each with a shipyard price of \$176.0 million. These newbuild rigs are expected to be delivered in the first or second quarter of 2023 and ARO is expected to place orders for two additional newbuild jackups in 2022. In connection with these plans, we have a potential obligation to fund ARO for newbuild jackup rigs. See "[Note 11 - Contingencies](#)" for additional information.

The joint venture partners agreed in the shareholders' agreement that Saudi Aramco, as a customer, will provide drilling contracts to ARO in connection with the acquisition of the newbuild rigs. The initial contracts provided by Saudi Aramco for each of the newbuild rigs will be for an eight-year term. The day rate for the initial contracts for each newbuild rig will be determined using a pricing mechanism that targets a six-year payback period for construction costs on an EBITDA basis. The initial eight-year contracts will be followed by a minimum of another eight years of term, re-priced in three-year intervals based on a market pricing mechanism.

Summarized Financial Information

The operating revenues of ARO presented below reflect revenues earned under drilling contracts with Saudi Aramco for the seven ARO-owned jackup rigs as well as the rigs leased from us.

Contract drilling expense is inclusive of the bareboat charter fees for the rigs leased from us. See additional discussion below regarding these related-party transactions.

Summarized financial information for ARO is as follows (in millions):

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Revenues	\$ 116.4	\$ 124.8	\$ 227.7	\$ 247.5
Operating expenses				
Contract drilling (exclusive of depreciation)	82.1	92.7	166.3	179.0
Depreciation	15.4	14.6	31.9	30.7
General and administrative	3.2	4.3	8.4	7.3
Operating income	15.7	13.2	21.1	30.5
Other expense, net	3.3	3.1	6.6	7.6
Provision for income taxes	2.5	1.9	3.2	6.4
Net income	\$ 9.9	\$ 8.2	\$ 11.3	\$ 16.5

	June 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 293.3	\$ 270.8
Other current assets	106.3	135.0
Non-current assets	777.5	775.8
Total assets	\$ 1,177.1	\$ 1,181.6
Current liabilities	\$ 63.7	\$ 79.9
Non-current liabilities	958.7	956.7
Total liabilities	\$ 1,022.4	\$ 1,036.6

Equity in Earnings of ARO

We account for our interest in ARO using the equity method of accounting and only recognize our portion of ARO's net income, adjusted for basis differences as discussed below, which is included in Equity in earnings (losses) of ARO in our Condensed Consolidated Statements of Operations. ARO is a variable interest entity; however, we are not the primary beneficiary and therefore do not consolidate ARO. Judgments regarding our level of influence over ARO included considering key factors such as each partner's ownership interest, representation on the board of managers of ARO and ability to direct activities that most significantly impact ARO's economic performance, including the ability to influence policy-making decisions. Our investment in ARO would be assessed for impairment if there are changes in facts and circumstances that indicate a loss in value may have occurred. If a loss were deemed to have occurred and this loss was determined to be other than temporary, the carrying value of our investment would be written down to fair value and an impairment recorded.

We have an equity method investment in ARO that was recorded at its estimated fair value at both the Effective Date and the date of our combination with our joint venture partner. We computed the difference between the fair value of ARO's net assets and the carrying value of those net assets in ARO's U.S. GAAP financial statements ("basis differences") on each of these dates. These basis differences primarily related to ARO's long-lived assets and the recognition of intangible assets associated with certain of ARO's drilling contracts that were determined to have favorable terms as of the measurement dates.

Basis differences are amortized over the remaining life of the assets or liabilities to which they relate and are recognized as an adjustment to the Equity in earnings (losses) of ARO in our Condensed Consolidated Statements of Operations. The amortization of those basis differences are combined with our 50% interest in ARO's net income. A reconciliation of those components is presented below (in millions):

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
50% interest in ARO net income	\$ 5.0	\$ 2.3	\$ 1.9
Amortization of basis differences	3.7	2.5	(0.7)
Equity in earnings of ARO	\$ 8.7	\$ 4.8	\$ 1.2

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
50% interest in ARO net income	\$ 5.7	\$ 2.3	\$ 6.0
Amortization of basis differences	7.3	2.5	(2.9)
Equity in earnings of ARO	\$ 13.0	\$ 4.8	\$ 3.1

Related-Party Transactions

Revenues recognized by us related to the Lease Agreements are as follows (in millions):

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
Lease revenue	\$ 14.6	\$ 10.3	\$ 5.1

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
Lease revenue	\$ 28.8	\$ 10.3	\$ 21.7

Amounts receivable from ARO totaled \$6.4 million and \$12.1 million as of June 30, 2022 and December 31, 2021, respectively, and are included in Accounts receivable, net, on our Condensed Consolidated Balance Sheets.

We had \$15.8 million and \$37.1 million of Contract liabilities and Accounts payable, respectively, related to the Lease Agreements as of June 30, 2022. As of December 31, 2021, we had \$10.8 million and \$38.3 million of Contract liabilities and Accounts payable, respectively, related to the Lease Agreements. The per day bareboat charter amount in the Lease Agreements is subject to adjustment based on actual performance of the respective rig and as such Contract liabilities related to the Lease Agreements are subject to adjustment during the lease term. Upon completion of the lease term, such amount becomes a payable to or a receivable from ARO.

During 2017 and 2018, the Company contributed cash to ARO in exchange for ten-year shareholder notes receivable with interest based on a one-year LIBOR rate, set as of the end of the year prior to the year applicable, plus two percent. The notes receivable were adjusted to fair value as of the Effective Date by recording a discount to the principal amount of \$442.7 million. The discount is being amortized using the effective interest method to interest income over the remaining terms of the notes. As of June 30, 2022 and December 31, 2021, the carrying amount of the long-term notes receivable from ARO was \$264.5 million and \$249.1 million, respectively. The agreement entered into by us and Saudi Aramco to create ARO prohibits the sale or transfer of the shareholder note to a third party, except in certain limited circumstances. During the three months ended June 30, 2022 (Successor), interest income totaled \$10.7 million of which \$7.7 million pertains to non-cash amortization of the discount on the shareholder notes. During the six months ended June 30, 2022 (Successor), interest income totaled \$21.2 million of which \$15.4 million pertains to non-cash amortization of the discount on the shareholder notes. For the Successor, during the two months ended June 30, 2021, interest income totaled \$7.7 million of which \$6.0 million pertains to non-cash amortization of the discount on the shareholder notes. For the Predecessor, the one month and four months ended April 30, 2021, interest income totaled \$0.9 million and \$3.5 million, respectively. As of June 30, 2022, our interest receivable from ARO was \$5.8 million, which is included in Accounts receivable, net, on our Condensed Consolidated Balance Sheet. We collected our 2021 interest on our long-term notes receivable from ARO in cash prior to December 31, 2021 and as such there was no interest receivable from ARO as of December 31, 2021.

Maximum Exposure to Loss

The following table summarizes the total assets and liabilities as reflected in our Condensed Consolidated Balance Sheets as well as our maximum exposure to loss related to ARO (in millions). Our maximum exposure to loss is limited to (1) our equity investment in ARO; (2) the carrying amount of our shareholder notes receivable; and (3) other receivables and contract assets from ARO, partially offset by contract liabilities as well as payables to ARO.

	June 30, 2022	December 31, 2021
Total assets	\$ 377.2	\$ 348.1
Less: total liabilities	52.9	49.1
Maximum exposure to loss	\$ 324.3	\$ 299.0

Note 4 - Fair Value Measurements

The carrying values and estimated fair values of our long-term debt instrument were as follows (in millions):

	June 30, 2022		December 31, 2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Senior secured first lien notes due 2028	\$ 545.7	\$ 534.6	\$ 545.3	\$ 575.7

The estimated fair value of the Senior Secured First Lien Notes (the "First Lien Notes") was determined using quoted market prices, which are level 1 inputs.

As of June 30, 2022, the estimated fair value of our notes receivable from ARO was \$293.1 million and was estimated by using an income approach to value the forecasted cash flows attributed to the notes receivable using a discount rate based on comparable yield with a country-specific risk premium.

The estimated fair values of our cash and cash equivalents, restricted cash, accounts receivable and trade payables approximated their carrying values as of June 30, 2022 and December 31, 2021.

Note 5 - Property and Equipment

Property and equipment consisted of the following (in millions):

	June 30, 2022	December 31, 2021
Drilling rigs and equipment	\$ 973.7	\$ 886.9
Work-in-progress	30.5	35.6
Other	38.4	34.5
	\$ 1,042.6	\$ 957.0

Assets held-for-use

On a quarterly basis, we evaluate the carrying value of our property and equipment to identify events or changes in circumstances ("triggering events") that indicate the carrying value may not be recoverable. For rigs whose carrying values are determined not to be recoverable, we record an impairment for the difference between their fair values and carrying values.

Successor

In June 2022, the drilling contract previously awarded to VALARIS DS-11 was terminated. As of the date of termination, we had incurred costs to upgrade the rig pursuant to the requirements of the contract. Costs incurred related to these capital upgrades were included in work-in-progress and upon termination were determined to be impaired. We recorded a pre-tax, non-cash loss on impairment in the second quarter of 2022 of \$34.5 million. See "[Note 2](#) - Revenue from Contracts with Customers" for additional information regarding the termination.

Predecessor

During the first quarter of 2021, as a result of challenging market conditions for certain of our floaters, we revised our near-term operating assumptions which resulted in a triggering event for purposes of evaluating impairment. We determined that the estimated undiscounted cash flows were not sufficient to recover the carrying values for certain rigs and concluded they were impaired as of March 31, 2021.

Based on the asset impairment analysis performed as of March 31, 2021, we recorded a pre-tax, non-cash loss on impairment in the first quarter of 2021 for certain floaters totaling \$756.5 million, inclusive of \$5.6 million of gains reclassified from accumulated other comprehensive income into loss on impairment associated with related cash flow hedges. We measured the fair value of these assets to be \$26.0 million at the time of impairment by applying either an income approach, using projected discounted cash flows or estimated sales price. These valuations were based on unobservable inputs that require significant judgments for which there is limited information, including, in the case of an income approach, assumptions regarding future day rates, utilization, operating costs and capital requirements. In instances where we applied an income approach, forecasted day rates and utilization took into account then current market conditions and our anticipated business outlook.

Assets held-for-sale and Assets sold

Our business strategy has been to focus on ultra-deepwater floater and premium jackup operations and de-emphasize other assets and operations that are not part of our long-term strategic plan or that no longer meet our standards for economic returns. We continue to focus on our fleet management strategy in light of the composition of our rig fleet. While taking into account certain restrictions on the sales of assets under our Indenture dated April 30, 2021 that governs our First Lien Notes (the “Indenture”), as part of our strategy, we may act opportunistically from time to time to monetize assets to enhance stakeholder value and improve our liquidity profile, in addition to reducing holding costs by selling or disposing of lower-specification or non-core rigs. To this end, we continually assess our rig portfolio and actively work with rig brokers to market certain rigs. See “[Note 8](#) – Debt” for additional information on restrictions on the sales of assets.

On a quarterly basis, we assess whether any long-lived assets meets the criteria established for held-for-sale classification on our balance sheet. Assets classified as held-for-sale are recorded at fair value, less costs to sell. We measure the fair value of our assets held-for-sale by applying a market approach based on unobservable third-party estimated prices that would be received in exchange for the assets in an orderly transaction between market participants or a negotiated sales price. We reassess the fair value of our held-for-sale assets on a quarterly basis and adjust the carrying value, as necessary. No assets were considered as held-for-sale on our Condensed Consolidated Balance Sheets as of June 30, 2022, or December 31, 2021.

Successor

In April 2022, VALARIS 113 and VALARIS 114 were sold resulting in a combined pre-tax gain on sale of \$120.0 million, and in May 2022, VALARIS 36 was sold resulting in a pre-tax gain on sale of \$8.5 million. Also in May 2022, we received additional proceeds of \$7.0 million on our 2020 sale of VALARIS 68 resulting from post-sale conditions of that sale agreement. These incremental proceeds were recorded as a pre-tax gain on sale. Gains on sales are included in Other, net on the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2022.

VALARIS 67 was sold in March 2022, resulting in a pre-tax gain of \$2.0 million, which is included in Other, net on the Condensed Consolidated Statements of Operations for the six months ended June 30, 2022 (Successor).

Predecessor

VALARIS 101 was sold in April 2021, resulting in a pre-tax gain of \$5.3 million, which is included in Other, net on the Condensed Consolidated Statements of Operations for the one month and four months ended April 30, 2021 (Predecessor).

Our Australia office building was sold in March 2021, resulting in an immaterial pre-tax gain, which is included in Other, net on the Condensed Consolidated Statements of Operations for the four months ended April 30, 2021 (Predecessor).

Note 6 - Pension and Other Post-retirement Benefits

We have defined-benefit pension plans and retiree medical plans that provide post-retirement health and life insurance benefits.

The components of net periodic pension and retiree medical cost were as follows (in millions):

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
Interest cost	\$ 5.6	\$ 3.8	\$ 1.6
Expected return on plan assets	(9.6)	(6.2)	(3.0)
Amortization of net gain	(0.1)	—	—
Net periodic pension and retiree medical income ⁽¹⁾	\$ (4.1)	\$ (2.4)	\$ (1.4)

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
Interest cost	\$ 11.1	\$ 3.8	\$ 6.6
Expected return on plan assets	(19.1)	(6.2)	(12.1)
Amortization of net (gain) loss	(0.1)	—	0.1
Net periodic pension and retiree medical income ⁽¹⁾	\$ (8.1)	\$ (2.4)	\$ (5.4)

⁽¹⁾ Included in Other, net, in our Condensed Consolidated Statements of Operations.

In March 2021, the American Rescue Plan Act of 2021 ("ARPA-21") was passed. ARPA-21 provides funding relief for U.S. qualified pension plans which should lower pension contribution requirements over the next few years. During the six months ended June 30, 2022 (Successor), we contributed or directly paid \$2.7 million to our pension and other post-retirement benefit plans. We currently expect to contribute or directly pay approximately \$2.3 million to our pension and other post-retirement benefits plans for the remainder of 2022. These amounts represent the minimum contributions we are required to make under relevant statutes. We do not expect to make contributions in excess of the minimum required amounts.

Note 7 - Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period. Basic and diluted earnings per share ("EPS") for the Predecessor was calculated in accordance with the two-class method. Predecessor net loss attributable to Legacy Valaris used in our computations of basic and diluted EPS was adjusted to exclude net income allocated to non-vested shares granted to our employees and non-employee directors. Weighted-average shares outstanding used in our computation of diluted EPS is calculated using the treasury stock method and for the Successor includes the effect of all potentially dilutive stock equivalents, including warrants, restricted stock unit awards and performance stock unit awards and for the Predecessor would include the effect of all potentially dilutive stock options and excludes non-vested shares.

For the Successor, during the three and six months ended June 30, 2022, income from continuing operations attributable to our shares was \$111.6 million and \$73.0 million, respectively.

For the Successor, during the two months ended June 30, 2021, loss from continuing operations attributable to our shares was \$6.2 million.

For the Predecessor, during the one month and four months ended April 30, 2021, loss from continuing operations attributable to Legacy Valaris and Legacy Valaris shares was \$3.6 billion and \$4.5 billion, respectively. No amounts were allocated to non-vested share awards in these periods given that losses are not allocated to non-vested share awards.

The following table is a reconciliation of the weighted-average shares used in our basic and diluted EPS computations for the three and six months ended June 30, 2022 (Successor), two months ended June 30, 2021 (Successor), and one and four months ended April 30, 2021 (Predecessor) (in millions):

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
Weighted average shares outstanding:			
Basic	75.0	75.0	199.7
Effect of stock equivalents	0.6	—	—
Diluted	75.6	75.0	199.7

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Month Ended April 30, 2021
Weighted average shares outstanding:			
Basic	75.0	75.0	199.6
Effect of stock equivalents	0.5	—	—
Diluted	75.5	75.0	199.6

Anti-dilutive share awards totaling 13,000 and 6,000 were excluded from the computation of diluted EPS for the three and six months ended June 30, 2022, respectively.

Due to the net loss position of the Successor during the two months ended June 30, 2021, our potentially dilutive instruments were not included in the computation of diluted EPS as the effect of including these shares in the calculation would have been anti-dilutive. For the Successor, during the two months ended June 30, 2021, there were 29,000 anti-dilutive shares.

Due to the net loss position of the Predecessor, during the one month and four months ended April 30, 2021, our potentially dilutive instruments were not included in the computation of diluted EPS as the effect of including these shares in the calculation would have been anti-dilutive. For the Predecessor, during the one month and four months ended April 30, 2021, anti-dilutive share awards totaling 300,000 were excluded from the computation of diluted EPS.

We have 5,470,971 warrants outstanding (the "Warrants") as of June 30, 2022 to purchase common shares of Valaris Limited which are exercisable for one Common Share per Warrant at an initial exercise price of \$131.88 per Warrant, in each case as may be adjusted from time to time pursuant to the applicable warrant agreement. The Warrants are exercisable for a period of seven years and will expire on April 29, 2028. The exercise of these Warrants into Common Shares would have a dilutive effect to the holdings of Valaris Limited's existing shareholders. These warrants are anti-dilutive for all periods presented for the Successor.

Note 8 - Debt

First Lien Notes Indenture

On the Effective Date, in accordance with the plan of reorganization and Backstop Commitment Agreement, dated August 18, 2020 (as amended, the "BCA"), the Company consummated the rights offering of the First Lien Notes and associated common shares in an aggregate principal amount of \$550.0 million.

The First Lien Notes were issued pursuant to the Indenture, among Valaris Limited, certain direct and indirect subsidiaries of Valaris Limited as guarantors, and Wilmington Savings Fund Society, FSB, as collateral agent and trustee (in such capacities, the "Collateral Agent").

The First Lien Notes are guaranteed, jointly and severally, on a senior basis, by certain of the direct and indirect subsidiaries of the Company. The First Lien Notes and such guarantees are secured by first-priority perfected liens on 100% of the equity interests of each restricted subsidiary directly owned by the Company or any guarantor and a first-priority perfected lien on substantially all assets of the Company and each guarantor of the First Lien Notes, in each case subject to certain exceptions and limitations. The following is a brief description of the material provisions of the Indenture and the First Lien Notes.

The First Lien Notes are scheduled to mature on April 30, 2028. Interest on the First Lien Notes accrues, at our option, at a rate of: (i) 8.25% per annum, payable in cash; (ii) 10.25% per annum, with 50% of such interest to be payable in cash and 50% of such interest to be paid in kind; or (iii) 12% per annum, with the entirety of such interest to be paid in kind. Interest is due semi-annually in arrears on May 1 and November 1 of each year and shall be computed on the basis of a 360-day year of twelve 30-day months.

At any time prior to April 30, 2023, the Company may redeem up to 35% of the aggregate principal amount of the First Lien Notes at a redemption price of 104% up to the net cash proceeds received by the Company from equity offerings provided that at least 65% of the aggregate principal amount of the First Lien Notes remains outstanding and provided that the redemption occurs within 120 days after such equity offering of the Company. At any time prior to April 30, 2023, the Company may redeem the First Lien Notes at a redemption price of 104% plus a "make-whole" premium. On or after April 30, 2023, the Company may redeem all or part of the First Lien Notes at fixed redemption prices (expressed as percentages of the principal amount), plus accrued and unpaid interest, if any, to, but excluding, the redemption date. The Company may also redeem the First Lien Notes, in whole or in part, at any time and from time to time on or after April 30, 2026 at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Notwithstanding the foregoing, if a Change of Control (as defined in the Indenture, with certain exclusions as provided therein) occurs, the Company will be required to make an offer to repurchase all or any part of each note holder's notes at a purchase price equal to 101% of the aggregate principal amount of First Lien Notes repurchased, plus accrued and unpaid interest to, but excluding, the applicable date.

The Indenture contains covenants that limit, among other things, the Company's ability and the ability of the guarantors and other restricted subsidiaries, to: (i) incur, assume or guarantee additional indebtedness; (ii) pay dividends or distributions on equity interests or redeem or repurchase equity interests; (iii) make investments; (iv) repay or redeem junior debt; (v) transfer or sell assets; (vi) enter into sale and lease back transactions; (vii) create, incur or assume liens; and (viii) enter into transactions with certain affiliates. These covenants are subject to a number of important limitations and exceptions.

The Indenture also provides for certain customary events of default, including, among other things, nonpayment of principal or interest, breach of covenants, failure to pay final judgments in excess of a specified threshold, failure of a guarantee to remain in effect, failure of a collateral document to create an effective security interest in collateral, with a fair market value in excess of a specified threshold, bankruptcy and insolvency events, cross payment default and cross acceleration, which could permit the principal, premium, if any, interest and other monetary obligations on all the then outstanding First Lien Notes to be declared due and payable immediately.

The Company incurred \$5.2 million in issuance costs in association with the First Lien Notes that are being amortized into interest expense over the expected life of the notes using the effective interest method.

Note 9 - Shareholders' Equity

Activity in our various shareholders' equity accounts for the three and six months ended June 30, 2022 (Successor), the two months ended June 30, 2021 (Successor), and the one month and four months ended April 30, 2021 (Predecessor) were as follows (in millions):

	Shares	Par Value	Additional Paid-in Capital	Warrants	Retained Earnings (Deficit)	AOCI	Treasury Shares	Non- controlling Interest
BALANCE, December 31, 2021 (Successor)	75.0	\$ 0.8	\$ 1,083.0	\$ 16.4	\$ (33.0)	\$ (9.1)	\$ —	\$ 2.7
Net loss	—	—	—	—	(38.6)	—	—	(1.2)
Share-based compensation cost	—	—	3.4	—	—	—	—	—
Net other comprehensive loss	—	—	—	—	—	(0.3)	—	—
BALANCE, March 31, 2022 (Successor)	75.0	\$ 0.8	\$ 1,086.4	\$ 16.4	\$ (71.6)	\$ (9.4)	\$ —	\$ 1.5
Net income	—	—	—	—	111.6	—	—	1.2
Net reclassification adjustment for amounts recognized in net income as a component of net periodic benefit	—	—	—	—	—	(0.1)	—	—
Share-based compensation cost	—	—	3.5	—	—	—	—	—
Shares withheld for taxes on vesting of share-based awards	—	—	—	—	—	—	(0.2)	—
Net other comprehensive income	—	—	—	—	—	0.3	—	—
BALANCE, June 30, 2022 (Successor)	75.0	\$ 0.8	\$ 1,089.9	\$ 16.4	\$ 40.0	\$ (9.2)	\$ (0.2)	\$ 2.7

	Shares	Par Value	Additional Paid-in Capital	Warrants	Retained Earnings (Deficit)	AOCI	Treasury Shares	Non- controlling Interest
BALANCE, December 31, 2020 (Predecessor)	206.1	\$ 82.6	\$ 8,639.9	\$ —	\$ (4,183.8)	\$ (87.9)	\$ (76.2)	\$ (4.3)
Net loss	—	—	—	—	(910.0)	—	—	2.4
Shares issued under share-based compensation plans, net	—	—	(0.2)	—	—	—	0.2	—
Net reclassification adjustment for amounts recognized in net loss as a component of net periodic benefit	—	—	—	—	—	0.1	—	—
Share-based compensation cost	—	—	3.8	—	—	—	—	—
Net other comprehensive loss	—	—	—	—	—	(5.4)	—	—
BALANCE, March 31, 2021 (Predecessor)	206.1	\$ 82.6	\$ 8,643.5	\$ —	\$ (5,093.8)	\$ (93.2)	\$ (76.0)	\$ (1.9)
Net loss	—	—	—	—	(3,557.0)	—	—	0.8
Shares issued under share-based compensation plans, net	—	—	(0.5)	—	—	—	0.5	—
Share-based compensation cost	—	—	1.0	—	—	—	—	—
Net other comprehensive loss	—	—	—	—	—	(0.2)	—	—
Cancellation of Predecessor equity	(206.1)	(82.6)	(8,644.0)	—	8,650.8	93.4	75.5	—
Issuance of Successor Common Shares and Warrants	75.0	0.8	1,078.7	16.4	—	—	—	—
BALANCE, April 30, 2021 (Predecessor)	75.0	\$ 0.8	\$ 1,078.7	\$ 16.4	\$ —	\$ —	\$ —	\$ (1.1)
BALANCE, May 1, 2021 (Successor)	75.0	\$ 0.8	\$ 1,078.7	\$ 16.4	\$ —	\$ —	\$ —	\$ (1.1)
Net loss	—	—	—	—	(6.2)	—	—	2.1
Net other comprehensive loss	—	—	—	—	—	(0.2)	—	—
BALANCE, June 30, 2021 (Successor)	75.0	\$ 0.8	\$ 1,078.7	\$ 16.4	\$ (6.2)	\$ (0.2)	\$ —	\$ 1.0

Note 10 - Income Taxes

Valaris Limited is domiciled and resident in Bermuda. Our subsidiaries conduct operations and earn income in numerous countries and are subject to the laws of taxing jurisdictions within those countries. The income of our non-Bermuda subsidiaries is not subject to Bermuda taxation as there is not an income tax regime in Bermuda. Legacy Valaris was domiciled and resident in the U.K. The income of our non-U.K. subsidiaries was generally not subject to U.K. taxation.

Income tax rates and taxation systems in the jurisdictions in which our subsidiaries conduct operations vary and our subsidiaries are frequently subjected to minimum taxation regimes. In some jurisdictions, tax liabilities are based on gross revenues, statutory deemed profits or other factors, rather than on net income, and our subsidiaries are frequently unable to realize tax benefits when they operate at a loss. Accordingly, during periods of declining profitability, our income tax expense may not decline proportionally with income, which could result in higher effective income tax rates. Furthermore, we will continue to incur income tax expense in periods in which we operate at a loss.

Our drilling rigs frequently move from one taxing jurisdiction to another to perform contract drilling services. In some instances, the movement of drilling rigs among taxing jurisdictions will involve the transfer of ownership of the drilling rigs among our subsidiaries. As a result of frequent changes in the taxing jurisdictions in which our drilling rigs are operated and/or owned, changes in profitability levels and changes in tax laws, our annual effective income tax rate may vary substantially from one reporting period to another.

Historically, we calculated our provision for income taxes during interim reporting periods by applying the estimated annual effective tax rate for the full fiscal year to pre-tax income or loss, excluding discrete items, for the reporting period. We determined that since small changes in estimated pre-tax income or loss would result in significant changes in the estimated annual effective tax rate, the historical method would not provide a reliable estimate of income taxes for the three and six months ended June 30, 2022 (Successor), the two months ended June 30, 2021 (Successor), and the one month and four months ended April 30, 2021 (Predecessor). We used a discrete effective tax rate method to calculate income taxes for the three and six months ended June 30, 2022 (Successor), the two months ended June 30, 2021 (Successor), and the one month and four months ended April 30, 2021 (Predecessor). We will continue to evaluate income tax estimates under the historical method in subsequent quarters and employ a discrete effective tax rate method if warranted.

Discrete income tax expense for the three months ended June 30, 2022 (Successor) was \$6.2 million and was primarily attributable to income associated with a contract termination. Discrete income tax benefit for the six months ended June 30, 2022 (Successor) was \$8.3 million and was primarily attributable to changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years, partially offset by discrete tax expense attributable to income associated with a contract termination. Excluding the aforementioned discrete tax items, income tax expense for the three and six months ended June 30, 2022 (Successor) was \$14.0 million and \$27.8 million, respectively.

Discrete income tax expense for the two months ended June 30, 2021 (Successor) was \$5.6 million and was primarily attributable to changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years and resolution of other prior period tax matters. Discrete income tax benefit for the one month ended April 30, 2021 (Predecessor) was \$18.1 million and was primarily attributable to fresh start accounting adjustments. Discrete income tax expense for the four months ended April 30, 2021 (Predecessor) was \$2.2 million and was primarily attributable to changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years and resolution of other prior period tax matters offset by discrete tax benefit related to fresh start accounting adjustments. Excluding the aforementioned discrete tax items, income tax expense for the two months ended June 30, 2021 (Successor), and the one month and four months ended April 30, 2021 (Predecessor) was \$9.5 million, \$2.6 million and \$14.0 million, respectively.

Note 11 - Contingencies

Indonesian Well-Control Event

In July 2019, a well being drilled offshore Indonesia by one of our jackup rigs experienced a well-control event requiring the cessation of drilling activities. In February 2020, the rig resumed operations. Indonesian authorities initiated an investigation into the event and have contacted the customer, us and other parties involved in drilling the well for additional information. We cooperated with the Indonesian authorities. We cannot predict the scope or ultimate outcome of this investigation. If the Indonesian authorities determine that we violated local laws in connection with this matter, we could be subject to penalties including environmental or other liabilities, which may have a material adverse impact on us.

ARO Newbuild Funding Obligations

In connection with our 50/50 unconsolidated joint venture, we have a potential obligation to fund ARO for newbuild jackup rigs. ARO has plans to purchase 20 newbuild jackup rigs over an approximate 10-year period. The joint venture partners intend for the newbuild jackup rigs to be financed out of available cash from ARO's operations and/or funds available from third-party debt financing. ARO paid a 25% down payment from cash on hand for each of the two newbuilds ordered in January 2020 and is actively exploring financing options for remaining payments due upon delivery. In the event ARO has insufficient cash from operations or is unable to obtain third-party financing, each partner may periodically be required to make additional capital contributions to ARO, up to a maximum aggregate contribution of \$1.25 billion from each partner to fund the newbuild program. Each partner's commitment shall be reduced by the actual cost of each newbuild rig, as delivered, on a proportionate basis.

Letters of Credit

In the ordinary course of business with customers and others, we have entered into letters of credit to guarantee our performance as it relates to our drilling contracts, contract bidding, customs duties, tax appeals and other obligations in various jurisdictions. Letters of credit outstanding as of June 30, 2022 (Successor) totaled \$136.2 million and are issued under facilities provided by various banks and other financial institutions. Obligations under these letters of credit are not normally called, as we typically comply with the underlying performance requirement. As of June 30, 2022 (Successor), we had collateral deposits in the amount of \$20.6 million with respect to these agreements.

Other Matters

In addition to the foregoing, we are named defendants or parties in certain other lawsuits, claims or proceedings incidental to our business and are involved from time to time as parties to governmental investigations or proceedings, including matters related to taxation, arising in the ordinary course of business. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, we do not expect these matters to have a material adverse effect on our financial position, operating results and cash flows. We have increased our accrual with respect to certain matters as of June 30, 2022 by approximately \$25.0 million to reflect a change in the projected value of these claims against us.

Note 12 - Segment Information

Our business consists of four operating segments: (1) Floaters, which includes our drillships and semisubmersible rigs, (2) Jackups, (3) ARO and (4) Other, which consists of management services on rigs owned by third-parties and the activities associated with our arrangements with ARO under the Lease Agreements. Floaters, Jackups and ARO are also reportable segments.

Our onshore support costs included within Contract drilling expenses are not allocated to our operating segments for purposes of measuring segment operating income (loss) and as such, those costs are included in "Reconciling Items." Further, General and administrative expense and Depreciation expense incurred by our corporate office are not allocated to our operating segments for purposes of measuring segment operating income (loss) and are included in "Reconciling Items." We measure segment assets as Property and equipment, net.

The full operating results included below for ARO are not included within our consolidated results and thus deducted under "Reconciling Items" and replaced with our equity in earnings of ARO. See [Note 3](#) - Equity Method Investment in ARO" for additional information on ARO and related arrangements.

Segment information for the three and six months ended June 30, 2022 (Successor), the two months ended June 30, 2021 (Successor), and the one month and four months ended April 30, 2021 (Predecessor), respectively, are presented below (in millions).

Three Months Ended June 30, 2022 (Successor)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 188.1	\$ 185.8	\$ 116.4	\$ 39.4	\$ (116.4)	\$ 413.3
Operating expenses						
Contract drilling (exclusive of depreciation)	165.3	142.2	82.1	24.7	(52.5)	361.8
Loss on impairment	34.5	—	—	—	—	34.5
Depreciation	12.3	8.7	15.4	1.3	(15.4)	22.3
General and administrative	—	—	3.2	—	15.8	19.0
Equity in earnings of ARO	—	—	—	—	8.7	8.7
Operating income (loss)	\$ (24.0)	\$ 34.9	\$ 15.7	\$ 13.4	\$ (55.6)	\$ (15.6)
Property and equipment, net	\$ 462.9	\$ 384.8	\$ 733.4	\$ 50.4	\$ (699.8)	\$ 931.7

Six Months Ended June 30, 2022 (Successor)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 287.8	\$ 366.5	\$ 227.7	\$ 77.4	\$ (227.7)	\$ 731.7
Operating expenses						
Contract drilling (exclusive of depreciation)	312.9	281.4	166.3	40.2	(107.7)	693.1
Loss on impairment	34.5	—	—	—	—	34.5
Depreciation	24.5	17.8	31.9	2.2	(31.6)	44.8
General and administrative	—	—	8.4	—	29.4	37.8
Equity in earnings of ARO	—	—	—	—	13.0	13.0
Operating income (loss)	\$ (84.1)	\$ 67.3	\$ 21.1	\$ 35.0	\$ (104.8)	\$ (65.5)
Property and equipment, net	\$ 462.9	\$ 384.8	\$ 733.4	\$ 50.4	\$ (699.8)	\$ 931.7

Two Months Ended June 30, 2021 (Successor)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 49.7	\$ 128.5	\$ 84.0	\$ 24.6	\$ (84.0)	\$ 202.8
Operating expenses						
Contract drilling (exclusive of depreciation)	45.3	95.4	62.9	9.2	(44.2)	168.6
Depreciation	7.9	7.8	9.7	0.8	(9.6)	16.6
General and administrative	—	—	3.1	—	9.6	12.7
Equity in earnings of ARO	—	—	—	—	4.8	4.8
Operating income (loss)	\$ (3.5)	\$ 25.3	\$ 8.3	\$ 14.6	\$ (35.0)	\$ 9.7
Property and equipment, net	\$ 413.8	\$ 396.2	\$ 730.0	\$ 49.8	\$ (692.0)	\$ 897.8

One Month Ended April 30, 2021 (Predecessor)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 18.4	\$ 59.8	\$ 40.8	\$ 12.1	\$ (40.8)	\$ 90.3
Operating expenses						
Contract drilling (exclusive of depreciation)	21.4	53.8	29.8	4.7	(19.5)	90.2
Depreciation	15.9	17.3	4.9	3.5	(4.1)	37.5
General and administrative	—	—	1.2	—	5.2	6.4
Equity in earnings of ARO	—	—	—	—	1.2	1.2
Operating income (loss)	\$ (18.9)	\$ (11.3)	\$ 4.9	\$ 3.9	\$ (21.2)	\$ (42.6)
Property and equipment, net	\$ 419.3	\$ 401.4	\$ 730.7	\$ 50.5	\$ (692.8)	\$ 909.1

Four Months Ended April 30, 2021 (Predecessor)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 115.7	\$ 232.4	163.5	\$ 49.3	\$ (163.5)	\$ 397.4
Operating expenses						
Contract drilling (exclusive of depreciation)	106.5	175.0	116.1	19.9	(73.7)	343.8
Loss on impairment	756.5	—	—	—	—	756.5
Depreciation	72.1	69.7	21.0	14.8	(18.0)	159.6
General and administrative	—	—	4.2	—	26.5	30.7
Equity in earnings of ARO	—	—	—	—	3.1	3.1
Operating income (loss)	\$ (819.4)	\$ (12.3)	\$ 22.2	\$ 14.6	\$ (95.2)	\$ (890.1)
Property and equipment, net	\$ 419.3	\$ 401.4	\$ 730.7	\$ 50.5	\$ (692.8)	\$ 909.1

Information about Geographic Areas

As of June 30, 2022, the geographic distribution of our and ARO's drilling rigs was as follows:

	Floaters	Jackups	Other	Total Valaris	ARO
North & South America	7	6	—	13	—
Europe & the Mediterranean	4	12	—	16	—
Middle East & Africa	3	7	7	17	7
Asia & Pacific Rim	2	4	—	6	—
Total	16	29	7	52	7

We provide management services in the U.S. Gulf of Mexico on two rigs owned by a third party not included in the table above.

We are a party to contracts whereby we have the option to take delivery of two recently constructed drillships that are not included in the table above.

ARO has ordered two newbuild jackups which are under construction in the Middle East that are not included in the table above.

Note 13 - Supplemental Financial Information

Condensed Consolidated Balance Sheet Information

Accounts receivable, net, consisted of the following (in millions):

	June 30, 2022	December 31, 2021
Trade	\$ 391.2	\$ 296.8
Income tax receivable	146.9	151.1
Other	23.2	12.7
	561.3	460.6
Allowance for doubtful accounts	(16.7)	(16.4)
	\$ 544.6	\$ 444.2

Other current assets consisted of the following (in millions):

	June 30, 2022	December 31, 2021
Deferred costs	\$ 57.9	\$ 26.9
Prepaid taxes	47.4	44.4
Prepaid expenses	27.1	23.1
Other	26.6	23.4
	\$ 159.0	\$ 117.8

Other assets consisted of the following (in millions):

	June 30, 2022	December 31, 2021
Tax receivables	\$ 63.0	\$ 64.8
Deferred tax assets	52.2	59.7
Right-of-use assets	23.0	20.5
Other	45.9	31.0
	\$ 184.1	\$ 176.0

Accrued liabilities and other consisted of the following (in millions):

	June 30, 2022	December 31, 2021
Deferred revenue	\$ 63.5	\$ 45.8
Income and other taxes payable	55.1	45.7
Personnel costs	53.2	47.3
Accrued claims	41.2	17.3
Lease liabilities	8.5	10.0
Accrued interest	7.6	7.6
Other	31.0	22.5
	\$ 260.1	\$ 196.2

Other liabilities consisted of the following (in millions):

	June 30, 2022	December 31, 2021
Unrecognized tax benefits (inclusive of interest and penalties)	\$ 274.2	\$ 320.2
Pension and other post-retirement benefits	194.5	204.0
Other	58.9	56.9
	\$ 527.6	\$ 581.1

Accumulated other comprehensive income (loss) consisted of the following (in millions):

	June 30, 2022	December 31, 2021
Pension and other post-retirement benefits	\$ (9.2)	\$ (9.1)

Condensed Consolidated Statements of Operations Information

Other, net consisted of the following (in millions):

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
Net gain (loss) on sale of property	\$ 135.1	\$ (0.1)	\$ 4.6
Net foreign currency exchange gains (losses)	10.7	3.1	(3.2)
Net periodic pension income	4.1	2.4	1.4
Other income (expense)	(0.2)	0.2	0.6
	\$ 149.7	\$ 5.6	\$ 3.4

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
Net gain (loss) on sale of property	\$ 137.6	\$ (0.1)	\$ 6.0
Net foreign currency exchange gains	15.4	3.1	13.4
Net periodic pension income	8.1	2.4	5.4
Other income (expense)	(0.4)	0.2	1.1
	\$ 160.7	\$ 5.6	\$ 25.9

Condensed Consolidated Statement of Cash Flows Information

Our restricted cash of \$23.8 million and \$35.9 million at June 30, 2022 and December 31, 2021, respectively, consists primarily of \$20.6 million and \$31.1 million of collateral on letters of credit for each respective period. See ["Note 11 - Contingencies"](#) for more information regarding our letters of credit.

Concentration of Risk

We are exposed to credit risk relating to our receivables from customers, our cash and cash equivalents and, at times, investments. We mitigate our credit risk relating to receivables from customers, which consist primarily of major international, government-owned and independent oil and gas companies, by performing ongoing credit evaluations. We also maintain reserves for potential credit losses, which generally have been within our expectations. We mitigate our credit risk relating to cash and investments by focusing on diversification and quality of instruments.

Consolidated revenues with customers that individually contributed 10% or more of revenue were as follows:

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
Equinor ASA ("Equinor") ⁽¹⁾	17 %	6 %	7 %
BP plc ("BP") ⁽²⁾	13 %	9 %	11 %
Other	70 %	85 %	82 %
	100 %	100 %	100 %

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
Equinor ⁽¹⁾	12 %	6 %	6 %
BP ⁽²⁾	14 %	9 %	14 %
Other	74 %	85 %	80 %
	100 %	100 %	100 %

⁽¹⁾ During the three months ended June 30, 2022 (Successor), 72% of the revenues provided by Equinor were attributable to our Floaters segment and 28% of the revenues were attributable to our Jackups segment.

During the six months ended June 30, 2022 (Successor), 57% of the revenues provided by Equinor were attributable to our Floaters segment and 43% of the revenues were attributable to our Jackups segment.

During the two months ended June 30, 2021 (Successor) and one month and four months ended April 30, 2021 (Predecessor), 100% of the revenues provided by Equinor were attributable to our Jackups segment.

- (2) During the three months ended June 30, 2022 (Successor), 35% of the revenues provided by BP were attributable to our Floaters segment, 19% of the revenues were attributable to our Jackups segment and the remaining were attributable to our managed rigs.

During the six months ended June 30, 2022 (Successor), 39% of the revenues provided by BP were attributable to our Floaters segment, 16% of the revenues were attributable to our Jackups segment and the remaining were attributable to our managed rigs.

During the two months ended June 30, 2021 (Successor), 25% of the revenues provided by BP were attributable to our Jackups segment, and the remaining were attributable to our managed rigs. During the one month and four months ended April 30, 2021 (Predecessor), 7% and 37%, respectively, of the revenues provided by BP were attributable to our Floaters segment, 28% and 17%, respectively, of the revenues were attributable to our Jackups segment, and the remaining were attributable to our managed rigs.

For purposes of our geographic disclosure, we attribute revenues to the geographic location where such revenues are earned. Consolidated revenues for locations that individually had 10% or more of revenue are as follows (in millions):

	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
U.S. Gulf of Mexico ⁽¹⁾	\$ 125.8	\$ 30.9	\$ 17.6
United Kingdom ⁽²⁾	63.1	41.1	19.6
Saudi Arabia ⁽³⁾	35.1	25.2	12.0
Norway ⁽²⁾	28.1	40.5	19.3
Mexico ⁽⁴⁾	20.6	18.9	6.1
Other	140.6	46.2	15.7
	\$ 413.3	\$ 202.8	\$ 90.3

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
U.S. Gulf of Mexico ⁽¹⁾	\$ 176.4	\$ 30.9	\$ 74.4
United Kingdom ⁽²⁾	128.7	41.1	75.7
Saudi Arabia ⁽³⁾	73.2	25.2	53.6
Norway ⁽²⁾	52.4	40.5	73.3
Mexico ⁽⁴⁾	42.7	18.9	44.3
Other	258.3	46.2	76.1
	\$ 731.7	\$ 202.8	\$ 397.4

- (1) During the three months ended June 30, 2022 (Successor), 77% and 4% of the revenues earned in U.S. Gulf of Mexico were attributable to our Floaters segment and Jackups segment, respectively. The remaining revenues were attributable to our managed rigs.

During the six months ended June 30, 2022 (Successor), 66% and 7% of the revenues earned in U.S. Gulf of Mexico were attributable to our Floaters segment and Jackups segment, respectively. The remaining revenues were primarily attributable to our managed rigs.

During the two months ended June 30, 2021 (Successor), 56% of the revenues earned in U.S. Gulf of Mexico were attributable to our Floaters segment. During the one month and four months ended April 30, 2021 (Predecessor), 62% and 64%, respectively, of the revenues earned in U.S. Gulf of Mexico were attributable to our Floaters segment. The remaining revenues were attributable to our managed rigs.

⁽²⁾ During the three and six months ended June 30, 2022 (Successor), two months ended June 30, 2021 (Successor) and one month and four months ended April 30, 2021 (Predecessor), revenues earned in the United Kingdom and Norway were attributable to our Jackups segment.

⁽³⁾ During the three and six months ended June 30, 2022 (Successor), 57% and 59%, respectively, of the revenues earned in Saudi Arabia were attributable to our Jackups segment. The remaining revenues were attributable to our Other segment and relates primarily to our rigs leased to ARO.

During the two months ended June 30, 2021 (Successor), 57% of the revenues earned in Saudi Arabia were attributable to our Jackups segment. During the one month and four months ended April 30, 2021 (Predecessor), 55% and 57%, respectively, of the revenues earned in Saudi Arabia were attributable to our Jackups segment.

⁽⁴⁾ During the three and six months ended June 30, 2022 (Successor), 84% and 89%, respectively, of the revenues earned in Mexico were attributable to our Jackups segment, and the remaining revenues were attributable to our Floaters segment.

During the two months ended June 30, 2021 (Successor), 41% and 59% of the revenues earned in Mexico were attributable to our Floaters segment and Jackups segment, respectively. During the one month and four months ended April 30, 2021 (Predecessor), 4% and 49%, respectively, of the revenues earned in Mexico were attributable to our Floaters segment, and 96% and 51%, respectively, of the revenues earned in Mexico were attributable to our Jackups segment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes thereto included in "Item 1. Financial Statements" and with our annual report on Form 10-K for the year ended December 31, 2021. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" in Item 1A of our annual report and elsewhere in this quarterly report. See "Forward-Looking Statements."

EXECUTIVE SUMMARY

Our Business

We are a leading provider of offshore contract drilling services to the international oil and gas industry with operations in almost every major offshore market across six continents. We own the world's largest offshore drilling rig fleet, including one of the newest ultra-deepwater fleets in the industry and a leading premium jackup fleet. We currently own 52 rigs, including 11 drillships, four dynamically positioned semisubmersible rigs, one moored semisubmersible rig, 36 jackup rigs and a 50% equity interest in ARO, our 50/50 unconsolidated joint venture with Saudi Aramco, which owns an additional seven rigs. Additionally, we have options to purchase two recently constructed drillships on or before December 31, 2023.

Emergence from Chapter 11 Bankruptcy and Fresh Start Accounting

On August 19, 2020 (the "Petition Date"), Valaris plc ("Legacy Valaris") and certain of its direct and indirect subsidiaries (collectively, the "Debtors") filed voluntary petitions for reorganization under chapter 11 of the Bankruptcy Code in the Bankruptcy Court for the Southern District of Texas (the "Chapter 11 Cases"). In connection with the Chapter 11 Cases and the plan of reorganization, on and prior to April 30, 2021 ("Effective Date"), Legacy Valaris effectuated certain restructuring transactions, pursuant to which Valaris Limited ("Valaris") was formed and, through a series of transactions, Legacy Valaris transferred to a subsidiary of Valaris substantially all of the subsidiaries, and other assets, of Legacy Valaris.

On the Effective Date, we successfully completed our financial restructuring and together with the Debtors emerged from the Chapter 11 Cases. On the Effective Date, Legacy Valaris Class A ordinary shares were cancelled and the Valaris common shares (the "Common Shares") were issued. Also, former holders of Legacy Valaris' equity were issued warrants (the "Warrants") to purchase Common Shares.

References to the financial position and results of operations of the "Successor" relate to the financial position and results of operations of Valaris, together with its consolidated subsidiaries, after the Effective Date. References to the financial position and results of operations of the "Predecessor" refer to the financial position and results of operations of Legacy Valaris, together with its consolidated subsidiaries, on and prior to the Effective Date. References to the "Company," "we," "us" or "our" in this Quarterly Report are to Valaris, together with its consolidated subsidiaries, when referring to periods following the Effective Date, and to Legacy Valaris, together with its consolidated subsidiaries, when referring to periods prior to and including the Effective Date.

On the Effective Date, we qualified for and applied fresh start accounting. The application of fresh start accounting resulted in a new basis of accounting, and we became a new entity for financial reporting purposes. Accordingly, our financial statements and notes after the Effective Date are not comparable to our financial statements and notes on and prior to that date. The condensed consolidated financial statements and notes have been presented with a black line division to delineate the lack of comparability between the Predecessor and Successor.

Our Industry

Operating results in the offshore contract drilling industry are highly cyclical and are directly related to the demand for and the available supply of drilling rigs. Low demand and excess supply can independently affect day rates and utilization of drilling rigs. Therefore, adverse changes in either of these factors can result in adverse changes in our industry. While the cost of moving a rig may cause the balance of supply and demand to vary somewhat between regions, significant variations between most regions are generally of a short-term nature due to rig mobility.

In 2020, the combined effects of the global COVID-19 pandemic, the significant decline in the demand for oil and the substantial surplus in the supply of oil resulted in significantly reduced demand and day rates for offshore drilling provided by the Company and increased uncertainty regarding long-term market conditions. These events had a significant adverse impact on our expected liquidity position and financial runway and led to the filing of the Chapter 11 Cases.

In 2021, Brent crude oil prices increased from approximately \$50 per barrel at the beginning of the year to nearly \$80 per barrel by the end of the year. Increased oil prices were due to, among other factors, rebounding demand for hydrocarbons, a measured approach to production increases by OPEC+ members and a focus on cash flow and returns by major exploration and production companies. The constructive oil price environment led to an improvement in contracting and tendering activity in 2021 as compared to 2020.

In 2022, Brent crude oil prices have increased dramatically and become increasingly volatile, in large part due to Russia's invasion of Ukraine, which led to sanctions being placed on Russia, including its ability to export crude oil and other petroleum products. The anticipated impact on supply drove Brent crude oil prices above \$130 per barrel in early March. As of June 30, 2022, the spot Brent crude price had declined to approximately \$120 per barrel. Brent crude prices continued to decline in July and volatility remains high.

While the spot market for crude oil is indicative of current market conditions, for larger offshore projects, our customers are more focused on medium-term and long-term commodity prices when making investment decisions. These forward prices have also reached levels that are constructive for offshore projects.

The full impact that the pandemic and the volatility of oil prices will have on our results of operations, financial condition, liquidity and cash flows is uncertain due to numerous factors, including the duration and severity of the pandemic, the continued effectiveness of vaccines, the general resumption of global economic activity along with the injection of substantial government monetary and fiscal stimulus, Russia's invasion of Ukraine, inflation and the sustainability of the improvements in oil prices and demand in the face of market volatility.

To date, the COVID-19 pandemic has resulted in limited operational downtime. Our operations and business may be subject to further economic disruptions as a result of the spread of COVID-19 among our workforce, the extension or imposition of further public health measures affecting supply chain and logistics, and the impact of the pandemic on key customers, suppliers, and other counterparties. There can be no assurance that these, or other issues caused by the COVID-19 pandemic, will not materially affect our ability to operate our rigs in the future.

More recently, we have begun to feel the impacts of global inflation, both in increased personnel costs as well as in the prices of goods and services required to operate our rigs. While we are currently unable to estimate the ultimate impact of rising prices, we do expect that our costs will continue to rise in the near term and will impact our profitability. While certain of our long-term contracts contain provisions for escalating costs, we cannot predict with certainty our ability to successfully claim recoveries of higher costs from our customers under these contractual stipulations.

The near-term outlook for the offshore drilling industry has improved since the beginning of 2021, as evidenced by improving global utilization and increasing day rates for offshore drilling rigs, most notably for drillships. However, heightened geopolitical tensions have increased volatility, inflation is increasing costs of operations and the global recovery from the COVID-19 pandemic remains uncertain. More recently, the combination of global inflation and a tightening of monetary policy has led to increasing fears of a global economic recession that may have a negative impact on demand for hydrocarbons. As a result, there is still uncertainty around the sustainability of the improvement in oil prices and the recovery in demand for, and profitability of, offshore drilling services.

Backlog

Our backlog was \$2.3 billion and \$2.4 billion as of July 28, 2022 and February 21, 2022, respectively. The decline in backlog is attributable to the termination of the VALARIS DS-11 contract and revenues realized partially offset by recent contract awards and contract extensions. Our backlog excludes ARO's backlog but includes backlog of \$144.1 million and \$134.3 million, respectively, from our rigs leased to ARO at the contractual rates. Contract rates with ARO are subject to adjustment resulting from the shareholder agreement governing the joint venture. See "[Note 3](#) - Equity Method Investment in ARO" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information.

Our backlog as of February 21, 2022 included approximately \$428 million attributable to a contract awarded to VALARIS DS-11 for an eight-well deepwater project in the U.S. Gulf of Mexico that was expected to commence in mid-2024. In February 2022, the customer decided not to sanction and therefore withdrew from the project associated with this contract. In March 2022, the contract was novated to another customer, which was a partner on the project. No material changes to the contract resulted from the novation, including with respect to the termination provisions in the event the project did not receive final investment decision (FID). In June 2022, the customer terminated the contract awarded to VALARIS DS-11.

As a result of the contract termination, we received an early termination fee of \$51.0 million which is included in revenues on our condensed consolidated statements of operations for the three and six months ended June 30, 2022. As of June 30, 2022, the \$51.0 million termination fee was included in Accounts receivable, net on our Condensed Consolidated Balance Sheet and was subsequently collected in July 2022. As of the date of the termination, we had incurred costs to upgrade the rig pursuant to the requirements of the contract. Costs incurred for capital upgrades specific to the customer requirements were considered to be impaired and as such, we recorded a pre-tax, non-cash loss on impairment in the second quarter of 2022 of \$34.5 million. Additional costs were recorded for penalties and other costs incurred upon cancellation of equipment ordered. See "[Note 2](#) - Revenue from Contracts with Customers" and "[Note 5](#) - Property and Equipment" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information.

ARO backlog was \$1.5 billion as of both July 28, 2022 and February 21, 2022, inclusive of backlog on both ARO owned rigs and rigs leased from us, as recent contract awards were offset by revenues realized. As a 50/50 unconsolidated joint venture, when ARO realizes revenue from its backlog, 50% of the earnings thereon would be reflected in our results in equity in earnings of ARO in our Condensed Consolidated Statement of Operations. The earnings from ARO backlog with respect to rigs leased from us will be net of, among other things, payments to us under bareboat charters for those rigs.

BUSINESS ENVIRONMENT

Floaters

Starting in 2021, the more constructive oil price environment has led to an improvement in contracting and tendering activity. Average benign floater rig years awarded per quarter since the beginning of 2021 are more than double the amount awarded per quarter in 2020. This increase in activity is particularly evident for drillships with several multi-year contracts awarded and a meaningful improvement in day rates for this class of assets. As a result, we have recently completed the reactivation of three drillships and one semisubmersible for long-term contracts and were recently awarded an additional long-term contract for one of our stacked drillships that is expected to commence in mid-2023.

While we expect the improved oil price environment to continue to support deepwater investments, heightened geopolitical tensions, including Russia's invasion of Ukraine, have increased volatility, the global recovery from the COVID-19 pandemic remains uncertain and there are increasing fears of a global economic recession that may have a negative impact on demand for hydrocarbons. As a result, there is still uncertainty around the sustainability of the improvement in oil prices and the recovery in demand for offshore drilling services.

Our backlog for our floater segment was \$1.4 billion and \$1.7 billion as of July 28, 2022 and February 21, 2022, respectively. The decline in backlog is attributable to the termination of the VALARIS DS-11 contract, which represented approximately \$428.0 million of backlog, and revenues realized, partially offset by recent contract awards and contract extensions.

Utilization for our floaters was 31% during the second quarter of 2022 compared to 25% in the first quarter of 2022. Average day rates were approximately \$213,000 during the second quarter of 2022 compared to approximately \$197,000 in the first quarter of 2022. The increase in average day rate and utilization is primarily due to rigs that were being reactivated or undergoing special periodic survey in the first quarter and commenced drilling operations in the second quarter.

Globally, there are 22 newbuild drillships and benign environment semisubmersible rigs reported to be under construction, of which six are scheduled to be delivered before the end of 2022. Most newbuild floaters are uncontracted.

Drilling contractors have retired 136 benign environment floaters since the beginning of 2014. Nine benign environment floaters older than 20 years of age are currently idle, four additional benign environment floaters older than 20 years have contracts that will expire within six months without follow-on work, and there are a further 14 benign environment floaters that have been stacked for more than three years. Operating costs associated with keeping these rigs idle as well as expenditures required to re-certify some of these rigs may prove cost prohibitive. Drilling contractors may elect to scrap or cold stack a portion of these rigs.

A sustained constructive oil price environment and continued improvement in demand for offshore projects or further rationalization of drilling rig supply are necessary to maintain the improving floater utilization and day rate trajectory.

Jackups

Jackup demand is anticipated to increase meaningfully over the next couple of years as operators are expected to increase production to benefit from high commodity prices. We have seen a notable increase in jackup activity since the beginning of the year, primarily driven by demand from the Middle East, with rig years awarded in the first half of 2022 more than 30% higher as compared to the first half of 2021.

Our backlog for our jackup segment was \$641.9 million and \$643.0 million as of July 28, 2022 and February 21, 2022, respectively, as revenues realized were replaced by recent contract awards and contract extensions.

Utilization for our jackups was 67% during the second quarter of 2022 compared to 63% in the first quarter of 2022 primarily due to the retirement of certain idle rigs. Average day rates were approximately \$94,000 during the second quarter of 2022 compared to approximately \$89,000 in the first quarter of 2022. The increase in average day rates was primarily due to commencement of new contracts for certain rigs at higher rates.

Globally, there are 27 newbuild jackup rigs reported to be under construction, of which seven are contracted. There are eight jackups scheduled to be delivered before the end of 2022, of which five are contracted.

Drilling contractors have retired 163 jackups since the beginning of 2014. There are 65 jackups older than 30 years currently idle, 30 jackups that are 30 years or older have contracts expiring within the next six months without follow-on work, and there are a further 16 jackups that have been stacked for more than three years. Expenditures required to re-certify some of these rigs may prove cost prohibitive and drilling contractors may instead elect to scrap or cold stack a portion of these rigs.

A sustained constructive oil price environment and continued improvement in demand for offshore projects or further rationalization of drilling rig supply are necessary to maintain the improving jackup utilization and day rate trajectory.

Divestitures

Our business strategy has been to focus on ultra-deepwater floater and premium jackup operations and de-emphasize other assets and operations that are not part of our long-term strategic plan or that no longer meet our standards for economic returns. We continue to focus on our fleet management strategy in light of the composition of our rig fleet. While taking into account certain restrictions on the sales of assets under our Indenture dated April 30, 2021 that governs our First Lien Notes (the "Indenture"), as part of our strategy, we may act opportunistically from time to time to monetize assets to enhance stakeholder value and improve our liquidity profile, in addition to reducing holding costs by selling or disposing of lower-specification or non-core rigs. To this end, we continually assess our rig portfolio and actively work with rig brokers to market certain rigs. See "[Note 8 – Debt](#)" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information on restrictions on the sales of assets.

In April 2022, VALARIS 113 and VALARIS 114 were sold resulting in a combined pre-tax gain on sale of \$120.0 million and in May 2022, VALARIS 36 was sold resulting in a pre-tax gain on sale of \$8.5 million. Also in May 2022, we received additional proceeds of \$7.0 million on our 2020 sale of VALARIS 68 resulting from post-sale conditions of that sale agreement. These incremental proceeds were recorded as a pre-tax gain on sale. Gains on sales are included in Other, net on the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2022 (Successor).

RESULTS OF OPERATIONS

The following table summarizes our Condensed Consolidated Results of Operations for the three months ended June 30, 2022 (Successor) (the "current quarter"), three months ended March 31, 2022 (Successor) (the "preceding quarter"), six months ended June 30, 2022 (Successor), two months ended June 30, 2021 (Successor) and four months ended April 30, 2021 (Predecessor), and the combined Successor and Predecessor results for the six months ended June 30, 2021 (Non-GAAP) (in millions):

	Successor	
	Three Months Ended June 30, 2022	Three Months Ended March 31, 2022
Revenues	\$ 413.3	\$ 318.4
Operating expenses		
Contract drilling (exclusive of depreciation)	361.8	331.3
Loss on impairment	34.5	—
Depreciation	22.3	22.5
General and administrative	19.0	18.8
Total operating expenses	437.6	372.6
Equity in earnings of ARO	8.7	4.3
Operating loss	(15.6)	(49.9)
Other income, net	148.6	9.4
Provision (benefit) for income taxes	20.2	(0.7)
Net income (loss)	112.8	(39.8)
Net (income) loss attributable to noncontrolling interests	(1.2)	1.2
Net income (loss) attributable to Valaris	\$ 111.6	\$ (38.6)

	Successor	Successor	Predecessor	Combined (Non-GAAP) ⁽¹⁾
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021	Six Months Ended June 30, 2021
Revenues	\$ 731.7	\$ 202.8	\$ 397.4	\$ 600.2
Operating expenses				
Contract drilling (exclusive of depreciation)	693.1	168.6	343.8	512.4
Loss on impairment	34.5	—	756.5	756.5
Depreciation	44.8	16.6	159.6	176.2
General and administrative	37.8	12.7	30.7	43.4
Total operating expenses	810.2	197.9	1,290.6	1,488.5
Equity in earnings of ARO	13.0	4.8	3.1	7.9
Operating income (loss)	(65.5)	9.7	(890.1)	(880.4)
Other income (expense), net	158.0	1.3	(3,557.5)	(3,556.2)
Provision for income taxes	19.5	15.1	16.2	31.3
Net income (loss)	73.0	(4.1)	(4,463.8)	(4,467.9)
Net income attributable to noncontrolling interests	—	(2.1)	(3.2)	(5.3)
Net income (loss) attributable to Valaris	\$ 73.0	\$ (6.2)	\$ (4,467.0)	\$ (4,473.2)

⁽¹⁾ We believe that the discussion of our results of operations for the two months ended June 30, 2021 combined with the four-month period ended April 30, 2021 provide more meaningful comparisons to the comparable periods in 2022 and are more useful in understanding operational trends. These combined results do not comply with GAAP and have not been prepared as pro forma results under applicable SEC rules.

Overview

Revenue increased \$94.9 million, or 30%, for the current quarter as compared to the preceding quarter, primarily due to a \$51.0 million fee related to the termination of the VALARIS DS-11 contract, as well as \$29.8 million from increased operating days across the fleet.

Revenues increased \$131.5 million, or 22%, for the six months ended June 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily due to \$79.3 million from increased operating days across the fleet, a \$51.0 million fee related to the termination of the VALARIS DS-11 contract and \$20.7 million from higher customer reimbursable revenue. This increase was partially offset by an \$19.8 million decrease in revenue from rigs operating at lower day rates.

Contract drilling expense increased \$30.5 million, or 9%, for the current quarter as compared to the preceding quarter, primarily due to a \$27.7 million increase in costs attributable to rigs stacked or idle in the preceding quarter, a \$25.9 million increase in the costs for certain claims and a \$6.8 million increase in repair costs for a certain rig. This increase is partially offset by \$37.2 million decrease in reactivation costs compared to the preceding quarter.

Contract drilling expense increased \$180.7 million, or 35%, for the six months ended June 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily due to a \$70.5 million increase in costs attributable to rigs stacked or idle in the prior year, a \$50.6 million increase in reactivation costs, a \$30.6 million increase in the costs for certain claims and a \$26.6 million increase in reimbursable costs.

During the three and six months ended June 30, 2022 (Successor), we recorded non-cash losses on impairment totaling \$34.5 million, with respect to customer-specific capital upgrades for VALARIS DS-11 made pursuant to the terms of the drilling contract that was terminated during the second quarter of 2022. During the four months ended April 30, 2021 (Predecessor), we recorded non-cash losses on impairment totaling \$756.5 million, with respect to certain assets in our fleet. See "[Note 5](#) - Property and Equipment" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information.

Depreciation expense decreased \$131.4 million, or 75%, for the six months ended June 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily as a result of the reduction in values of property and equipment from the application of fresh start accounting on the Effective Date.

General and administrative expenses decreased by \$5.6 million, or 13%, for the six months ended June 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily due to the change in incentive compensation structure following the Effective Date.

Other income, net, increased \$139.2 million for the current quarter as compared to the preceding quarter. Gains of \$135.5 million were recognized during the current quarter due to the sale of VALARIS 113, VALARIS 114 and VALARIS 36 as well as additional proceeds received in the current quarter on the sale of a rig in a prior year as a result of post-sale conditions of that sale agreement.

Other income (expense), net, changed from an expense of \$3.6 billion in the combined Successor and Predecessor prior year period to income of \$158.0 million for the six months ended June 30, 2022 (Successor). We recorded \$3.6 billion of reorganization costs incurred directly related to the Chapter 11 Cases in the prior year period and in the current year, we recognized a \$137.6 million gain on sale of property.

Rig Counts, Utilization and Average Day Rates

The following table summarizes our and ARO's offshore drilling rigs as of the following dates:

	June 30, 2022	March 31, 2022	June 30, 2021
Floaters	16	16	16
Jackups ⁽¹⁾	29	31	34
Other ⁽²⁾	7	8	9
Held-for-sale ⁽³⁾	—	—	1
Total Valaris	52	55	60
ARO ⁽⁴⁾	7	7	7

⁽¹⁾ During the fourth quarter of 2021, we sold VALARIS 142. During the first quarter of 2022, we sold VALARIS 67 and leased VALARIS 140 to ARO. During the second quarter of 2022, we sold VALARIS 113 and VALARIS 114.

⁽²⁾ This represents the jackup rigs leased to ARO through bareboat charter agreements whereby substantially all operating costs are incurred by ARO. Rigs leased to ARO operate under three-year contracts with Saudi Aramco. During the fourth quarter of 2021, we sold VALARIS 22 and VALARIS 37, which were previously leased to ARO. During the first quarter of 2022, VALARIS 140 was leased to ARO. During the second quarter of 2022, we sold VALARIS 36, which was previously leased to ARO.

⁽³⁾ During the third quarter of 2021, we sold VALARIS 100 which was classified as held-for-sale as of June 30, 2021.

⁽⁴⁾ This represents the seven jackup rigs owned by ARO which are operating under long-term contracts with Saudi Aramco.

We provide management services in the U.S. Gulf of Mexico on two rigs owned by a third-party that are not included in the table above.

We are a party to contracts whereby we have the option to take delivery of two recently constructed drillships that are not included in the table above.

Additionally, ARO has ordered two jackups which are under construction in the Middle East that are not included in the table above. These newbuild rigs are expected to be delivered in the first or second quarter of 2023.

The following table summarizes our and ARO's rig utilization and average day rates by reportable segment:

	Three Months Ended June 30, 2022	Three Months Ended March 31, 2022	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Rig Utilization⁽¹⁾				
Floater	31 %	25 %	28 %	26 %
Jackups	67 %	63 %	65 %	53 %
Other ⁽²⁾	100 %	100 %	100 %	100 %
Total Valaris	61 %	57 %	59 %	54 %
ARO	96 %	91 %	94 %	89 %
Average Day Rates⁽³⁾				
Floater	\$ 213,452	\$ 197,394	\$ 206,290	\$ 197,905
Jackups	93,851	88,641	91,215	97,476
Other ⁽²⁾	39,076	39,227	39,149	31,137
Total Valaris	\$ 97,717	\$ 89,609	\$ 93,726	\$ 88,091
ARO	\$ 92,397	\$ 95,867	\$ 94,066	\$ 94,485

- ⁽¹⁾ Rig utilization is derived by dividing the number of days under contract by the number of days in the period. Days under contract equals the total number of days that rigs have earned and recognized day rate revenue, including days associated with early contract terminations, compensated downtime and mobilizations and excluding suspension periods. When revenue is deferred and amortized over a future period, for example, when we receive fees while mobilizing to commence a new contract or while being upgraded in a shipyard, the related days are excluded from days under contract.

For newly-constructed or acquired rigs, the number of days in the period begins upon commencement of drilling operations for rigs with a contract or when the rig becomes available for drilling operations for rigs without a contract.

- ⁽²⁾ Includes our two management services contracts and our rigs leased to ARO under bareboat charter contracts.

- ⁽³⁾ Average day rates are derived by dividing contract drilling revenues, adjusted to exclude certain types of non-recurring reimbursable revenues, lump-sum revenues, revenues earned during suspension periods and revenues attributable to amortization of drilling contract intangibles, by the aggregate number of contract days, adjusted to exclude contract days associated with certain suspension periods, mobilizations and demobilizations.

Operating Income by Segment

Our business consists of four operating segments: (1) Floater, which includes our drillships and semisubmersible rigs, (2) Jackups, (3) ARO and (4) Other, which consists of management services on rigs owned by third-parties and the activities associated with our arrangements with ARO under the Lease Agreements. Floater, Jackups and ARO are also reportable segments.

Our onshore support costs included within contract drilling expenses are not allocated to our operating segments for purposes of measuring segment operating income (loss) and as such, those costs are included in "Reconciling Items." Further, General and administrative expense and Depreciation expense incurred by our corporate office are not allocated to our operating segments for purposes of measuring segment operating income (loss) and are included in "Reconciling Items."

The full operating results included below for ARO are not included within our consolidated results and thus deducted under "Reconciling Items" and replaced with our equity in earnings of ARO. See "[Note 3](#) - Equity Method Investment in ARO" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information.

Segment information for the current quarter, the preceding quarter and, the six months ended June 30, 2022 (Successor), the two months ended June 30, 2021 (Successor) and the four months ended April 30, 2021 (Predecessor) and the combined Successor and Predecessor results for the six months ended June 30, 2021 (Non-GAAP) was as follows (in millions):

Three Months Ended June 30, 2022 (Successor)

	Floater	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 188.1	\$ 185.8	\$ 116.4	\$ 39.4	\$ (116.4)	\$ 413.3
Operating expenses						
Contract drilling (exclusive of depreciation)	165.3	142.2	82.1	24.7	(52.5)	361.8
Loss on impairment	34.5	—	—	—	—	34.5
Depreciation	12.3	8.7	15.4	1.3	(15.4)	22.3
General and administrative	—	—	3.2	—	15.8	19.0
Equity in earnings of ARO	—	—	—	—	8.7	8.7
Operating income (loss)	\$ (24.0)	\$ 34.9	\$ 15.7	\$ 13.4	\$ (55.6)	\$ (15.6)

Three Months Ended March 31, 2022 (Successor)

	Floater	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 99.7	\$ 180.7	\$ 111.3	\$ 38.0	\$ (111.3)	\$ 318.4
Operating expenses						
Contract drilling (exclusive of depreciation)	147.6	139.2	84.2	15.5	(55.2)	331.3
Depreciation	12.2	9.1	16.5	0.9	(16.2)	22.5
General and administrative	—	—	5.2	—	13.6	18.8
Equity in earnings of ARO	—	—	—	—	4.3	4.3
Operating income (loss)	\$ (60.1)	\$ 32.4	\$ 5.4	\$ 21.6	\$ (49.2)	\$ (49.9)

Six Months Ended June 30, 2022 (Successor)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 287.8	\$ 366.5	\$ 227.7	\$ 77.4	\$ (227.7)	\$ 731.7
Operating expenses						
Contract drilling (exclusive of depreciation)	312.9	281.4	166.3	40.2	(107.7)	693.1
Loss on impairment	34.5	—	—	—	—	34.5
Depreciation	24.5	17.8	31.9	2.2	(31.6)	44.8
General and administrative	—	—	8.4	—	29.4	37.8
Equity in earnings of ARO	—	—	—	—	13.0	13.0
Operating income (loss)	\$ (84.1)	\$ 67.3	\$ 21.1	\$ 35.0	\$ (104.8)	\$ (65.5)

Two Months Ended June 30, 2021 (Successor)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 49.7	\$ 128.5	\$ 84.0	\$ 24.6	\$ (84.0)	\$ 202.8
Operating expenses						
Contract drilling (exclusive of depreciation)	45.3	95.4	62.9	9.2	(44.2)	168.6
Depreciation	7.9	7.8	9.7	0.8	(9.6)	16.6
General and administrative	—	—	3.1	—	9.6	12.7
Equity in earnings of ARO	—	—	—	—	4.8	4.8
Operating income (loss)	\$ (3.5)	\$ 25.3	\$ 8.3	\$ 14.6	\$ (35.0)	\$ 9.7

Four Months Ended April 30, 2021 (Predecessor)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 115.7	\$ 232.4	\$ 163.5	\$ 49.3	\$ (163.5)	\$ 397.4
Operating expenses						
Contract drilling (exclusive of depreciation)	106.5	175.0	116.1	19.9	(73.7)	343.8
Loss on impairment	756.5	—	—	—	—	756.5
Depreciation	72.1	69.7	21.0	14.8	(18.0)	159.6
General and administrative	—	—	4.2	—	26.5	30.7
Equity in earnings of ARO	—	—	—	—	3.1	3.1
Operating income (loss)	\$ (819.4)	\$ (12.3)	\$ 22.2	\$ 14.6	\$ (95.2)	\$ (890.1)

Combined Six Months Ended June 30, 2021 (Non-GAAP)

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 165.4	\$ 360.9	\$ 247.5	\$ 73.9	\$ (247.5)	\$ 600.2
Operating expenses						
Contract drilling (exclusive of depreciation)	151.8	270.4	179.0	29.1	(117.9)	512.4
Loss on impairment	756.5	—	—	—	—	756.5
Depreciation	80.0	77.5	30.7	15.6	(27.6)	176.2
General and administrative	—	—	7.3	—	36.1	43.4
Equity in earnings of ARO	—	—	—	—	7.9	7.9
Operating income (loss)	\$ (822.9)	\$ 13.0	\$ 30.5	\$ 29.2	\$ (130.2)	\$ (880.4)

Floaters

Floater revenue increased \$88.4 million, or 89%, for the current quarter as compared to the preceding quarter, primarily due to a \$51.0 million fee related to the termination of the VALARIS DS-11 contract and \$26.0 million as the result of an increase in operating days.

Floater revenue increased \$122.4 million, or 74%, for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to a \$51.0 million fee related to the termination of the VALARIS DS-11 contract, as well as \$48.6 million due to increased operating days, and \$22.9 million from increased customer reimbursable revenue.

Floater contract drilling expense increased \$17.7 million, or 12%, for the current quarter, as compared to the preceding quarter, primarily due to a \$27.7 million increase in cost attributable to rigs stacked or idle in the prior year. Additionally, there was a \$20.6 million increase in the costs for certain claims. This increase was partially offset by a \$36.8 million decrease in rig reactivation costs.

Floater contract drilling expense increased \$161.1 million, or 106%, for the six months ended June 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily due to a \$79.3 million increase in reactivation costs, \$23.4 million increase in the costs for certain claims, \$22.0 million increase in reimbursable costs, and \$26.6 million increase in cost attributable to rigs stacked or idle in the prior year.

During the three and six months ended June 30, 2022 (Successor), we recorded non-cash losses on impairment totaling \$34.5 million, with respect to customer-specific capital upgrades for VALARIS DS-11 made pursuant to the terms of the drilling contract that was terminated during the second quarter of 2022. During the four months ending April 30, 2021, we recorded non-cash losses on impairment totaling \$756.5 million, with respect to certain assets in our Floater segment. See "Note 5 - Property and Equipment" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information.

Floater depreciation expense decreased \$55.5 million, or 69%, for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to the reduction in values of property and equipment from the application of fresh start accounting on the Effective Date.

Jackups

Jackup revenues increased \$5.1 million, or 3%, for the current quarter, as compared to the preceding quarter, primarily due to an increase of \$3.6 million attributable to increased operating days, primarily due to a full quarter of results for a rig that commenced a new contract in the preceding quarter.

Jackup revenues increased \$5.6 million, or 2%, for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to \$30.7 million from increased operating days. This increase was partially offset by a decline of \$22.4 million due to lower average day rates.

Jackup contract drilling expense increased \$3.0 million, or 2%, for the current quarter as compared to the preceding quarter, primarily due to a \$6.8 million increase in repair costs for a certain rig.

Jackup contract drilling expense increased \$11.0 million, or 4%, for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to a \$43.9 million increase in cost attributable to rigs stacked or idle in the prior year. The increase was partially offset by a decline of \$28.7 million in reactivation costs incurred on certain rigs as well as an \$8.3 million decrease in cost attributable to rigs sold.

Jackup depreciation expense decreased \$59.7 million, or 77%, for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to the reduction in values of property and equipment from the application of fresh start accounting on the Effective Date.

ARO

The operating revenues of ARO reflect revenues earned under drilling contracts with Saudi Aramco for both the ARO-owned jackup rigs and the rigs leased from us. Contract drilling expenses are inclusive of the bareboat charter fees for the rigs leased from us. See "[Note 3](#) - Equity Method Investment in ARO" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information on ARO.

ARO revenue increased \$5.1 million, or 5%, for the current quarter, as compared to the preceding quarter, primarily due to an increase in operating days.

ARO revenue decreased \$19.8 million, or 8%, for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021, primarily due to certain rigs which operated in the prior year period completing their contracts in 2021 or the current quarter. This decrease is partially offset by higher revenues from certain rigs for which operations were temporarily suspended or which were undergoing maintenance during the six months ended June 30, 2021.

ARO contract drilling expense decreased \$12.7 million, or 7%, for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021, due to a decrease in bareboat charter lease expense of \$10.8 million primarily as a result of fewer rigs leased from Valaris during the six months ended June 30, 2022 and a decrease in repairs and maintenance costs of \$2.9 million as certain rigs were undergoing maintenance projects during the six months ended June 30, 2021.

Other

Other revenue increased \$3.5 million, or 5%, for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to \$8.2 million from higher day rates on certain rigs partially offset by \$3.2 million of lower revenues earned from lease agreements with ARO.

Other contract drilling expenses increased \$9.2 million, or 59%, for the current quarter, as compared to the preceding quarter, due to an \$8.6 million increase in costs for certain claims.

Other contract drilling expenses increased \$11.1 million, or 38%, for the six months ended June 30, 2022, as compared to the combined Successor and Predecessor prior year period, primarily due to an \$8.6 million increase in costs for certain claims.

Other depreciation expense decreased \$13.4 million, or 86%, for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to the reduction in values of property and equipment from the application of fresh start accounting on the Effective Date.

Other Income (Expense)

The following table summarizes other income (expense) (in millions):

	Successor	
	Three Months Ended June 30, 2022	Three Months Ended March 31, 2022
Net gain on sale of property	\$ 135.1	\$ 2.5
Interest expense	(11.6)	(11.5)
Interest income	11.2	10.9
Net foreign currency exchange gains	10.7	4.7
Reorganization items, net	(0.7)	(1.0)
Other	3.9	3.8
	\$ 148.6	\$ 9.4

	Successor	Successor	Predecessor	Combined (Non-GAAP)
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021	Six Months Ended June 30, 2021
Net gain (losses) on sale of property	\$ 137.6	\$ (0.1)	\$ 6.0	\$ 5.9
Interest expense	(23.1)	(8.0)	(2.4)	(10.4)
Interest income	22.1	7.8	3.6	11.4
Net foreign currency exchange gains	15.4	3.1	13.4	16.5
Reorganization items, net	(1.7)	(4.1)	(3,584.6)	(3,588.7)
Other	7.7	2.6	6.5	9.1
	\$ 158.0	\$ 1.3	\$ (3,557.5)	\$ (3,556.2)

Net gains on the sale of property increased by \$132.6 million for the current quarter as compared to the preceding quarter and by \$131.7 million for the six months ended June 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period primarily due to the current quarter sales of VALARIS 113, VALARIS 114 and VALARIS 36 and additional proceeds received in the current quarter on the sale of a rig in a prior year as a result of post-sale conditions of that sale agreement, which resulted in gains of approximately \$135.5 million.

Interest income increased by \$10.7 million for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to increased amortization of the discount on our note receivable from ARO as the discount was only amortized for two months in the combined prior year period as opposed to six months in the current year period.

Interest expense increased by \$12.7 million for the six months ended June 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, as our First Lien Notes were outstanding for two months in the combined prior year period as compared to six months in the current year.

Reorganization items, net of \$3.5 billion recognized during the combined Successor and Predecessor prior year period was related to professional advisory service fees pertaining to the Chapter 11 Cases, contract items related to rejecting certain operating leases, the effects of the emergence from bankruptcy, including the application of fresh start accounting, as well as other net losses and expenses directly related to Chapter 11 Cases.

Our functional currency is the U.S. dollar, and a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar. These transactions are remeasured in U.S. dollars based on a combination of both current and historical exchange rates.

Net foreign currency exchange gains of \$10.7 million for the current quarter primarily included gains of \$5.2 million, \$2.1 million and \$2.1 million related to euros, British pounds and Norway krone, respectively. Net foreign currency exchange gains of \$4.7 million for the preceding quarter primarily included gains of \$3.4 million related to euros. Net foreign currency exchange gains of \$15.4 million for the six months ended June 30, 2022 (Successor), primarily included gains of \$8.6 million, \$2.4 million and \$1.9 million related to euros, British pounds and Norway krone, respectively. Net foreign currency exchange gains of \$16.5 million for the combined Successor and Predecessor prior year period primarily included gains of \$11.7 million and \$3.3 million related to Libyan dinars and euros, respectively.

Provision for Income Taxes

Valaris Limited is domiciled and resident in Bermuda. Our subsidiaries conduct operations and earn income in numerous countries and are subject to the laws of taxing jurisdictions within those countries. The income of our non-Bermuda subsidiaries is not subject to Bermuda taxation as there is not an income tax regime in Bermuda. Legacy Valaris was domiciled and resident in the U.K. The income of our non-U.K. subsidiaries was generally not subject to U.K. taxation.

Income tax rates and taxation systems in the jurisdictions in which our subsidiaries conduct operations vary and our subsidiaries are frequently subjected to minimum taxation regimes. In some jurisdictions, tax liabilities are based on gross revenues, statutory deemed profits or other factors, rather than on net income, and our subsidiaries are frequently unable to realize tax benefits when they operate at a loss. Accordingly, during periods of declining profitability, our income tax expense may not decline proportionally with income, which could result in higher effective income tax rates. Furthermore, we will continue to incur income tax expense in periods in which we operate at a loss.

Our drilling rigs frequently move from one taxing jurisdiction to another to perform contract drilling services. In some instances, the movement of drilling rigs among taxing jurisdictions will involve the transfer of ownership of the drilling rigs among our subsidiaries. As a result of frequent changes in the taxing jurisdictions in which our drilling rigs are operated and/or owned, changes in profitability levels and changes in tax laws, our annual effective income tax rate may vary substantially from one reporting period to another.

Discrete income tax expense for the current quarter was \$6.2 million and was primarily attributable to income associated with a contract termination. Discrete income tax benefit for the preceding quarter was \$14.5 million and was primarily attributable to changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years. Excluding the aforementioned discrete tax items, income tax expense for the current quarter and preceding quarter was \$14.0 million and \$13.8 million, respectively.

Discrete income tax benefit for the six months ended June 30, 2022 (Successor) was \$8.3 million and was primarily attributable to changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years, partially offset by discrete tax expense attributable to income associated with a contract termination.

Discrete income tax expense for the two months ended June 30, 2021 (Successor) was \$5.6 million and was primarily attributable to changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years and resolution of other prior period tax matters. Discrete income tax expense for the four months ended April 30, 2021 (Predecessor) was \$2.2 million and was primarily attributable to changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years and resolution of other prior period tax matters offset by discrete tax benefit related to fresh start accounting adjustments. Excluding the aforementioned discrete tax items, income tax expense for the six months ended June 30, 2022 (Successor), the two months ended June 30, 2021 (Successor) and the four months ended April 30, 2021 (Predecessor) was \$27.8 million, \$9.5 million and \$14.0 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We expect to fund our short-term liquidity needs, including contractual obligations and anticipated capital expenditures as well as working capital requirements, from cash and cash equivalents and cash flows from operations. We expect to fund our long-term liquidity needs, including contractual obligations and anticipated capital expenditures from cash and cash equivalents, cash flows from operations, as well as cash to be received from maturity of our long-term notes receivable and from the distribution of earnings from ARO. If necessary, we may rely on the issuance of debt and/or equity securities in the future to supplement our liquidity needs. However, the Indenture contains covenants that limit our ability to incur additional indebtedness.

Our Cash and cash equivalents as of June 30, 2022 and December 31, 2021 were \$553.5 million and \$608.7 million and we have no debt principal payments due until 2028. See "[Note 8](#) - Debt" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information on the First Lien Notes.

Cash Flow and Capital Expenditures

Absent periods where we have significant financing or investing transactions or activities, such as debt or equity issuances, debt repayments, business combinations or asset sales, our primary sources and uses of cash are driven by cash generated from or used in operations and capital expenditures. Our net cash provided by or used in operating activities and capital expenditures were as follows (in millions):

	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
Net cash used in operating activities	\$ (114.1)	\$ (25.9)	\$ (39.8)
Capital expenditures	\$ 99.6	\$ 8.1	\$ 8.7

During the six months ended June 30, 2022 (Successor), our uses of cash in operating activities of \$114.1 million related primarily to the reactivation and mobilization of drilling rigs for new contracts as well as the payment of certain taxes.

During the two months ended June 30, 2021 (Successor), our uses of cash in operating activities of \$25.9 million primarily related to reorganization costs.

During the four months ended April 30, 2021 (Predecessor), our primary sources of cash were \$520.0 million from the issuance of the First Lien Notes and proceeds of \$30.1 million for the disposition of assets. For the same period, our uses of cash in operating activities of \$39.8 million primary related to declining margins and reorganization costs.

We have construction agreements, as amended, with a shipyard that provide for, among other things, an option construct whereby the Company has the right, but not the obligation, to take delivery of either or both VALARIS DS-13 and VALARIS DS-14 rigs under construction on or before December 31, 2023. Under the amended agreements, the purchase prices for the rigs are estimated to be approximately \$119.1 million for VALARIS DS-13 and \$218.3 million for VALARIS DS-14, assuming a December 31, 2023 delivery date. Delivery can be requested any time prior to December 31, 2023 with a downward purchase price adjustment based on predetermined terms. If the Company elects not to purchase the rigs, the Company has no further obligations to the shipyard.

We continue to take a disciplined approach to reactivations with our stacked rigs, only returning them to the active fleet when there is visibility into work at attractive economics. In most cases, we expect the initial contract to pay for the reactivation costs and that the rig would have solid prospects for longer-term work. Most of this reactivation cost will be operating expenses, recognized in the income statement, related to de-preservation activities, including reinstalling key pieces of equipment and crewing up the rigs. Capital expenditures during reactivations include rig modifications, equipment overhauls and any customer required capital upgrades. We would generally expect to be compensated for any customer-specific enhancements.

Based on our current projections, we expect capital expenditures during 2022 to approximate \$200 to \$210 million for rig enhancement, reactivation and upgrade projects. These revised, lower projections are the result of removing expected contract-specific capital upgrades for a terminated contract for which we expected significant reimbursements and received a termination payment. Depending on market conditions and future opportunities, we may make additional capital expenditures to upgrade rigs for customer requirements and construct or acquire additional rigs.

In the second quarter of 2022, our customer terminated the eight-well contract for a deepwater project in the U.S. Gulf of Mexico that was expected to commence in mid-2024. The contract required the VALARIS DS-11 to be upgraded with 20,000 psi well-control equipment. As a result of the contract termination, we recorded an early termination fee of \$51.0 million in the second quarter of 2022 that was collected in July 2022. As of the date of termination, we had incurred costs to upgrade the rig pursuant to the requirements of the contract. Costs incurred for capital upgrades of \$34.5 million were considered to be impaired. Additional costs were recorded for penalties and other costs incurred upon cancellation of equipment ordered.

As we reactivate rigs, we expect spending levels to increase beyond the levels we incurred in 2021, with more spending associated with reactivation of our floater fleet relative to our jackup fleet. Further, the costs of future reactivations are expected to increase relative to our initial reactivation projects with rising costs of labor and materials, the depletion of spares from our initial reactivation projects and as the rigs we reactivate have been preservation stacked for longer periods of time.

We review from time to time possible acquisition opportunities relating to our business, which may include the acquisition of rigs or other businesses. The timing, size or success of any acquisition efforts and the associated potential capital commitments are unpredictable and uncertain. We may seek to fund all or part of any such efforts with cash on hand and proceeds from debt and/or equity issuances and may issue equity directly to the sellers. Our ability to obtain capital for additional projects to implement our growth strategy over the longer term will depend on our future operating performance, financial condition and, more broadly, on the availability of equity and debt financing. Capital availability will be affected by prevailing conditions in our industry, the global economy, the global financial markets and other factors, many of which are beyond our control. In addition, any additional debt service requirements we take on could be based on higher interest rates and shorter maturities and could impose a significant burden on our results of operations and financial condition, and the issuance of additional equity securities could result in significant dilution to shareholders.

Financing and Capital Resources

First Lien Notes

We have \$550 million aggregate principal amount of Senior Secured First Lien Notes due 2028 (the "First Lien Notes") which were issued on the Effective Date pursuant to the Indenture. The First Lien Notes are scheduled to mature on April 30, 2028. See "[Note 8](#) - Debt" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information on the First Lien Notes.

Investment in ARO and Notes Receivable from ARO

We consider our investment in ARO to be a significant component of our investment portfolio and an integral part of our long-term capital resources. We expect to receive cash from ARO in the future both from the maturity of our long-term notes receivable and from the distribution of earnings from ARO. The long-term notes receivable, which are governed by the laws of Saudi Arabia, mature in 2027 and 2028. In the event that ARO is unable to repay these notes when they become due, we would require the prior consent of our joint venture partner to enforce ARO's payment obligations.

The distribution of earnings to the joint-venture partners is at the discretion of the ARO Board of Managers, consisting of 50/50 membership of managers appointed by Saudi Aramco and managers appointed by us, with approval required by both shareholders. The timing and amount of any cash distributions to the joint-venture partners cannot be predicted with certainty and will be influenced by various factors, including the liquidity position and long-term capital requirements of ARO. ARO has not made a cash distribution of earnings to its partners since its formation. See "[Note 3](#) - Equity Method Investment in ARO" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information on our investment in ARO and notes receivable from ARO.

The following table summarizes the maturity schedule of our notes receivable from ARO as of June 30, 2022 (in millions):

Maturity Date	Principal Amount
October 2027	\$ 265.0
October 2028	177.7
Total	\$ 442.7

Other Commitments

We have other commitments that we are contractually obligated to fulfill with cash under certain circumstances. As of June 30, 2022, we were contingently liable for an aggregate amount of \$136.2 million under outstanding letters of credit which guarantee our performance as it relates to our drilling contracts, contract bidding, customs duties, tax appeals and other obligations in various jurisdictions. Obligations under these letters of credit are not normally called, as we typically comply with the underlying performance requirement. As of June 30, 2022, we had collateral deposits in the amount of \$20.6 million with respect to these agreements.

In connection with our 50/50 unconsolidated joint venture, we have a potential obligation to fund ARO for newbuild jackup rigs. ARO has plans to purchase 20 newbuild jackup rigs over an approximate 10-year period. In January 2020, ARO ordered the first two newbuild jackups, each with a shipyard price of \$176.0 million. These newbuild rigs are expected to be delivered in the first or second quarter of 2023 and ARO is expected to place orders for two additional newbuild jackups in 2022. The joint venture partners intend for the newbuild jackup rigs to be financed out of available cash from ARO's operations and/or funds available from third-party debt financing. ARO paid a 25% down payment from cash on hand for each of the newbuilds ordered in January 2020 and is actively exploring financing options for remaining payments due upon delivery. In the event ARO has insufficient cash from operations or is unable to obtain third-party financing, each partner may periodically be required to make additional capital contributions to ARO, up to a maximum aggregate contribution of \$1.25 billion from each partner to fund the newbuild program. Each partner's commitment shall be reduced by the actual cost of each newbuild rig, as delivered, on a proportionate basis. See "Note 3 - Equity Method Investment in ARO" to our condensed consolidated financial statements included in "Item 1. Financial Statements" for additional information on ARO.

Tax Assessments

During 2019, the Australian tax authorities issued aggregate tax assessments totaling approximately A\$101 million (\$69.7 million converted at current period-end exchange rates) plus interest related to the examination of certain of our tax returns for the years 2011 through 2016. During the third quarter of 2019, we made a A\$42 million payment (approximately \$29 million at then-current exchange rates) to the Australian tax authorities to litigate the assessment. We have a \$17.3 million liability for unrecognized tax benefits relating to these assessments as of June 30, 2022. We believe our tax returns are materially correct as filed, and we are vigorously contesting these assessments. Although the outcome of such assessments and related administrative proceedings cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our financial position, operating results and cash flows.

SUPPLEMENTAL FINANCIAL INFORMATION

Guarantees of Registered Securities

The First Lien Notes issued by Valaris Limited have been fully and unconditionally guaranteed, jointly and severally, on a senior secured basis, by certain of the direct and indirect subsidiaries (the "Guarantors") of Valaris Limited under the Indenture governing the First Lien Notes (the "Guarantees"). The First Lien Notes and Guarantees are secured by liens on the collateral, including, among other things, subject to certain agreed security principles, (i) first-priority perfected liens on 100% of the equity interests of each restricted subsidiary directly owned by Valaris Limited or any Guarantor and (ii) a first-priority perfected lien on substantially all assets of Valaris Limited and each Guarantor, in each case subject to certain exceptions and limitations (collectively, the "Collateral"). We are providing the following information about the Guarantors and the Collateral in compliance with Rules 13-01 and 13-02 of Regulation S-X.

First Lien Note Guarantees

The Guarantees are joint and several senior secured obligations of each Guarantor and rank equally in right of payment with existing and future senior indebtedness of such Guarantor and effectively senior to such Guarantor's existing and future indebtedness (i) that is not secured by a lien on the Collateral securing the First Lien Notes, or (ii) that is secured by a lien on the Collateral securing the First Lien Notes ranking junior to the liens securing the First Lien Notes. The Guarantees rank effectively junior to such Guarantor's existing and future secured indebtedness (i) that is secured by a lien on the Collateral that is senior or prior to the lien securing the First Lien Notes, or (ii) that is secured by liens on assets that are not part of the Collateral, to the extent of the value of such assets. The Guarantees rank equally with such Guarantor's existing and future indebtedness that is secured by first-priority liens on the Collateral and senior in right of payment to any existing and future subordinated indebtedness of such Guarantor. The Guarantees are structurally subordinated to all existing and future indebtedness and other liabilities of any non-Guarantors, including trade payables (other than indebtedness and liabilities owed to such Guarantor).

Under the Indenture, a Guarantor may be automatically and unconditionally released and relieved of its obligations under its guarantee under certain circumstances, including: (1) in connection with any sale, transfer or other disposition (including by merger, consolidation, distribution, dividend or otherwise) of all or substantially all of the assets of such Guarantor to a person that is not the Company or a restricted subsidiary, if such sale, transfer or other disposition is conducted in accordance with the applicable terms of the Indenture, (2) in connection with any sale, transfer or other disposition (including by merger, consolidation, amalgamation, distribution, dividend or otherwise) of all of the capital stock of any Guarantor, if such sale, transfer or other disposition is conducted in accordance with the applicable terms of the Indenture, (3) upon our exercise of legal defeasance, covenant defeasance or discharge under the Indenture, (4) unless an event of default has occurred and is continuing, upon the dissolution or liquidation of a Guarantor in accordance with the Indenture, and (5) if such Guarantor is properly designated as an unrestricted subsidiary, in each case in accordance with the provisions of the Indenture.

We conduct our operations primarily through our subsidiaries. As a result, our ability to pay principal and interest on the First Lien Notes is dependent on the cash flow generated by our subsidiaries and their ability to make such cash available to us by dividend or otherwise. The Guarantors' earnings will depend on their financial and operating performance, which will be affected by general economic, industry, financial, competitive, operating, legislative, regulatory and other factors beyond their control. Any payments of dividends, distributions, loans or advances to us by the Guarantors could also be subject to restrictions on dividends under applicable local law in the jurisdictions in which the Guarantors operate. In the event that we do not receive distributions from the Guarantors, or to the extent that the earnings from, or other available assets of, the Guarantors are insufficient, we may be unable to make payments on the First Lien Notes.

Pledged Securities of Affiliates

Pursuant to the terms of the First Lien Notes collateral documents, the Collateral Agent under the Indenture may pursue remedies, or pursue foreclosure proceedings on the Collateral (including the equity of the Guarantors and other direct subsidiaries of Valaris Limited and the Guarantors), following an event of default under the Indenture. The Collateral Agent's ability to exercise such remedies is limited by the intercreditor agreement for so long as any priority lien debt is outstanding.

The assets, liabilities and results of operations of the combined affiliates whose securities are pledged as collateral are not materially different than the corresponding amounts presented in Valaris Limited's consolidated financial statements, except with respect to (i) approximately \$410 million of cash held at Valaris Limited and (ii) the First Lien Notes and related accrued interest and interest expense. The value of the pledged equity is subject to fluctuations based on factors that include, among other things, general economic conditions and the ability to realize on the Collateral as part of a going concern and in an orderly fashion to available and willing buyers and outside of distressed circumstances. There is no trading market for the pledged equity interests.

Under the terms of the Indenture and the other documents governing the obligations with respect to the First Lien Notes (the “Notes Documents”), Valaris Limited and the Guarantors will be entitled to the release of the Collateral from the liens securing the First Lien Notes under one or more circumstances, including (1) upon full and final payment of any such obligations; (2) to the extent that proceeds continue to constitute Collateral, in the event that Collateral is sold, transferred, disbursed or otherwise disposed of in accordance with the Notes Documents; (3) upon our exercise of legal defeasance, covenant defeasance or discharge under the Indenture; (4) with respect to vessels, certain specified events permitting release of the mortgage with respect to such vessels under the Indenture; (5) with the consent of the requisite holders under the Indenture; (6) with respect to equity interests in restricted subsidiaries that incur permitted indebtedness, if such equity interests shall secure such other indebtedness and the same is permitted under the terms of the Indenture; and (7) as provided in the intercreditor agreement. The collateral agency agreement also provides for release of the Collateral from the liens securing the Notes under the above described circumstances (but including additional requirements for release in relation to all of the documents governing the indebtedness that is secured by first-priority liens on the Collateral, in addition to the Indenture). Upon the release of any subsidiary from its guarantee, if any, in accordance with the terms of the Indenture, the lien on any pledged equity interests issued by such Guarantor and on any assets of such Guarantor will automatically terminate.

Summarized Financial Information

The summarized financial information below reflects the combined accounts of the Guarantors and Valaris Limited (collectively, the “Obligors”), for the dates and periods indicated. The financial information is presented on a combined basis and intercompany balances and transactions between entities in the Obligor group have been eliminated.

Summarized Balance Sheet Information:

(in millions)	June 30, 2022	December 31, 2021
ASSETS		
Current assets	\$ 1,232.8	\$ 1,147.4
Amounts due from non-guarantor subsidiaries, current	645.1	791.9
Amounts due from related party, current	6.7	13.1
Noncurrent assets	1,039.2	990.7
Amounts due from non-guarantor subsidiaries, noncurrent	1,466.9	1,469.7
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities	449.2	309.6
Amounts due to non-guarantor subsidiaries, current	7.1	55.3
Amounts due to related party, current	37.1	38.3
Long-term debt	545.7	545.3
Noncurrent liabilities	438.6	438.6
Amounts due to non-guarantor subsidiaries, noncurrent	1,924.0	1,921.6
Noncontrolling interest	2.6	2.6

Summarized Statement of Operations Information:

(in millions)	Successor		Predecessor
	Three Months Ended June 30, 2022	Two Months Ended June 30, 2021	One Month Ended April 30, 2021
Operating revenues	\$ 380.4	\$ 219.9	\$ 82.1
Operating revenues from related party	13.1	10.8	5.4
Operating costs and expenses	420.7	195.0	132.2
Reorganization expense	(0.7)	(4.1)	(3,532.4)
Income (loss) from continuing operations	82.7	174.4	(3,492.2)
Net income attributable to noncontrolling interest	(1.2)	(2.1)	(0.8)
Net income (loss)	81.5	172.3	(3,493.0)

(in millions)	Successor		Predecessor
	Six Months Ended June 30, 2022	Two Months Ended June 30, 2021	Four Months Ended April 30, 2021
Operating revenues	\$ 667.4	\$ 219.9	\$ 388.8
Operating revenues from related party	27.4	10.8	23.1
Operating costs and expenses	757.5	195.0	1,272.9
Reorganization expense	(1.7)	(4.1)	(3,584.1)
Income (loss) from continuing operations	17.6	174.4	(4,343.4)
Net income attributable to noncontrolling interest	—	(2.1)	(3.2)
Net income (loss)	17.6	172.3	(4,346.6)

MARKET RISK

Interest Rate Risk

Our outstanding debt at June 30, 2022 consisted of our \$550.0 million aggregate principal amount of First Lien Notes. We are subject to interest rate risk on our fixed-interest rate borrowings. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates impacting the fair value of the debt.

Our long-term notes receivable from ARO bear interest based on a one-year LIBOR rate, set as of the end of the year prior to the year applicable, plus two percent. As the notes bear interest on the LIBOR rate determined at the end of the preceding year, the rate governing our interest income in 2022 has already been determined. A hypothetical 1% decrease to LIBOR would decrease our interest income by approximately \$4.4 million based on the principal amount outstanding at June 30, 2022 of \$442.7 million.

Foreign Currency Risk

Our functional currency is the U.S. dollar. As is customary in the oil and gas industry, a majority of our revenues and expenses are denominated in U.S. dollars; however, a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar. We are exposed to foreign currency exchange risk to the extent the amount of our monetary assets denominated in the foreign currency differs from our obligations in the foreign currency or revenue earned differs from costs incurred in the foreign currency. We do not currently hedge our foreign currency risk as our unsecured foreign currency credit lines were terminated in the second quarter of 2020 and our access to other foreign currency credit lines is limited.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires us to make estimates, judgments and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Our significant accounting policies are included in Note 1 to our audited consolidated financial statements for the year ended December 31, 2021, included in our annual report on Form 10-K filed with the SEC on February 22, 2022. These policies, along with our underlying judgments and assumptions made in their application, have a significant impact on our condensed consolidated financial statements.

We identify our critical accounting policies as those that are the most pervasive and important to the portrayal of our financial position and operating results and that require the most difficult, subjective and/or complex judgments regarding estimates in matters that are inherently uncertain. Our critical accounting policies are those related to property and equipment, impairment of property and equipment for the Predecessor, income taxes and pension and other post-retirement benefits. For a discussion of the critical accounting policies and estimates that we use in the preparation of our condensed consolidated financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in Part II of our annual report on Form 10-K for the year ended December 31, 2021.

New Accounting Pronouncements

See [Note 1](#) - Unaudited Condensed Consolidated Financial Statements to our condensed consolidated financial statements included in "Item 1. Financial Statements" for information on new accounting pronouncements.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Information required under this Item 3. has been incorporated herein from "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk."

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures – We have established disclosure controls and procedures to ensure that the information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of June 30, 2022, our management, with the participation of our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective.

Changes in Internal Controls – There have been no material changes in our internal controls over financial reporting during the fiscal quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. *Legal Proceedings*

Environmental Matters

We are currently subject to pending notices of assessment relating to spills of drilling fluids, oil, brine, chemicals, grease or fuel from drilling rigs operating offshore Brazil from 2008 to 2019, pursuant to which the governmental authorities have assessed, or are anticipated to assess, fines. We have contested these notices and appealed certain adverse decisions and are awaiting decisions in these cases. Although we do not expect final disposition of these assessments to have a material adverse effect on our financial position, operating results and cash flows, there can be no assurance as to the ultimate outcome of these assessments. A \$0.5 million liability related to these matters was included in Accrued liabilities and other on our Condensed Consolidated Balance Sheet as of June 30, 2022 included in "Item 1. Financial Statements."

Other Matters

In addition to the foregoing, we are named defendants or parties in certain other lawsuits, claims or proceedings incidental to our business and are involved from time to time as parties to governmental investigations or proceedings, including matters related to taxation, arising in the ordinary course of business. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, we do not expect these matters to have a material adverse effect on our financial position, operating results or cash flows. We have increased our accrual with respect to certain matters as of June 30, 2022 by approximately \$25.0 million to reflect a change in the projected value of these claims against us.

Item 1A. Risk Factors

There are numerous factors that affect our business and results of operations, many of which are beyond our control. In addition to the other information presented in this quarterly report, you should carefully read and consider "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our annual report on Form 10-K for the year ended December 31, 2021, which contains descriptions of significant risks that may cause our actual results of operations in future periods to differ materially from those currently anticipated or expected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides a summary of our purchases of our equity securities during the quarter ended June 30, 2022:

Issuer Purchases of Equity Securities

Period	Total Number of Securities Purchased ⁽¹⁾	Average Price Paid per Security	Total Number of Securities Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Securities that May Yet Be Purchased Under Plans or Programs
April 1 - April 30	443	\$ 53.81	—	—
May 1 - May 31	—	\$ —	—	—
June 1 - June 30	2,391	\$ 55.97	—	—
Total	2,834	\$ 55.63	—	—

⁽¹⁾ Represents shares withheld by us in satisfaction of tax withholding obligations arising from the vesting of share awards. These withholdings were made pursuant to the terms of the Valaris Limited 2021 Management Incentive Plan, and not pursuant to a stock buyback program.

Item 6. Exhibits

Exhibit Number	Exhibit
*4.1	Third Supplemental Indenture, dated as of June 14, 2022, among Valaris Limited, Ensco (Thailand) Limited, and Wilmington Savings Fund, FSB as collateral agent and trustee.
+*10.1	Amended and Restated Valaris Executive Severance Plan, dated as of April 14, 2022
*22.1	List of Guarantor Subsidiaries and Affiliate Securities Pledged as Collateral
*31.1	Certification of the Chief Executive Officer of Registrant Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer of Registrant Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**32.1	Certification of the Chief Executive Officer of Registrant Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**32.2	Certification of the Chief Financial Officer of Registrant Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
*101.SCH	Inline XBRL Taxonomy Extension Schema Document
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
*104	The cover page of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL (included with Exhibit 101 attachments).

* Filed herewith.

** Furnished herewith.

+ Management contracts or compensatory plans and arrangements required to be filed as exhibits pursuant to Item 6 of this report.

SIGNATURES

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

Valaris Limited

Date: August 2, 2022

/s/ DARIN GIBBINS

Darin Gibbins
Interim Chief Financial Officer and
Vice President, Investor Relations and
Treasurer
(principal financial officer)

/s/ COLLEEN W. GRABLE

Colleen W. Grable
Vice President and Controller
(principal accounting officer)

Execution Version

THIRD SUPPLEMENTAL INDENTURE

Valaris Limited

and

the Guarantors named herein

SENIOR SECURED FIRST LIEN NOTES DUE 2028

THIRD SUPPLEMENTAL INDENTURE

Dated as of June 14, 2022,

WILMINGTON SAVINGS FUND SOCIETY, FSB,

As Trustee and First Lien Collateral Agent

This THIRD SUPPLEMENTAL INDENTURE, dated as of June 14, 2022, (this “*Supplemental Indenture*”) is among Valaris Limited, an exempted company incorporated under the laws of Bermuda with registration number 56245, (the “*Company*”), Ensco (Thailand) Limited, a limited company organized under the laws of Thailand and a subsidiary of the Company (the “*Guaranteeing Subsidiary*”) and Wilmington Savings Fund Society, FSB, as trustee and as first lien collateral agent (the “*Trustee*”).

RECITALS

WHEREAS, the Company, the Guarantors and the Trustee entered into an Indenture, dated as of April 30, 2021 (as amended by that certain First Supplemental Indenture dated as of July 6, 2021, that certain Second Supplemental Indenture dated as of January 11, 2022, and as further amended, restated, amended and restated, supplemented, or otherwise modified from time to time, the “*Indenture*”), providing for the issuance of the Company’s Senior Secured First Lien Notes due 2028 (the “*Notes*”);

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall become a Guarantor;

WHEREAS, Section 9.01(i) of the Indenture provides that the Company, the Guarantors and the Trustee may amend or supplement the Indenture in order to add any additional Guarantor with respect to the Notes, without the consent of the Holders of the Notes; and

WHEREAS, all acts and things prescribed by the Indenture, by law and by the Certificate of Incorporation, Articles of Association and the Bylaws (or comparable constituent documents) of the Company and of the Trustee necessary to make this Supplemental Indenture a valid instrument legally binding on the Company and the Trustee, in accordance with its terms, have been duly done and performed;

NOW, THEREFORE, to comply with the provisions of the Indenture and in consideration of the above premises, the Company, the Guaranteeing Subsidiary and the Trustee covenant and agree for the equal and proportionate benefit of the respective Holders of the Notes as follows:

Section 1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings ascribed to them in the Indenture.

Section 2. Relation to Indenture. This Supplemental Indenture is supplemental to the Indenture and does and shall be deemed to form a part of, and shall be construed in connection with and as part of, the Indenture for any and all purposes.

Section 3. Effectiveness of Supplemental Indenture. This Supplemental Indenture shall become effective immediately upon its execution and delivery by each of the Company, the Guaranteeing Subsidiary and the Trustee.

Section 4. Agreement to Guarantee. The Guaranteeing Subsidiary hereby agrees, by its execution of this Supplemental Indenture, to be bound by the provisions of the Indenture applicable to Guarantors to the extent provided for and subject to the limitations therein, including Article 10 thereof.

Section 5. Ratification of Obligations. Except as specifically modified herein, the Indenture and the Notes are in all respects ratified and confirmed (mutatis mutandis) and shall remain in full force and effect in accordance with their terms.

Section 6. The Trustee. Except as otherwise expressly provided herein, no duties, responsibilities or liabilities are assumed, or shall be construed to be assumed, by the Trustee by reason of this Supplemental Indenture. This Supplemental Indenture is executed and accepted by the Trustee subject to all the terms and conditions set forth in the Indenture with the same force and effect as if those terms and conditions were repeated at length herein and made applicable to the Trustee with respect hereto. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture.

Section 7. Governing Law. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 8. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of such executed copies together shall represent the same agreement. Signature of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

[Signatures on following pages]

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first written above.

COMPANY:

VALARIS LIMITED

By: /s/ Darin Gibbins
Name: Darin Gibbins
Title: Interim Chief Financial Officer and VP –
Investor Relations & Treasurer

[Signature Page to Third Supplemental Indenture]

GUARANTEEING SUBSIDIARY:

ENSCO (THAILAND) LIMITED

By: /s/ Abhay Shetty
Name: Abhay Shetty
Title: Director

[Signature Page to Third Supplemental Indenture]

WILMINGTON SAVINGS FUND SOCIETY, FSB, as
Trustee and First Lien Collateral Agent

By: /s/ Geoffrey J. Lewis
Name: Geoffrey J. Lewis
Title: Vice President

[Signature Page to Third Supplemental Indenture]

VALARIS EXECUTIVE SEVERANCE PLAN

(As Amended and Restated as of April 14, 2022)

INTRODUCTION

The purpose of this Valaris Executive Severance Plan is to enable the Employer to offer certain payments and benefits to Eligible Individuals if their employment with the Employer is terminated by the Employer without Cause (and not on account of death or Disability). The Valaris Executive Severance Plan was originally adopted on November 10, 2019 and is hereby amended and restated effective April 14, 2022 and shall apply with respect to any covered termination of employment occurring on or after such date.

Article I DEFINITIONS

For purposes of the Plan, capitalized terms and phrases used herein shall have the meanings ascribed in this Article I.

Section 1.1 “**Accrued Obligations**” means (i) all earned but unpaid Base Pay through the date of termination prorated for any partial period of employment, payable in accordance with customary payroll practices and the requirements of applicable law; (ii) any benefits to which such individual has a vested entitlement as of the date of termination, payable in accordance with the terms of any applicable benefit plan or as otherwise required by law; (iii) any accrued but unused vacation, payable in a lump sum with the individual’s final pay check or as otherwise required by law; and (iv) payment of any approved but not yet reimbursed business expenses incurred prior to the date of termination, payable in accordance with applicable policies of the Company and its Affiliates.

Section 1.2 “**Affiliate**” shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.

Section 1.3 “**Base Pay**” means a Participant’s annual base compensation rate for services paid by the Employer to the Participant at the time immediately prior to the Participant’s termination of employment, as reflected in the Employer’s payroll records. Base Pay shall not include commissions, bonuses, overtime pay, incentive compensation, retention awards or benefits paid under any retirement plan, any group medical, dental or other welfare benefit plan, non-cash compensation, or any other additional compensation.

Section 1.4 “**Board**” means the Board of Directors of the Company, or any successor thereto.

Section 1.5 “**Cause**” means any of the following: (a) the willful and continued failure of a Participant to perform substantially the Participant’s duties and obligations (other than any such failure resulting from bodily injury or disease or any other incapacity due to mental or physical illness), (b) gross misconduct by the Participant, (c) the willful and material breach by the Participant of any policies of the Company or its Affiliates or the Valaris Code of Conduct, or (d) the conviction of the Participant by a court of competent jurisdiction, from which conviction no further appeal can be taken, of a crime punishable by imprisonment.

Section 1.6 “**Change in Control**” means the occurrence of any of the following events: (a) a change in the ownership of the Company, which occurs on the date that any one person, or more than one person acting as a group, acquires ownership of shares in the capital of the Company (the “**Shares**”) that, together with Shares held by such person or persons acting as a

group, constitutes more than fifty percent (50%) of the total voting power of the Shares; or (b) the majority of the members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election; or (c) a sale of all or substantially all of the assets of the Company; provided, however, a Change in Control of the Company shall not be deemed to have occurred by virtue of the consummation of any transaction or series of related transactions immediately following which the beneficial holders of the voting Shares immediately before such transaction or series of transactions continue to have a majority of the direct or indirect ownership in one or more entities which, singly or together, immediately following such transaction or series of transactions, either (i) own all or substantially all of the assets of the Company as constituted immediately prior to such transaction or series of transactions, or (ii) are the ultimate parent with direct or indirect ownership of all of the voting Shares after such transaction or series of transactions. For further clarification, a “Change in Control” of the Company shall not be deemed to have occurred by virtue of the consummation of any transaction or series of related transactions effected for the purpose of changing the place of incorporation or form of organization of the Company or the ultimate parent company of the Company and its subsidiaries.

Section 1.7 “**COBRA**” means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended together with the regulations and other official guidance promulgated thereunder.

Section 1.8 “**Code**” means the United States Internal Revenue Code of 1986, as amended, and the treasury regulations and other official guidance promulgated thereunder.

Section 1.9 “**Code Section 409A**” means Section 409A of the Code together with the treasury regulations and other official guidance promulgated thereunder.

Section 1.10 “**Company**” means Valaris Limited, a Bermuda exempted company, and any of its successors as provided in Article VI hereof.

Section 1.11 “**Compensation Committee**” or “**Committee**” means the Compensation Committee of the Board.

Section 1.12 “**Dependents**” means the Participant’s spouse and other dependents covered under the Employer’s medical, dental and vision plans immediately before the Participant’s termination date.

Section 1.13 “**Disability**” shall occur upon the Participant becoming eligible for disability benefits under the Employer’s long-term disability plan, or, if earlier, upon the Participant becoming eligible for Social Security disability benefits or any comparable state-provided disability benefits for Participants located in non-United States jurisdictions.

Section 1.14 “**Eligible Individual**” means an employee of the Employer designated by the Committee to participate in this Plan. Eligible Individuals shall be limited to a select group of management or highly compensated employees of the Employer.

Section 1.15 “**Employer**” means the Company and its Affiliates. For purposes of determining the entity responsible for making payments hereunder to a Participant, “Employer” shall mean the legal entity on whose payroll records the Participant is listed.

Section 1.16 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended together with regulations and other official guidance promulgated thereunder.

Section 1.17 “**Good Reason**” means (a) a material reduction in the Participant’s base salary or annualized Target Bonus, (b) a material diminution in the Participant’s authority, duties or responsibilities, (c) a relocation of the Participant’s primary place of employment to a location that increases the Participant’s normal commute by more than thirty-five (35) miles; or (d) any other action or inaction that constitutes a material breach by the Company of its obligations under this Plan or any other agreement between the Company and the Participant. In the case of the Participant’s allegation of Good Reason (other than pursuant to clause (c) above), (i) the Participant shall provide notice to the Board of the event alleged to constitute Good Reason within ninety (90) days of the occurrence of such event, and (ii) the Company shall have the opportunity to remedy the alleged Good Reason event within thirty (30) days from receipt of notice of such allegation. If the Company does not cure the circumstance giving rise to Good Reason, the Participant must terminate his or her employment with the Company within thirty (30) days following the end of the thirty (30) day cure period described in clause (ii) above in order for his or her termination to be considered a termination for Good Reason.

Section 1.18 “**Participant**” means an Eligible Individual who is approved by the Compensation Committee (or an authorized delegate thereof) to participate in the Plan. An Eligible Individual shall become a Participant in the Plan as of the later of (i) the date he or she commences employment with the Employer, and (ii) the date he or she is approved by the Compensation Committee (or an authorized delegate thereof) to participate in the Plan.

Section 1.19 “**Plan**” means this Valaris Executive Severance Plan, as amended from time to time in accordance with the terms and conditions hereof.

Section 1.20 “**Release**” shall have the meaning set forth in Section 2.2 hereof.

Section 1.21 “**Severance Benefits**” means the severance payments and benefits specified for a Participant in Appendix A, as the same may be amended by the Committee from time to time.

Section 1.22 “**Target Bonus**” means a Participant’s target bonus opportunity under the Valaris 2018 Cash Incentive Plan, as amended from time to time, or any other annual, quarterly, or similar cash incentive program maintained by the Employer excluding, for the avoidance of doubt, any plan, arrangement or agreement governing performance units, cash, long-term incentive awards, or retention awards.

Article II SEVERANCE BENEFITS

Section 2.1 Eligibility for Severance Benefits.

(a) Qualifying Events. If a Participant’s employment is terminated by the Employer without Cause (excluding by reason of death or Disability) or by the Participant for Good Reason, then the Employer shall pay or provide the Participant with the Severance Benefits in accordance with Section 2.3 hereto, subject to the provisions of this Plan, including Section 2.2 hereof.

(b) Non-Qualifying Events. Unless otherwise provided by the Compensation Committee at the time of such a termination, a Participant shall not be entitled to the Severance Benefits if the Participant’s employment is terminated (i) by the Employer for Cause, (ii) by the Participant without Good Reason, (iii) on account of the Participant’s death or Disability, or (iv) for any reason other than as expressly specified in Section 2.1(a) hereof.

(c) No Duty to Mitigate; Offset; Set-off. No Participant entitled to receive Severance Benefits hereunder shall be required to seek other employment or to attempt in any way to reduce any amount payable to the Participant by the Employer pursuant to the Plan and there shall be no offset against any amounts due to the Participant under the Plan on account of any remuneration attributable to any subsequent employment that the Participant may obtain or otherwise. Except as set forth below, the amounts payable hereunder shall not be subject to setoff, counterclaim, recoupment, defense or other right which the Employer may have against the Participant. Notwithstanding the foregoing, to the extent that a Participant is entitled to severance payments or benefits from the Employer under any other severance policy, plan, program or agreement, including under applicable local legal requirements, the Valaris Non-Executive Severance Plan, or any Change in Control Severance Agreement entered into with the Company or any of its Affiliates, each of the Severance Benefits payable under this Plan shall be reduced (but not below zero) by an amount equal to the comparable payments or benefits provided under such other policy, plan, program or agreement. In the event of the Participant's breach of any provision hereunder, including, without limitation, Section 2.2 hereof or any provision of the Release, the Company shall be entitled to recover any payments previously made to the Participant hereunder.

Section 2.2 **Release Required**. As a condition to receiving the Severance Benefits, the Participant must execute and not revoke a separation and release agreement in a form provided by the Company (the "Release"). The form of Release shall be in substantially the form attached hereto as Appendix B with such changes thereto as the Company determines are appropriate to comply with local law or custom or any changes in legal requirements or best practices. The Release must be executed and delivered to the Company within the period of time set forth therein.

Section 2.3 **Plan Benefits**.

(a) Accrued Obligations. In the event of a Participant's termination of employment for any reason, such Participant shall be entitled to receive the Accrued Obligations. Participation in all benefit plans of the Employer will terminate upon a Participant's date of termination except as otherwise specifically provided in the applicable plan.

(b) Severance Benefits. The Severance Benefits for a Participant shall be determined as set forth in Appendix A, as the same may be amended by the Committee from time to time.

Article III UNFUNDED PLAN

The Plan shall be "unfunded" and the Severance Benefits shall be paid out of the general assets of the Employer as and when the Severance Benefits become payable under the Plan. All Participants shall be solely unsecured general creditors of the Employer. If the Employer decides in its sole discretion to establish any advance accrued reserve on its books against the future expense of the Severance Benefits payable hereunder, or if the Employer decides in its sole discretion to fund a trust from which Plan benefits may be paid from time to time, such reserve or trust shall not under any circumstances be deemed to be an asset of the Plan.

Article IV ADMINISTRATION OF THE PLAN

Section 4.1 The Compensation Committee (or, where applicable, any duly authorized delegee of the Compensation Committee) shall have the exclusive right, power, and authority, in its sole and absolute discretion, to administer, apply and interpret the Plan and any other documents related thereto in good faith, and to decide all factual and legal matters arising in

connection with the operation or administration of the Plan. Without limiting the generality of the foregoing, the Compensation Committee (or, where applicable, any duly authorized delegee of the Compensation Committee) shall have the sole and absolute discretionary authority to:

- (a) take all actions and make all decisions (including factual decisions) with respect to the eligibility for and the amount of benefits payable under the Plan;
- (b) formulate, interpret and apply rules, regulations and policies necessary to administer the Plan;
- (c) decide questions, including legal or factual questions, relating to the calculation and payment of benefits, and all other determinations made, under the Plan;
- (d) resolve and/or clarify in good faith any factual or other ambiguities, inconsistencies and omissions arising under the Plan or other Plan documents; and
- (e) process, and approve or deny, benefit claims and rule on any benefit exclusions.

All determinations made by the Compensation Committee (or, where applicable, any duly authorized delegee of the Compensation Committee) with respect to any matter arising under the Plan shall be final and binding on the Employer, the Participant, any beneficiary, and all other parties affected thereby.

Section 4.2 Subject to the limitations of applicable law, the Compensation Committee may delegate any and all of its powers and responsibilities hereunder to other persons by formal resolution adopted by the Compensation Committee. Any such delegation shall not be effective until it is adopted by the Compensation Committee and accepted by the person(s) designated and may be rescinded at any time by written notice from the Compensation Committee to the person to whom the delegation is made. The Company's Chief Executive Officer and Vice President, Human Resources and Transformation are each hereby delegated the day-to-day authority to enter into Releases under the Plan and process the payment of benefits under the Plan.

Article V AMENDMENT AND TERMINATION

The Board may amend, modify or terminate this Plan without notice at any time and for any reason, except as prohibited by law; provided, however, that no such modification or termination may, without a Participant's written consent, materially and adversely affect the benefits or protections provided hereunder to such Participant for a period of twelve (12) months following the date such modification or change is approved.

Article VI SUCCESSORS

For purposes of the Plan, the Company shall include any and all successors or assignees, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all of the business or assets of the Company and such successors and assignees shall perform the Company's obligations under the Plan, in the same manner and to the same extent that the Company would be required to perform such obligations if no such succession or assignment had taken place. In the event that the surviving corporation in any transaction to which the Company is a party is a subsidiary of another corporation, the ultimate parent corporation of such surviving corporation shall cause the surviving corporation to perform the obligations of the Company under the Plan in the same manner and to the same extent that the Company would be required to perform such obligations if no such succession or assignment had taken place. In such event, the

term “Company” as used in the Plan, shall mean the Company, as hereinbefore defined, and any successor or assignee (including the ultimate parent corporation) to the business or assets thereof which by reason hereof becomes bound by the terms and provisions of the Plan.

Article VII MISCELLANEOUS

Section 7.1 **Minors and Incompetents**. If the Compensation Committee shall find that any person to whom Severance Benefits are payable under the Plan is unable to care for his or her affairs because of illness or accident, or is a minor, any Severance Benefits due (unless a prior claim therefore shall have been made by a duly appointed guardian, committee or other legal representative) may be paid to the spouse, a child, parent, or brother or sister, or to any person deemed by the Compensation Committee to have incurred expense for such person otherwise entitled to Severance Benefits, in such manner and proportions as the Compensation Committee may determine in its sole discretion. Any such payment of Severance Benefits shall be a complete discharge of the liabilities of the Company, the Employer and the Compensation Committee under the Plan.

Section 7.2 **Limitation of Rights**. Nothing contained herein shall be construed as conferring upon a Participant the right to continue in the employ of the Employer as an employee or in any other capacity or to interfere with the Employer’s right to discharge such Participant at any time for any reason whatsoever.

Section 7.3 **Payment Not Salary**. Any Severance Benefits payable under the Plan shall not be deemed salary or other compensation to the Participant for the purposes of computing benefits to which the Participant may be entitled under any retirement plan or other arrangement of the Employer maintained for the benefit of its employees, unless such plan or arrangement provides otherwise.

Section 7.4 **Severability**. In case any provision of the Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal and invalid provision never existed.

Section 7.5 **Withholding**. The Employer shall have the right to make such provisions as it deems necessary or appropriate to satisfy any obligation it may have to withhold federal, state or local income, payroll, national insurance or other taxes incurred by reason of payments pursuant to the Plan. In lieu thereof, to the extent permitted by applicable law, the Company and/or the Employer shall have the right to withhold the amounts of such taxes from any other sums due or to become due from the Company and/or the Employer to the Participant upon such terms and conditions as the Compensation Committee may prescribe.

Section 7.6 **Non-Alienation of Benefits**. The Severance Benefits payable under the Plan shall not be subject to alienation, transfer, assignment, garnishment, execution or levy of any kind, and any attempt to cause any Severance Benefit to be so subjected shall not be recognized.

Section 7.7 **Governing Law**. The Plan shall be governed by the laws of the State of Texas, without regard to the conflicts of law principles thereof.

Section 7.8 **Code Section 409A**. The provisions of this Section 7.8 shall only apply if and to the extent that the applicable Participant is subject to the provisions of Code Section 409A. The intent of the parties is that payments and benefits under this Plan comply with or be exempt from Code Section 409A and, accordingly, to the maximum extent permitted, this Plan shall be interpreted to be in compliance therewith. If the Participant notifies the Company (with

specificity as to the reason therefor) that the Participant believes that any provision of this Plan (or of any award of compensation, including equity compensation or benefits) would cause the Participant to incur any additional tax or interest under Code Section 409A and the Company concurs with such belief or the Company (without any obligation whatsoever to do so) independently makes such determination, the Company shall, after consulting with the Participant, reform such provision to attempt to comply with Code Section 409A through good faith modifications to the minimum extent reasonably appropriate to conform with Code Section 409A. To the extent that any provision hereof is modified in order to comply with Code Section 409A, such modification shall be made in good faith and shall, to the maximum extent reasonably possible, maintain the original intent and economic benefit to the Participant and the Company of the applicable provision without violating the provisions of Code Section 409A. In no event whatsoever shall the Company be liable for any additional tax, interest or penalty that may be imposed on the Participant by Code Section 409A or damages for failing to comply with Code Section 409A. With respect to any payment or benefit considered to be nonqualified deferred compensation under Code Section 409A, a termination of employment shall not be deemed to have occurred for purposes of any provision of this Plan providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Plan, references to a "termination," "termination of employment" or like terms shall mean "separation from service." Notwithstanding anything to the contrary in this Plan, if the Participant is deemed on the date of termination to be a "specified employee" within the meaning of that term under Code Section 409A(a)(2) (B), then with regard to any payment or the provision of any benefit that is considered nonqualified deferred compensation under Code Section 409A payable on account of a "separation from service," such payment or benefit shall not be made or provided until the date which is the earlier of (i) the expiration of the six month period measured from the date of such "separation from service" of the Participant, and (ii) the date of the Participant's death, to the extent required under Code Section 409A. Upon the expiration of the foregoing delay period, all payments and benefits delayed pursuant to this Section 7.8 (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Participant, without interest, in a lump sum, and any remaining payments and benefits due under this Plan shall be paid or provided in accordance with the normal payment dates specified for them herein. To the extent that reimbursements or other in-kind benefits under this Plan constitute "nonqualified deferred compensation" for purposes of Code Section 409A, (x) all expenses or other reimbursements hereunder shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by the Participant, (y) any right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (z) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year. For purposes of Code Section 409A, the Participant's right to receive any installment payments pursuant to this Plan shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Plan specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company. Notwithstanding any other provision of this Plan to the contrary, in no event shall any payment under this Plan that constitutes "nonqualified deferred compensation" for purposes of Code Section 409A be subject to offset by any other amount unless otherwise permitted by Code Section 409A. Where payments under this Plan are to be made within a specified period after the Release becomes effective and irrevocable, and such period for the Participant's consideration, execution and revocation of the Release spans two taxable years, payment shall be made in later taxable year.

Section 7.9 **Parachute Payment Limitations.**

(a) Notwithstanding any contrary provision in this Plan, if an Eligible Individual is a “disqualified individual” (as defined in Section 280G of the Code), and the Severance Benefits that would otherwise be paid to such Eligible Individual under this Plan together with any other payments or benefits that such Eligible Individual has a right to receive from the Company (and affiliated entities required to be aggregated in accordance with Q/A-10 and Q/A-46 of Treas. Reg. §1.280G-1) (collectively, the “Payments”) would constitute a “parachute payment” (as defined in Section 280G of the Code), the Payments shall be either (a) reduced (but not below zero) so that the aggregate present value of such Payments and benefits received by the Eligible Individual from the Company and its Affiliates shall be \$1.00 less than three times such Eligible Individual’s “base amount” (as defined in Section 280G of the Code) (the “Safe Harbor Amount”) and so that no portion of such Payments received by such Eligible Individual shall be subject to the excise tax imposed by Section 4999; or (b) paid in full, whichever produces the better net after-tax result for such Eligible Individual (taking into account any applicable excise tax under Section 4999 and any applicable federal, state and local income and employment taxes). The determination as to whether any such reduction in the amount of the Payments is necessary shall be made by the Company in good faith and such determination shall be conclusive and binding on such Eligible Individual. If reduced Payments are made to the Eligible Individual pursuant to this Section 7.9 and through error or otherwise those Payments exceed the Safe Harbor Amount, the Eligible Individual shall immediately repay such excess to the Company or its applicable Affiliate upon notification that an overpayment has been made.

(b) The reduction of Payments, if applicable, shall be made by reducing, first, Severance Benefits to be paid in cash hereunder in the order in which such payments would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and second, by reducing any other cash payments that would be payable to the Eligible Individual outside of this Plan which are valued in full for purposes of Code Section 280G in a similar order (last to first), any third, by reducing any equity acceleration hereunder of awards which are valued in full for purposes of Section 280G of the Code in a similar order (last to first), and finally, by reducing any other payments or benefit provided hereunder in a similar order (last to first).

Section 7.10 **Non-Exclusivity.** The adoption of the Plan by the Company shall not be construed as creating any limitations on the power of the Company to adopt such other supplemental severance arrangements as it deems desirable, and such arrangements may be either generally applicable or limited in application. Nothing in this Plan shall prevent or limit the Participant’s continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company or any of its Affiliates and for which the Participant may qualify, nor shall anything herein limit or reduce such rights as the Participant may have under any agreements with the Company or any of its Affiliates; provided, that no payments or benefits under the Plan shall result in a duplication of payments or benefits provided under any severance plan or arrangement to which the Participant is eligible to participate or a party to. Amounts which are vested benefits or which the Participant is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its Affiliates at or subsequent to the date of termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Plan.

Section 7.11 **Headings and Captions; Number.** The headings and captions herein are provided for reference and convenience only. They shall not be considered part of the Plan and shall not be employed in the construction of the Plan. Whenever used in the Plan, the singular shall be deemed to include the plural, unless the context clearly indicates otherwise.

Section 7.12 **Communications.** All announcements, notices and other communications regarding the Plan will be made by the Company in writing (whether in electronic form or otherwise). Except for written amendments to the Plan or official written communications issued by the Company in connection with the Plan, Participants in the Plan may not rely on any representation or statement made by the Employer or any of its officers, directors, employees or agents, whether written or oral, regarding such Participants' participation in the Plan and any rights hereunder.

Section 7.13 **Notices.** For purposes of this Plan, notices and all other communications provided for in this Plan or contemplated hereby shall be in writing and shall be deemed to have been duly given when personally delivered, delivered by a nationally recognized overnight delivery service or when mailed via United States certified or registered mail, return receipt requested, postage prepaid, and addressed, in the case of the Company, to the Company at:

Valaris Limited
Attn: General Counsel
5847 San Felipe, Suite 3300
Houston, TX 77057

and in the case of the Participant, to the Participant at the most recent address of the Participant that is set forth in the Company's records.

Section 7.14 **Local Legal Requirements.** The Company's Chief Executive Officer and Vice President, Human Resources and Transformation may create sub-plans that revise the terms of this Plan, including the Release attached hereto as Appendix B, as each such individual deems advisable or appropriate to conform to or comply with any applicable foreign or local legal requirements or customs. Such sub-plans shall be applied consistently to all similarly-situated Participants located in the effected jurisdiction and shall not have the effect of increasing the amount of any Severance Benefits payable or to be provided hereunder.

Appendix A

Severance Benefits

1. Cash Severance.

If a Participant incurs a qualifying termination, an amount of cash, payable by the Employer in a lump sum promptly and in all events within 30 days following the date on which the Release as required by Section 2.2 becomes effective and irrevocable, equal to the sum of (i) the Participant's Base Pay (without regard to any reductions implemented without the Participant's consent) plus (ii) the Participant's annualized Target Bonus.

2. Bonus for Performance Period of Termination.

A cash amount, equal to a pro-rata portion of the Participant's Target Bonus for the performance period in which the termination occurs, pro-rated based on the number of days the Participant was employed during the performance period in which the termination of employment occurs and payable by the Employer in a lump sum promptly and in all events within 30 days following the date on which the Release required by Section 2.2 becomes effective and irrevocable; provided, however, that the foregoing shall not prevent the Participant from receiving any bonus relating to any performance period completed prior to termination.

3. Other Benefits

(a) Subject to the Participant's timely election of continuation coverage under COBRA or other applicable law, the Employer shall maintain continued group health plan coverage following the Participant's termination date under any of the Employer's medical, dental and vision plans that covered the Participant immediately before the Participant's termination date, for the Participant and his or her eligible Dependents, for a period of twelve (12) months following the Participant's termination date. During this period, except to the extent provided otherwise by the American Rescue Plan Act of 2021 (or similar law), the Participant shall be responsible for paying any contributions toward the cost of such coverages at active employee rates and the Employer shall (either directly or through reimbursement) subsidize the difference between such rates and any applicable premiums, whether under COBRA or otherwise; provided, that if the continued coverage contemplated by this Section 3(a) would be discriminatory and would result in the imposition of excise taxes or other liabilities on the Company for failure to comply with any requirements of the Patient Protection and Affordable Care Act of 2010, as amended, and the Health Care and Education Reconciliation Act of 2010, as amended (to the extent applicable), or other applicable law, the Company will provide Executive with a cash payment equal to the employer-portion of any COBRA premiums, inclusive of any taxes thereon, for the remainder of the twelve (12) month period. Following such 12-month period, the Participant shall be responsible for the full cost associated with any continued coverage, whether under COBRA, any insurance policy conversion rights or otherwise. The Employer's obligation to provide subsidized continuation coverage under this Plan shall immediately terminate if the Participant becomes eligible for group medical coverage provided by another employer. The Participant shall give prompt notice to the Employer if he or she becomes eligible for group medical coverage offered by another employer during the 12-month

period referenced in this section. In jurisdictions outside the United States, a health coverage benefit that is comparable to what is described in this Section 3(a) shall offered.

(b) The Participant shall receive Company-provided outplacement services for up to twelve (12) months following the Participant's termination of employment, up to a maximum cost to the Company of \$25,000.

(c) The Employer, as determined in its sole discretion in accordance with local customs, shall reimburse the Participant for any legal fees actually incurred by or on behalf of Participant in connection with the execution of the Release, up to a maximum amount of \$20,000.

Appendix B

Form of Separation and Release Agreement

This Release Agreement (this “Release Agreement”) is entered into as of the date set forth below by and between [____], an individual (“Employee”), and [____] (the “Company”). Capitalized terms used herein that are not otherwise defined shall have the meaning ascribed to such terms in the Valaris Executive Severance Plan (the “Severance Plan”).

WHEREAS, Employee has been employed by the Company as its [____];

WHEREAS, Employee’s employment with the Company will terminate effective as of [____] (the “Termination Date”);

WHEREAS, Employee is eligible to receive severance payments and benefits (the “Severance Benefits”) in accordance with and subject to the terms of the Severance Plan; and

WHEREAS, Employee’s receipt of the Severance Benefits is subject to Employee’s execution and non-revocation of a release of claims, and the Company and Employee desire to enter into this Release Agreement upon the terms set forth herein.

NOW, THEREFORE, in consideration of the covenants undertaken and the releases contained in this Release Agreement, and in consideration of the obligations of the Company to pay the Severance Benefits (conditioned upon this Release Agreement), Employee and the Company agree as follows:

1. Release. Employee, on behalf of herself, his or her descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, hereby acknowledges full and complete satisfaction of the Company’s obligations to him or her and covenants not to sue and fully releases and discharges the Company and each of its direct and indirect parents, subsidiaries and affiliates, past and present, as well as its and their trustees, directors, officers, members, managers, partners, agents, attorneys, insurers, employees, stockholders, representatives, assigns, and successors, past and present, and each of them, hereinafter together and collectively referred to as the “Releasees.” with respect to and from any and all claims, wages, demands, rights, liens, agreements or contracts (written or oral), covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys’ fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise (each, a “Claim”), which he or she now owns or holds or he or she has at any time heretofore owned or held or may in the future hold as against any of said Releasees arising out of or in any way connected with Employee’s service as an officer, director, employee, member or manager of any Releasee or Employee’s separation from his or her position as an officer, director, employee, manager and/or member, as applicable, of any Releasee, whether known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said Releasees, or any of them, committed or omitted prior to the date of this Release Agreement including, without limiting the generality of the foregoing, any Claim under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967 (“ADEA”), the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, or any other federal, state or local law, regulation, or ordinance, or any Claim for severance pay, bonus, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, workers’ compensation or disability; provided however, that the foregoing release shall not apply to any obligation of the Company to Employee pursuant to or with respect to any of the following: (1) any right to indemnification that Employee may have pursuant to the Company’s Bylaws or the Company’s

corporate charter or under any written indemnification agreement with the Company (or any corresponding provision of any subsidiary or affiliate of the Company) with respect to any loss, damages or expenses (including but not limited to attorneys' fees to the extent otherwise provided) that Employee may in the future incur with respect to his or her service as an employee, officer or director of the Company or any of its subsidiaries or affiliates; (2) any rights that Employee may have to insurance coverage for such losses, damages or expenses under any Company (or subsidiary or affiliate) directors and officers liability insurance policy; (3) any rights to continued group health plan coverage that Employee may have under COBRA; or (4) any rights to payment of benefits that Employee may have under a retirement plan sponsored or maintained by the Company that is intended to qualify under Section 401(a) of the Internal Revenue Code of 1986, as amended. In addition, this release does not cover any Claim that cannot be so released as a matter of applicable law. Employee acknowledges and agrees that he or she has received any and all leave and other benefits that he or she has been and is entitled to pursuant to the Family and Medical Leave Act of 1993.

2. Acknowledgment of Payment of Wages and Offset. Employee acknowledges that he or she has received all amounts owed for his or her regular and usual salary (including, but not limited to, any bonus or other wages), and usual benefits through the date of this Release Agreement. The Severance Benefits shall, however, be subject to setoff, counterclaim, recoupment, defense or other right which the Company may have against Employee and shall, to the extent permitted by applicable law, be reduced by the amount of any (i) severance pay or acceleration of benefits under any other agreement with, or plan, program, or policy of, the Company (if any) and (ii) other payments that the Company may otherwise be compelled to pay to Employee under applicable law (other than amounts owed for his or her regular and usual salary including, but not limited to, any bonus or other wages, and usual benefits through the Termination Date).

3. ADEA Waiver. Employee expressly acknowledges and agrees that by entering into this Release Agreement, Employee is waiving any and all rights or Claims that he or she may have arising under ADEA and the Older Worker Benefits Protection Act ("OWBPA"), which have arisen on or before the date of execution of this Release Agreement. Employee further expressly acknowledges and agrees that:

(A) Employee is hereby advised in writing by this Release Agreement to consult with an attorney before signing this Release Agreement;

(B) Employee has voluntarily chosen to enter into this Release Agreement and has not been forced or pressured in any way to sign it;

(C) Employee was given a copy of this Release Agreement on [] and informed that he or she had [forty-five (45) / twenty-one (21)] days within which to consider this Release Agreement and that if he or she wished to execute this Release Agreement prior to expiration of such [45 / 21]-day period, he or she should execute the Endorsement attached hereto;

(D) Employee was informed that he or she had seven (7) days following the date of execution of this Release Agreement in which to revoke this Release Agreement, and this Release Agreement will become null and void if Employee elects revocation during that time. Any revocation must be in writing and must be received by the Company during the seven-day revocation period. In the event that Employee exercises his or her right of revocation, neither the Company nor Employee will have any obligations under this Release Agreement;

(E) Nothing in this Release Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the

ADEA or the OWBPA, nor does it impose any condition precedent, penalties or costs from doing so, unless specifically authorized by federal law.

4. **No Transferred Claims.** Employee warrants and represents that the Employee has not heretofore assigned or transferred to any person not a party to this Release Agreement any released matter or any part or portion thereof and he or she shall defend, indemnify and hold the Company and each of its affiliates harmless from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

5. **Severability.** It is the desire and intent of the parties hereto that the provisions of this Release Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Release Agreement shall be adjudicated by a court of competent jurisdiction to be invalid, prohibited or unenforceable under any present or future law, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Release Agreement or affecting the validity or enforceability of such provision in any other jurisdiction; furthermore, in lieu of such invalid or unenforceable provision there will be added automatically as a part of this Release Agreement, a legal, valid and enforceable provision as similar in terms to such invalid or unenforceable provision as may be possible. Notwithstanding the foregoing, if such provision could be more narrowly drawn so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Release Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

6. **Counterparts.** This Release Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

7. **Governing Law.** THIS RELEASE AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICTING PROVISION OR RULE (WHETHER OF THE STATE OF TEXAS OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF TEXAS TO BE APPLIED. IN FURTHERANCE OF THE FOREGOING, THE INTERNAL LAW OF THE STATE OF TEXAS, WILL CONTROL THE INTERPRETATION AND CONSTRUCTION OF THIS RELEASE AGREEMENT, EVEN IF UNDER SUCH JURISDICTION'S CHOICE OF LAW OR CONFLICT OF LAW ANALYSIS, THE SUBSTANTIVE LAW OF SOME OTHER JURISDICTION WOULD ORDINARILY APPLY.

8. **Amendment and Waiver.** The provisions of this Release Agreement may be amended and waived only with the prior written consent of the Company and Employee, and no course of conduct or failure or delay in enforcing the provisions of this Release Agreement shall be construed as a waiver of such provisions or affect the validity, binding effect or enforceability of this Release Agreement or any provision hereof.

9. **Descriptive Headings.** The descriptive headings of this Release Agreement are inserted for convenience only and do not constitute a part of this Release Agreement.

10. **Construction.** Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or

restrict in any manner the construction of the general statement to which it relates. The language used in this Release Agreement shall be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

11. Arbitration. Any disputes relating to this Release Agreement, including the arbitrability thereof, shall by mutual agreement be finally settled by binding arbitration in accordance with the Judicial Arbitration & Mediation Service, Inc. (“JAMS”) Comprehensive Arbitration Rules and Procedures or any successor provision thereto, as follows: Any party aggrieved will deliver a notice to the other party setting forth the specific points in dispute. Any points remaining in dispute thirty (30) days after the giving of such notice may be submitted to JAMS arbitration conducted before a single neutral arbitrator in Houston, Texas. The arbitrator shall be appointed by agreement of the parties hereto or, if no agreement can be reached, by JAMS. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings. Notwithstanding the foregoing, a party who seeks equitable relief shall not be obligated to utilize the arbitration proceedings required hereunder and instead may seek such relief in any state or federal court sitting in Houston, Texas. The decision of the arbitrator on the points in dispute will be final, unappealable and binding, and judgment on the award may be entered in any court having jurisdiction thereof. The arbitrator shall only be authorized to interpret the provisions of this Release Agreement, and shall not amend, change or add to any such provisions. The parties agree that this provision has been adopted by the parties to rapidly and inexpensively resolve any disputes between them and that this provision will be grounds for dismissal of any court action commenced by either party with respect to this Release Agreement, other than post-arbitration actions seeking to enforce an arbitration award or proceedings seeking equitable relief as permitted by this Release Agreement. In the event that any court determines that this arbitration procedure is not binding, or otherwise allows any litigation regarding a dispute, claim, or controversy covered by this Release Agreement to proceed, the parties hereto hereby waive any and all right to a trial by jury in or with respect to such litigation. Each party will bear its own expenses and the fees of its own attorneys. The parties and the arbitrator will keep confidential, and will not disclose to any person, except the parties' advisors and legal representatives, or as may be required by law or to enforce in court an arbitrator's award, the existence of any dispute hereunder. Employee acknowledges that arbitration pursuant to this Release Agreement includes all controversies or claims of any kind (e.g., whether in contract or in tort, statutory or common law, legal or equitable) now existing or hereafter arising under any federal, state, local or foreign law, including, but not limited to, the ADEA, the OWBPA, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1866, the Employee Retirement Income Security Act, the Family and Medical Leave Act of 1993, the Americans With Disabilities Act and all similar federal, state and local laws, and Employee hereby waives all rights thereunder to have a judicial tribunal and/or a jury determine such claims.

12. Restrictive Covenants.

(A) Each party acknowledges and agrees that Employee shall continue to be obligated to comply with the terms of any restrictive covenant, intellectual property, or confidentiality agreement that Employee executed in connection with Employee's employment with the Company or its affiliates.

(B) **Confidentiality.** During the course of Employee's employment with the Company, the Company has (1) disclosed or entrusted to Employee, and provided Employee with access to, Confidential Information (as defined below), (2) placed Employee in a position to develop business goodwill belonging to Valaris Limited (“Valaris”) and its affiliates, and (3) disclosed or entrusted to Employee business opportunities to be developed for Valaris and its affiliates. Valaris and its affiliates have also taken such actions on the date of this Release Agreement.

Employee acknowledges that Confidential Information has been developed or acquired by Valaris and its affiliates through the expenditure of substantial time, effort and money and provides Valaris and its affiliates with an advantage over competitors who do not know or use the Confidential Information. Employee further acknowledges and agrees that the nature of the Confidential Information obtained during his or her employment would make it difficult, if not impossible, for Employee to perform in a similar capacity for a business competitive with Valaris and its affiliates without disclosing or utilizing Confidential Information. Employee shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any Confidential Information, except to the extent necessary to carry out his or her duties on behalf of Valaris and its affiliates. Employee agrees to give to Valaris and its affiliates notice of any and all attempts to compel disclosure of any Confidential Information within one (1) business day of being informed that such disclosure is being, or will be, compelled. Such written notice shall include a description of the Confidential Information to be disclosed, the court, government agency, or other forum through which the disclosure is sought, and the date by which the Confidential Information is to be disclosed, and shall contain a copy of the subpoena, order or other process used to compel disclosure. For the avoidance of doubt, the provisions of this subsection shall not apply to (a) any disclosure or use authorized by Valaris or its affiliates or required by applicable law and (b) any information that is or becomes generally available to the public (other than as a result of Employee's unauthorized disclosure). This confidentiality covenant shall be in addition to, and not limit or restrict in any way, any other confidentiality agreement or other post-employment covenant between Employee and Valaris and its affiliates.

As used herein, "Confidential Information" means information (whether or not recorded in documentary form, or stored on any magnetic or optical disk or memory) relating to the business, products, affairs and finances of Valaris or any of its affiliates for the time being confidential to Valaris or its affiliates, and trade secrets including, without limitation, technical data and know-how relating to the business of Valaris or any of its affiliates or any of their respective business contacts, including in particular (by way of illustration only and without limitation): (i) information relating to the business of exploring, acquiring, developing, exploiting and disposing of oil and natural gas resources (regardless of when conceived, made, developed or acquired); (ii) information relating to the business or prospective business, current or projected plans or internal affairs of Valaris or any of its affiliates; (iii) information relating to the current or prospective marketing or sales of any products or services of Valaris or any of its affiliates, including non-public lists of customers' and suppliers' names, addresses and contacts; sales targets and statistics; market share and pricing information; marketing surveys; research and reports; non-public advertising and promotional material; strategies; and financial and sales data; (iv) information relating to any actual or prospective business strategies of Valaris or any of its affiliates; (v) information relating to any actual acquisitions, investments or corporate opportunities or prospective acquisition, investment targets or corporate opportunities; (vi) know-how, trade secrets, unpublished information relating to Valaris or any of its affiliates' intellectual property and to the creation, production or supply of any products or services of Valaris or any of its affiliates; (vii) information to which Valaris or any of its affiliates owes an obligation of confidence to a third party (including, without limitation, customers, clients, suppliers, partners, joint venturers and professional advisors of Valaris or any of its affiliates); and (viii) other commercial, financial or technical information relating to the business or prospective business of Valaris or any of its affiliates, or to any past, current or prospective client, customer, supplier, licensee, officer or employee, agent of Valaris or any of its affiliates, or any member or person interested in the share capital or assets of Valaris or any of its affiliates, and any other person to whom Valaris or any of its affiliates may provide or from whom they may receive information (whether marked confidential or not).

(C) Non-Compete. In exchange for the Severance Benefits and the Company's provision to Employee of Confidential Information and to protect the Company and its affiliates' legitimate business interests, Employee hereby agrees that for a period of twelve (12) months

after the Termination Date (the “Restricted Period”), Employee will not, without the prior written consent of the Chief Executive Officer of Valaris Limited, directly or indirectly, provide services to, or own any interest in, manage, operate, control, or participate in the ownership, management, operation or control of, any Direct Competitor (including as an employee or Consultant, other than as an employee of, or consultant to, the Company or its affiliates); provided, however, that (1) notwithstanding the foregoing, Employee may own, directly or indirectly, solely as a passive investment, securities of any entity traded on a national securities exchange if Employee is not a controlling person of, or a member of a group which controls, such entity and does not, directly or indirectly, own two percent (2%) or more of any class of securities of such entity; and (2) the Restricted Period shall run concurrently with any notice period or period of garden leave notwithstanding that Participant may not have experienced any termination of employment until the expiration of such period. As used herein “Direct Competitor” means a business concern whose predominant business is oil and gas offshore drilling, and that owns, leases and/or operates one or more mobile offshore drilling units.

(D) Non-Solicitation. Employee hereby agrees that during the Restricted Period Employee will not, directly or indirectly, induce or attempt to induce, or cause or solicit any officer, manager, contractor or employee of the Company or its Affiliates to cease their relationship with the Company or its Affiliates or hire or engage any such officer, manager, contractor or employee of the Company or its Affiliates, or in any way materially interfere with the relationship between the Company and its Affiliates, on the one hand, and any such officer, manager, contractor or employee, on the other hand. Notwithstanding the foregoing, nothing in this Release Agreement shall prohibit Employee from making a general, public solicitation for employment, or using an employee recruiting or search firm to conduct a search, that does not specifically target employees or consultants of the Company or its Affiliates so long as no persons who were at any time during the twelve (12) month period prior to the commencement of such solicitation, employees or consultants of the Company or its Affiliates are hired or otherwise engaged as a result of such general solicitations or search firm efforts. Employee hereby agrees that during the Restricted Period, he or she will not, directly or indirectly, induce, or attempt to induce, cause or solicit any customer, client or supplier of the Company or its Affiliates to reduce or cease doing business with the Company or its Affiliates, or in any way knowingly interfere with the relationship between any customer, client or supplier of the Company or its Affiliates, on the one hand, and the Company and its Affiliates, on the other hand.

(E) Intellectual Property Assignment. Employee hereby assigns to the Company all rights, including, without limitation, copyrights, patents, trade secret rights, and other intellectual property rights associated with any ideas, concepts, techniques, inventions, processes, works of authorship, Confidential Information or trade secrets (i) developed or created by Employee, solely or jointly with others, during the course of performing work for or on behalf of the Company or any of its Affiliates at any time during Employee’s period of employment with the Company, (ii) that Employee conceived, developed, discovered or made in whole or in part during Employee’s employment by the Company that relate to the business of the Company or its Affiliates or the actual or demonstrably anticipated research or development of the Company or its Affiliates, or (iii) that Employee conceives, develops, discovers or makes in whole or in part during or after Employee’s employment by the Company that are made through the use of any trade secrets of the Company or the use of the equipment, facilities, supplies, or time of the Company or its Affiliates (collectively, “Work Product”). Without limiting the foregoing, to the extent possible, all software, compilations and other original works of authorship included in the Work Product will be considered a “work made for hire” as that term is defined in Title 17 of the United States Code. If, notwithstanding the foregoing, Employee for any reason retains any right, title or interest in or relating to any Work Product, Employee agrees promptly to assign, in writing and without any requirement of further consideration, all such right, title, and interest to the Company. Upon request of the Company at any time, Employee will take such further

actions, including execution and delivery of instruments of conveyance, as may be appropriate to evidence, perfect, record or otherwise give full and proper effect to any assignments of rights under or pursuant to this Release Agreement.

(F) Company Documents and Property. All writings, records, and other documents and things comprising, containing, describing, discussing, explaining, or evidencing any Confidential Information, and all equipment, computers, mobile phones, components, manuals, parts, keys, tools, and the like in Employee's custody, possession or control that have been obtained by, prepared by, or provided to, Employee by the Company or any Affiliate in the course or scope of Employee's employment with the Company (or any Affiliate) shall be the exclusive property of the Company (or such Affiliate, as applicable), shall not be copied and/or removed from the premises of the Company or any Affiliate, except in pursuit of the business of the Company or an Affiliate, and shall be delivered to the Company or an Affiliate, as applicable, without Employee retaining any copies or electronic versions, within one (1) day following the Termination Date or at any other time requested by the Company.

(G) No Disparaging Comments. Employee and the Company shall refrain from any criticisms or disparaging comments about each other or in any way relating to Employee's employment or separation from employment with the Company; provided, however, that nothing in this Release Agreement shall apply to or restrict in any way the communication of information to any governmental law enforcement agency by either Party that is required by compulsion of law. A violation or threatened violation of this prohibition may be enjoined by a court of competent jurisdiction. The rights under this provision are in addition to any and all rights and remedies otherwise afforded by law to the Parties. Employee acknowledges that in executing this Release Agreement, he or she has knowingly, voluntarily, and intelligently waived any free speech, free association, free press or First Amendment to the United States Constitution (including, without limitation, any counterpart or similar provision or right under any other state constitution which may be deemed to apply) and rights to disclose, communicate, or publish disparaging information or comments concerning or related to the Company; provided, however, nothing in this Release Agreement shall be deemed to prevent Employee from testifying fully and truthfully in response to a subpoena from any court or from responding to an investigative inquiry from any governmental agency. For all purposes of the obligations of Employee under this Section 12(G), the term "Company" refers to the Company and its Affiliates, and its and their directors, officers, employees, shareholders, investors, partners and agents.

(H) Cooperation. Employee agrees to make himself or herself available as reasonably practical with respect to, and to use reasonable efforts to cooperate in conjunction with, the transition of duties and any litigation or investigation arising from events that occurred during Employee's employment with or engagement by the Company (whether such litigation or investigation is then pending or subsequently initiated) involving the Company or any affiliate thereof, including providing testimony and preparing to provide testimony if so requested by the Company.

(I) Employee also agrees to keep confidential the terms of this Release Agreement. This provision does not prohibit Employee from providing this information on a confidential and privileged basis to his or her attorneys or accountants for purposes of obtaining legal or tax advice or as otherwise required by law. Moreover, the parties have the right to disclose in confidence trade secrets to government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. The parties also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure all in accordance with 18 U.S.C. § 1833(b). Nothing in this Release Agreement shall restrict such disclosures.

13. Nouns and Pronouns. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice-versa.

14. Legal Counsel. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Employee acknowledges and agrees that he or she has read and understands this Release Agreement completely, is entering into it freely and voluntarily, and has been advised to seek counsel prior to entering into this Release Agreement and he or she has had ample opportunity to do so.

15. Entire Agreement. The Severance Plan and this Release Agreement set forth the entire agreement of the parties and fully supersede and replace any and all prior agreements, promises, representations, or understandings, written or oral, between the Employer and Employee that relate to the subject matter of the Severance Plan and this Release Agreement. This Release Agreement may be amended or modified only by a written instrument identified as an amendment hereto that is executed by both parties.

[Remainder of page intentionally left blank.]

This Release Agreement may not be executed prior to the Termination Date. The undersigned has read and understands the consequences of this Release Agreement and voluntarily signs it. The undersigned declares under penalty of perjury under the laws of the State of Texas that the foregoing is true and correct.

EXECUTED this ____ day of _____, 20____, at _____.

“Employee”

[_____]

ENDORSEMENT

I, [_____] , hereby acknowledge that I was given [45/21] days to consider the foregoing Release Agreement and voluntarily chose to sign the Release Agreement prior to the expiration of the [45/21]-day period.

I declare under penalty of perjury under the laws of the United States and the State of Texas that the foregoing is true and correct.

EXECUTED this ____ day of _____, 20____, at _____.

[_____]

List of Guarantor Subsidiaries and Affiliate Securities Pledged as Collateral

As of August 1, 2022, the Senior Secured First Lien Notes due 2028 (the “Notes”) issued by Valaris Limited, a Bermuda exempted company (“Valaris”), are fully and unconditionally guaranteed by each of the following subsidiaries of Valaris (the “Guarantors”).

Guarantor	State or Other Jurisdiction of Incorporation or Organization
Alpha Achiever Company	Cayman Islands
Alpha Admiral Company	Cayman Islands
Alpha Archer Company	Cayman Islands
Alpha Aurora Company	Cayman Islands
Alpha Offshore Drilling Services Company	Cayman Islands
Alpha Orca Company	Cayman Islands
Alpha South Pacific Holding Company	Cayman Islands
Atlantic Maritime Services LLC	Delaware (USA)
Atwood Australian Waters Drilling Pty Limited	Australia
Atwood Oceanics Australia Pty Limited	Australia
Atwood Oceanics Pacific Limited	Cayman Islands
Atwood Offshore Drilling Limited	Hong Kong
Atwood Offshore Worldwide Limited	Cayman Islands
ENSCO (Barbados) Limited	Cayman Islands
Ensco (Myanmar) Limited	Myanmar
Ensco (Thailand) Limited	Thailand
ENSCO Arabia Co. Ltd.	Saudi Arabia
ENSCO Asia Company LLC	Texas (USA)
ENSCO Asia Pacific Pte. Limited	Singapore
Ensco Associates Company	Cayman Islands
ENSCO Australia Pty. Limited	Australia
ENSCO Capital Limited	Cayman Islands / United Kingdom
ENSCO Corporate Resources LLC	Delaware (USA)
Ensco Deepwater Drilling Limited	England and Wales (UK)
ENSCO Deepwater USA II LLC	Delaware (USA)
ENSCO Development Limited	Cayman Islands
Ensco do Brasil Petróleo e Gás Ltda.	Brazil
Ensco Drilling I Ltd.	Cayman Islands
ENSCO Drilling Mexico LLC	Delaware (USA)
Ensco Endeavors Limited	Cayman Islands / United Kingdom
ENSCO Global GmbH	Switzerland
Ensco Global II Ltd.	Cayman Islands
Ensco Global IV Ltd	British Virgin Islands
ENSCO Global Limited	Cayman Islands / United Kingdom
ENSCO Global Resources Limited	England and Wales (UK)
Ensco Holdco Limited	England and Wales (UK)
ENSCO Holding Company	Delaware (USA)
Ensco Incorporated	Texas (USA)

Ensco Intercontinental GmbH	Switzerland
ENSCO International Incorporated	Delaware (USA)
Ensco International Ltd.	British Virgin Islands / United Kingdom
ENSCO Investments LLC	Nevada (USA) / United Kingdom
Ensco Jersey Finance Limited	Jersey / United Kingdom
ENSCO Limited	Cayman Islands
Ensco Management Corp	British Virgin Islands
ENSCO Maritime Limited	Bermuda
Ensco Mexico Services S.de R.L.	Mexico
Ensco Ocean 2 Company	Cayman Islands
ENSCO Oceanics Company LLC	Delaware (USA)
ENSCO Oceanics International Company	Cayman Islands
ENSCO Offshore Company	Delaware (USA)
ENSCO Offshore International Company	Cayman Islands
ENSCO Offshore International Holdings Limited	Cayman Islands / United Kingdom
ENSCO Offshore International Inc.	Marshall Islands
Ensco Offshore International LLC	Delaware (USA)
Ensco Offshore Petróleo e Gás Ltda.	Brazil
ENSCO Offshore U.K. Limited	England and Wales (UK)
ENSCO Overseas Limited	Cayman Islands
ENSCO Services Limited	England and Wales (UK)
Ensco Transcontinental II LP	England and Wales (UK)
Ensco Transnational I Limited	Cayman Islands
Ensco Transnational III Limited	Cayman Islands
ENSCO U.K. Limited	England and Wales (UK)
Ensco UK Drilling Limited	England and Wales (UK)
Ensco Universal Holdings I Ltd.	Cayman Islands / United Kingdom
Ensco Universal Holdings II Ltd.	Cayman Islands / United Kingdom
ENSCO Universal Limited	England and Wales (UK)
Ensco Vistas Limited	Cayman Islands
Ensco Worldwide GmbH	Switzerland
EnscoRowan Ghana Drilling Limited	Ghana
Great White Shark Limited	Gibraltar
Green Turtle Limited	Gibraltar
International Technical Services LLC	Delaware (USA)
Manatee Limited	Malta
Manta Ray Limited	Malta
Marine Blue Limited	Gibraltar
Offshore Drilling Services LLC	Delaware (USA)
Pacific Offshore Labor Company	Cayman Islands
Petroleum International Pte. Ltd.	Singapore
Pride Global II Ltd	British Virgin Islands
Pride International LLC	Delaware (USA)
Pride International Management Co. LP	Texas (USA)
Ralph Coffman Cayman Limited	Cayman

Ralph Coffman Limited	Gibraltar
Ralph Coffman Luxembourg S.à r.l.	Luxembourg
RCI International, Inc.	Cayman Islands
RD International Services Pte. Ltd.	Singapore
RDC Arabia Drilling, Inc.	Cayman Islands
RDC Holdings Luxembourg S.à r.l.	Luxembourg
RDC Malta Limited	Malta
RDC Offshore Luxembourg S.à r.l.	Luxembourg
RDC Offshore Malta Limited	Malta
RoCal Cayman Limited	Cayman Islands
Rowan 240C#3, Inc.	Cayman Islands
Rowan Companies Limited	England and Wales (UK)
Rowan Companies, LLC	Delaware (USA)
Rowan Drilling (Gibraltar) Limited	Gibraltar
Rowan Drilling (Trinidad) Limited	Cayman Islands
Rowan Drilling (U.K.) Limited	Scotland (UK)
Rowan Drilling Services Limited	Gibraltar
Rowan Financial Holdings S.à r.l.	Luxembourg
Rowan International Rig Holdings S.à r.l.	Luxembourg
Rowan Marine Services LLC	Texas (USA)
Rowan N-Class (Gibraltar) Limited	Gibraltar
Rowan No. 1 Limited	England and Wales (UK)
Rowan No. 2 Limited	England and Wales (UK)
Rowan Norway Limited	Gibraltar
Rowan Offshore (Gibraltar) Limited	Gibraltar
Rowan Offshore Luxembourg S.à r.l.	Luxembourg
Rowan Rigs S.à r.l.	Luxembourg
Rowan S. de R.L. de C.V.	Mexico
Rowan Services LLC	Delaware (USA)
Rowan US Holdings (Gibraltar) Limited	Gibraltar
Rowandrig, LLC	Texas (USA)
Valaris Holdco 1 Limited	Bermuda
Valaris Holdco 2 Limited	Bermuda
Valaris United LLC	Delaware (USA)

Concurrently with the issuance of the Notes, Valaris and certain of its subsidiaries entered into pledge and collateral agreements. Pursuant to the terms of these agreements, the Notes are secured on a first-priority basis by a pledge of the equity interests of the Guarantors and affiliates listed below.

Affiliate Pledgee	Class of Security	Percentage Pledged
Alpha Achiever Company	Ordinary Shares	100.00%
Alpha Admiral Company	Ordinary Shares	100.00%
Alpha Archer Company	Ordinary Shares	100.00%
Alpha Aurora Company	Ordinary Shares	100.00%
Alpha Falcon Drilling Company	Ordinary Shares; Class A Shares	100.00%
Alpha Int'l Drilling Company S.à r.l	Ordinary Shares	100.00%
Alpha Mako Company	Ordinary Shares	100.00%
Alpha Manta Company	Ordinary Shares	100.00%
Alpha Offshore Drilling (S) Pte Ltd.	Ordinary Shares	100.00%
Alpha Offshore Drilling Services Company	Ordinary Shares	100.00%
Alpha Orca Company	Ordinary Shares	100.00%
Alpha South Pacific Holding Company	Ordinary Shares	100.00%
Atlantic Maritime Services LLC	Units	100.00%
Atwood Advantage S.à r.l.	Ordinary Shares	100.00%
Atwood Beacon S.à r.l.	Ordinary Shares	100.00%
Atwood Drilling LLC	Ordinary Shares	100.00%
Atwood Hunter LLC	Ordinary Shares	100.00%
Atwood Malta Holding Company Limited	Class A Shares	> 99.00%
Atwood Oceanics Drilling Mexico S. de R.L. de C.V.	Partnership Interest	99.00%
Atwood Oceanics Pacific Limited	Ordinary Shares; Class A Shares	100.00%
Atwood Offshore Worldwide Limited	Ordinary Shares; Class A Shares	64.12%
Drillquest Offshore Company	Ordinary Shares	100.00%
ENSCO (Barbados) Limited	Ordinary Shares	100.00%
ENSCO (Bermuda) Limited	Ordinary Shares	100.00%
Ensco (Myanmar) Limited	Ordinary Shares	100.00%
Ensco (Thailand) Limited	Ordinary Shares	100.00%
ENSCO Arabia Company Limited	Percentage Ownership Interest	100.00%
Ensco Asia Company LLC	Units	100.00%
Ensco Asia Pacific Pte. Limited	Ordinary Shares	100.00%
Ensco Associates Company	Ordinary Shares	100.00%
ENSCO Australia Pty Limited	Ordinary Shares	100.00%
Ensco Capital Limited	Ordinary Shares	100.00%

Ensco Corporate Resources LLC	Ordinary Shares	100.00%
ENSCO de Venezuela, S.R.L.	Ordinary Shares	100.00%
ENSCO Deepwater Drilling Limited	Ordinary Shares	100.00%
Ensco Deepwater USA II LLC	Non-Assessable Member Units	100.00%
Ensco do Brasil Petróleo e Gás Ltda.	Quotas	100.00%
ENSCO Drilling (Caribbean), Inc.	Ordinary Shares	100.00%
Ensco Drilling Company (Nigeria) Limited	Ordinary Shares	100.00%
ENSCO Drilling Company LLC	Ordinary Shares	100.00%
Ensco Drilling I Ltd.	Ordinary Shares	100.00%
ENSCO Drilling Mexico LLC	Units	100.00%
Ensco Endeavors Limited	Ordinary Shares	100.00%
ENSCO Gerudi (M) Sdn. Bhd.	Ordinary Shares	49.00%
ENSCO Global GmbH	Percentage Ownership Interest	100.00%
Ensco Global II Ltd.	Ordinary Shares	100.00%
ENSCO Global Investment LP	Partnership Interests	95.00%
ENSCO Global IV Ltd.	Shares	100.00%
Ensco Global Limited	Ordinary Shares	100.00%
Ensco Global Resources Limited	Ordinary Shares	100.00%
Ensco Holdco Limited	Ordinary Shares	100.00%
ENSCO Holding Company	Shares	100.00%
Ensco Holland B.V.	Ordinary Shares	100.00%
ENSCO Incorporated	Common Stock	100.00%
ENSCO Intercontinental GmbH	Percentage Ownership Interest	100.00%
Ensco International Incorporated	Common Stock	100.00%
Ensco International Ltd.	Ordinary Shares	100.00%
Ensco Investments LLC	Ordinary Shares	100.00%
ENSCO Labuan Limited	Ordinary Shares	100.00%
ENSCO Limited	Ordinary Shares	100.00%
ENSCO Maritime Limited	Ordinary Shares	100.00%
Ensco Mexico Services, S. de R.L. de C.V.	Partnership Interests	100.00%
Ensco North America LLC	Percentage Ownership Interest	100.00%
ENSCO Ocean 1 Company	Ordinary Shares	88.29%
ENSCO Ocean 2 Company	Ordinary Shares	100.00%
ENSCO Oceanics Company LLC	Units	100.00%
Ensco Oceanics International Company	Ordinary Shares	100.00%
Ensco Offshore Company	Ordinary Shares	100.00%
ENSCO Offshore International Company	Ordinary Shares	100.00%
ENSCO Offshore International Holdings Limited	Ordinary Shares	100.00%
ENSCO Offshore International Inc.	Registered Shares	100.00%
Ensco Offshore International LLC	Percentage Ownership Interest	100.00%
Ensco Offshore Petróleo e Gás Ltda.	Quotas	100.00%
Ensco Offshore Services LLC	Units	100.00%
ENSCO Offshore U.K. Limited	Ordinary Shares	100.00%
ENSCO Overseas Limited	Ordinary Shares	100.00%
Ensco Services Limited	Ordinary Shares	100.00%

ENSCO Services LLC	Units	100.00%
Ensco South Pacific LLC	Percentage Ownership Interest	100.00%
Ensco Transcontinental I LLC	Ordinary Shares	100.00%
Ensco Transcontinental II LLC	Ordinary Shares	100.00%
Ensco Transnational I Ltd.	Ordinary Share	100.00%
Ensco Transnational II Ltd.	Ordinary Share	100.00%
Ensco Transnational III Ltd.	Ordinary Share	100.00%
Ensco Transnational Limited	Ordinary Shares	100.00%
ENSCO U.K. Limited	Ordinary Shares	100.00%
Ensco UK Drilling Limited	Ordinary Shares	100.00%
Ensco Universal Holdings I Ltd.	Ordinary Shares	100.00%
ENSCO Universal Holdings II Ltd.	Ordinary Shares	6.25%
ENSCO Universal Limited	Ordinary Shares	100.00%
Ensco Vistas Limited	Ordinary Shares	100.00%
ENSCO Worldwide GmbH	Ordinary Shares	100.00%
Ensco Worldwide Holdings Ltd.	Ordinary Shares	100.00%
Forasub B.V.	Ordinary Shares	100.00%
Great White Shark Limited	Ordinary Shares	100.00%
Green Turtle Limited	Ordinary Shares	100.00%
Manatee Limited	Ordinary Shares	100.00%
Manta Ray Limited	Ordinary Shares	100.00%
Offshore Drilling Services LLC	Units	100.00%
P.T. ENSCO Sarida Offshore	Ordinary Shares	49.00%
Pride Arabia Co. Ltd.	Ordinary Shares	25.00%
Pride Global II Ltd.	Shares	100.00%
Pride Global Offshore Nigeria Limited	Ordinary Shares	100.00%
Pride International LLC	Shares	100.00%
Ralph Coffman Cayman Limited	N/A (Uncertificated)	100.00%
Ralph Coffman Luxembourg S.à r.l.	Percentage Ownership Interests	100.00%
RD International Services Pte. Ltd.	Shares	100.00%
RDC Arabia Drilling, Inc.	Ordinary Shares	100.00%
RDC Holdings Luxembourg S.à r.l.	Percentage Ownership Interest	100.00%
RDC Malta Limited	Ordinary Shares	100.00%
RDC Offshore Luxembourg S.à r.l.	Percentage Ownership Interest	100.00%
RDC Offshore Malta Limited	Percentage Ownership Interest	100.00%
Rowan Angola Limitada	Percentage Ownership Interest	100.00%
Rowan California S.à r.l.	Percentage Ownership Interest	100.00%
Rowan Deepwater Drilling (Gibraltar) Limited	Ordinary Shares	100.00%
Rowan do Brasil Servicos de Perfuracao Ltda.	Percentage Ownership Interest	> 99.00%
Rowan Drilling (Gibraltar) Limited	Ordinary Shares	100.00%
Rowan Drilling (Trinidad) Limited	Ordinary Shares	100.00%
Rowan Drilling (U.K.) Limited	Ordinary Shares	100.00%
Rowan Drilling Cyprus Limited	Ordinary Shares	100.00%
Rowan Drilling Services Limited	Ordinary Shares	100.00%
Rowan Drilling Services Nigeria Limited	Ordinary Shares	100.00%

Rowan Egypt Petroleum Services L.L.C.	Quotas	50.00%
Rowan Finanz S.à r.l.	Percentage Ownership Interest	100.00%
ROWAN Global Drilling Services Limited	Ordinary Shares	100.00%
Rowan Holdings Luxembourg S.à r.l.	Percentage Ownership Interest	100.00%
Rowan International Rig Holdings S.à r.l.	Ordinary Shares	100.00%
Rowan Marine Services LLC	LLC Interests	100.00%
Rowan Middle East, Inc.	Rowan Middle East, Inc.	100.00%
Rowan N-Class (Gibraltar) Limited	Ordinary Shares	100.00%
Rowan No. 2 Limited	Shares	100.00%
Rowan North Sea, Inc.	Ordinary Shares	100.00%
Rowan Norway Limited (FKA Rowan (Gibraltar) Limited)	Ordinary Shares	100.00%
Rowan Offshore (Gibraltar) Limited	Ordinary Shares	100.00%
Rowan Offshore Luxembourg S.à r.l.	Shares	100.00%
Rowan Relentless Luxembourg S.à r.l.	Percentage Ownership Interest	100.00%
Rowan Reliance Luxembourg S.à r.l.	Percentage Ownership Interest	100.00%
Rowan Renaissance Luxembourg S.à r.l.	Percentage Ownership Interest	100.00%
Rowan Resolute Luxembourg S.à r.l.	Percentage Ownership Interest	100.00%
Rowan Rex Limited (Cayman)	Ordinary Shares	100.00%
Rowan Rigs S.à r.l.	Percentage Ownership Interest	100.00%
Rowan Services LLC	Percentage Ownership Interest	100.00%
Rowan Standard Ghana Limited	Ordinary Shares	49.00%
Rowan US Holdings (Gibraltar) Limited	Ordinary Shares	73.86%
Rowan, S. de R.L. de C.V.	Social Part	99.00%
Rowandrigill Labuan Limited	Ordinary Shares	100.00%
Rowandrigill Malaysia Sdn. Bhd.	Ordinary Shares	49.00%
Swiftdrill Offshore Drilling Services Company	Ordinary Shares	100.00%
Valaris Holdco 1 Limited	Ordinary Shares	100.00%
Valaris Holdco 2 Limited	Ordinary Shares	100.00%
Valaris United	Ordinary Shares	100.00%

CERTIFICATION

I, Anton Dibowitz, certify that:

1. I have reviewed this report on Form 10-Q for the fiscal quarter ending June 30, 2022 of Valaris Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 2, 2022

/s/ Anton Dibowitz

Anton Dibowitz
Director, President and Chief Executive
Officer

CERTIFICATION

I, Darin Gibbins, certify that:

1. I have reviewed this report on Form 10-Q for the fiscal quarter ending June 30, 2022 of Valaris Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 2, 2022

/s/ Darin Gibbins

Darin Gibbins
Interim Chief Financial Officer and
Vice President, Investor Relations and
Treasurer
(principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Valaris Limited (the "Company") on Form 10-Q for the period ending June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anton Dibowitz, Director, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (the "Act"), that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anton Dibowitz

Anton Dibowitz
Director, President and Chief Executive Officer
August 2, 2022

The foregoing certification is being furnished solely pursuant to § 906 of the Act and Rule 13a-14(b) promulgated under the Exchange Act and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Valaris Limited (the "Company") on Form 10-Q for the period ending June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Darin Gibbins, Interim Chief Financial Officer and Vice President, Investor Relations and Treasurer (principal financial officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (the "Act"), that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Darin Gibbins

Darin Gibbins
Interim Chief Financial Officer and Vice President,
Investor Relations and Treasurer
(principal financial officer)
August 2, 2022

The foregoing certification is being furnished solely pursuant to § 906 of the Act and Rule 13a-14(b) promulgated under the Exchange Act and is not being filed as part of the Report or as a separate disclosure document.