**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 September 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** | **98-1589854** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **Clarendon House, 2 Church Street Hamilton Bermuda** | **HM 11** |
| (Address of principal executive offices) | (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 | ☒ | Accelerated filer | ☐ |
| Non-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 October 27, 2022, there were 75,178,676 Common Shares of the registrant issued and outstanding.

**VALARIS LIMITED**
**INDEX TO FORM 10-Q**
**FOR THE QUARTER ENDED SEPTEMBER 30, 2022**

## 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 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); the effect, impact, potential duration and other implications of COVID-19; 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;
- increased scrutiny from regulators, market and industry participants, stakeholders and others in regards to our environmental, social and governance ("ESG") practices and reporting responsibilities;
- the occurrence of cybersecurity incidents, attacks or other breaches to our information technology systems, including our rig operating systems;
- asset impairments;
- the adequacy of sources of liquidity for us and our customers;
- general economic and business conditions, including recessions, inflation, and adverse changes in the level of international trade activity;

- 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;
- 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;
- 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;
- 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;
- internal control risk due to significant employee reductions and changes in management;
- 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)**

| | Three Months Ended September 30, | |
|---|---|---|
| | **2022** | **2021** |
| OPERATING REVENUES | $ 437.2 | $ 326.7 |
| OPERATING EXPENSES | | |
| Contract drilling (exclusive of depreciation) | 336.7 | 274.6 |
| Depreciation | 22.6 | 24.4 |
| General and administrative | 19.2 | 27.2 |
| Total operating expenses | 378.5 | 326.2 |
| EQUITY IN EARNINGS OF ARO | 2.9 | 2.6 |
| OPERATING INCOME | 61.6 | 3.1 |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 27.9 | 9.7 |
| Interest expense, net | (11.7) | (11.3) |
| Reorganization items, net | (0.4) | (6.5) |
| Other, net | 14.1 | 5.5 |
| | 29.9 | (2.6) |
| INCOME BEFORE INCOME TAXES | 91.5 | 0.5 |
| PROVISION FOR INCOME TAXES | | |
| Current income tax expense | 13.4 | 53.2 |
| Deferred income tax expense | 0.4 | 0.1 |
| | 13.8 | 53.3 |
| NET INCOME (LOSS) | 77.7 | (52.8) |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | (3.4) | (1.7) |
| NET INCOME (LOSS) ATTRIBUTABLE TO VALARIS | $ 74.3 | $ (54.5) |
| EARNINGS (LOSS) PER SHARE | | |
| Basic | $ 0.99 | $ (0.73) |
| Diluted | $ 0.98 | $ (0.73) |
| WEIGHTED-AVERAGE SHARES OUTSTANDING | | |
| Basic | 75.1 | 75.0 |
| Diluted | 75.6 | 75.0 |

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 |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| OPERATING REVENUES | $ 1,168.9 | $ 529.5 | $ 397.4 |
| OPERATING EXPENSES | | | |
| Contract drilling (exclusive of depreciation) | 1,029.8 | 443.2 | 343.8 |
| Loss on impairment | 34.5 | — | 756.5 |
| Depreciation | 67.4 | 41.0 | 159.6 |
| General and administrative | 57.0 | 39.9 | 30.7 |
| Total operating expenses | 1,188.7 | 524.1 | 1,290.6 |
| EQUITY IN EARNINGS OF ARO | 15.9 | 7.4 | 3.1 |
| OPERATING INCOME (LOSS) | (3.9) | 12.8 | (890.1) |
| OTHER INCOME (EXPENSE) | | | |
| Interest income | 50.0 | 17.5 | 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) | (34.8) | (19.3) | (2.4) |
| Reorganization items, net | (2.1) | (10.6) | (3,584.6) |
| Other, net | 174.8 | 11.1 | 25.9 |
| | 187.9 | (1.3) | (3,557.5) |
| INCOME (LOSS) BEFORE INCOME TAXES | 184.0 | 11.5 | (4,447.6) |
| PROVISION FOR INCOME TAXES | | | |
| Current income tax expense | 26.2 | 67.2 | 34.4 |
| Deferred income tax expense (benefit) | 7.1 | 1.2 | (18.2) |
| | 33.3 | 68.4 | 16.2 |
| NET INCOME (LOSS) | 150.7 | (56.9) | (4,463.8) |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | (3.4) | (3.8) | (3.2) |
| NET INCOME (LOSS) ATTRIBUTABLE TO VALARIS | $ 147.3 | $ (60.7) | $ (4,467.0) |
| EARNINGS (LOSS) PER SHARE | | | |
| Basic | $ 1.96 | $ (0.81) | $ (22.38) |
| Diluted | $ 1.95 | $ (0.81) | $ (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)**

| | Three Months Ended September 30, | |
|---|---|---|
| | **2022** | **2021** |
| NET INCOME (LOSS) | $ 77.7 | $ (52.8) |
| OTHER COMPREHENSIVE INCOME, NET | | |
| Net reclassification adjustment for amounts recognized in net loss as a component of net periodic benefit | — | (0.2) |
| Other | 0.1 | 0.2 |
| NET OTHER COMPREHENSIVE INCOME | 0.1 | — |
| COMPREHENSIVE INCOME (LOSS) | 77.8 | (52.8) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | (3.4) | (1.7) |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO VALARIS | $ 74.4 | $ (54.5) |

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 |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| NET INCOME (LOSS) | $ 150.7 | $ (56.9) | $ (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) | (0.2) | 0.1 |
| Reclassification of net gains on derivative instruments from other comprehensive loss into net loss | — | — | (5.6) |
| Other | 0.1 | — | — |
| NET OTHER COMPREHENSIVE LOSS | — | (0.2) | (5.5) |
| COMPREHENSIVE INCOME (LOSS) | 150.7 | (57.1) | (4,469.3) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | (3.4) | (3.8) | (3.2) |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO VALARIS | $ 147.3 | $ (60.9) | $ (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 par value amounts)**

| | September 30, 2022 (Unaudited) | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 406.0 | $ 608.7 |
| Restricted cash | 18.2 | 35.9 |
| Short-term investments | 220.0 | — |
| Accounts receivable, net | 535.5 | 444.2 |
| Other current assets | 162.9 | 117.8 |
| Total current assets | 1,342.6 | 1,206.6 |
| PROPERTY AND EQUIPMENT, AT COST | 1,087.1 | 957.0 |
| Less accumulated depreciation | 133.5 | 66.1 |
| Property and equipment, net | 953.6 | 890.9 |
| LONG-TERM NOTES RECEIVABLE FROM ARO | 246.9 | 249.1 |
| INVESTMENT IN ARO | 102.6 | 86.6 |
| OTHER ASSETS | 175.5 | 176.0 |
| | $ 2,821.2 | $ 2,609.2 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES | | |
| Accounts payable - trade | $ 256.6 | $ 225.8 |
| Accrued liabilities and other | 262.5 | 196.2 |
| Total current liabilities | 519.1 | 422.0 |
| LONG-TERM DEBT | 541.8 | 545.3 |
| OTHER LIABILITIES | 539.8 | 581.1 |
| Total liabilities | 1,600.7 | 1,548.4 |
| COMMITMENTS AND CONTINGENCIES | | |
| VALARIS SHAREHOLDERS' EQUITY | | |
| Common shares, $0.01 par value, 700.0 shares authorized, 75.2 and 75.0 shares issued as of September 30, 2022 and December 31, 2021, respectively | 0.8 | 0.8 |
| Preference shares, $0.01 par value, 150.0 shares authorized, no shares issued as of September 30, 2022 and December 31, 2021 | — | — |
| Stock warrants | 16.4 | 16.4 |
| Additional paid-in capital | 1,092.0 | 1,083.0 |
| Retained earnings (deficit) | 114.3 | (33.0) |
| Accumulated other comprehensive loss | (9.1) | (9.1) |
| Total Valaris shareholders' equity | 1,214.4 | 1,058.1 |
| NONCONTROLLING INTERESTS | 6.1 | 2.7 |
| Total equity | 1,220.5 | 1,060.8 |
| | $ 2,821.2 | $ 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 |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| OPERATING ACTIVITIES | | | |
| Net income (loss) | $ 150.7 | $ (56.9) | $ (4,463.8) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | |
| Gain on asset disposals | (137.7) | (0.2) | (6.0) |
| Depreciation expense | 67.4 | 41.0 | 159.6 |
| Accretion of discount on notes receivable | (37.8) | (12.9) | — |
| Loss on impairment | 34.5 | — | 756.5 |
| Equity in earnings of ARO | (15.9) | (7.4) | (3.1) |
| Net periodic pension and retiree medical income | (12.1) | (6.1) | (5.4) |
| Share-based compensation expense | 11.5 | 1.6 | 4.8 |
| Deferred income tax expense (benefit) | 7.1 | 1.2 | (18.2) |
| Amortization, net | (7.0) | 2.8 | (4.8) |
| Amortization of debt issuance cost | 0.7 | 0.3 | — |
| Non-cash reorganization items, net | — | — | 3,487.3 |
| Other | 0.8 | — | 7.3 |
| Changes in operating assets and liabilities | (85.9) | 19.3 | 68.5 |
| Contributions to pension plans and other post-retirement benefits | (3.3) | (1.7) | (22.5) |
| Net cash used in operating activities | (27.0) | (19.0) | (39.8) |
| INVESTING ACTIVITIES | | | |
| Purchases of short-term investments | (220.0) | — | — |
| Additions to property and equipment | (153.1) | (23.7) | (8.7) |
| Net proceeds from disposition of assets | 146.8 | 1.5 | 30.1 |
| Repayments of note receivable from ARO | 40.0 | — | — |
| Net cash provided by (used in) investing activities | (186.3) | (22.2) | 21.4 |
| FINANCING ACTIVITIES | | | |
| Consent solicitation fees | (3.9) | — | — |
| Payments for tax withholdings for share-based awards | (2.5) | — | — |
| Issuance of first lien notes | — | — | 520.0 |
| Payments to Predecessor creditors | — | — | (129.9) |
| Other | — | — | (1.4) |
| Net cash provided by (used in) financing activities | (6.4) | — | 388.7 |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash | (0.7) | (0.1) | (0.1) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | (220.4) | (41.3) | 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 | $ 424.2 | $ 654.7 | $ 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 nine months ended September 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 Saudi Aramco Rowan Offshore Drilling Company, our 50/50 joint venture with Saudi Aramco ("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, and 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 September 30, 2022 was between approximately 1 month and 4 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. In June 2022, the customer terminated the contract.

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 nine months ended September 30, 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. See "Note 5 - Property and Equipment" for additional information on the impairment. Additional costs were recorded for penalties and other costs incurred upon cancellation of equipment ordered.

*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. 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):

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Current contract assets | $ 3.0 | $ 0.3 |
| Noncurrent contract assets | $ 0.8 | $ — |
| Current contract liabilities (deferred revenue) | $ 84.8 | $ 45.8 |
| Noncurrent contract liabilities (deferred revenue) | $ 30.6 | $ 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 | 7.4 | — |
| Increase due to cash received | — | 119.5 |
| Decrease due to amortization of deferred revenue that was included in the beginning contract liability balance | — | (36.3) |
| Decrease due to amortization of deferred revenue added during the period | — | (24.4) |
| Decrease due to transfer to receivables during the period | (3.9) | — |
| Balance as of September 30, 2022 | $ 3.8 | $ 115.4 |

*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 $69.8 million and $31.4 million as of September 30, 2022 and December 31, 2021, respectively. For the Successor, during the three and nine months ended September 30, 2022, amortization of such costs totaled $18.8 million and $41.0 million, respectively. During three and five months ended September 30, 2021, amortization of such costs for the Successor totaled $11.4 million and $13.2 million, respectively. For the Predecessor, during the four months ended April 30, 2021, amortization of such costs totaled $7.6 million.

*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 $12.6 million and $3.3 million as of September 30, 2022 and December 31, 2021, respectively. For the Successor, during the three and nine months ended September 30, 2022, amortization of such costs totaled $1.4 million and $2.5 million, respectively. During the three and five months ended September 30, 2021, amortization of such costs for the Successor totaled $0.1 million and $0.2 million, respectively. For the Predecessor, during the four months ended April 30, 2021, amortization of such costs totaled $3.1 million.

*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 September 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 current lease term.

| | (In millions) | | | | |
|---|---|---|---|---|---|
| | **Remaining 2022** | **2023** | **2024** | **2025 and Thereafter** | **Total** |
| Amortization of contract liabilities | $ 30.9 | $ 64.2 | $ 19.8 | $ 0.5 | $ 115.4 |
| Amortization of deferred costs | $ 20.2 | $ 52.1 | $ 10.1 | $ — | $ 82.4 |

## 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 September 30, 2022, ARO owns seven jackup rigs, has ordered two newbuild jackup rigs, and leases eight rigs from us through bareboat charter arrangements (the "Lease Agreements") whereby substantially all operating costs are incurred by ARO. At September 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 contract term of 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. While the shipyard contract contemplated delivery of these newbuild rigs in 2022, we expect delivery of these rigs to be delayed into 2023. ARO is expected to place orders for two additional newbuild jackups in the near term. 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 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 | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Revenues | $ 111.4 | $ 117.7 | $ 339.1 | $ 365.2 |
| Operating expenses | | | | |
| Contract drilling (exclusive of depreciation) | 90.0 | 94.4 | 256.3 | 273.4 |
| Depreciation | 15.4 | 16.8 | 47.3 | 47.5 |
| General and administrative | 4.7 | 5.4 | 13.1 | 12.7 |
| Operating income | 1.3 | 1.1 | 22.4 | 31.6 |
| Other expense, net | 2.7 | 3.4 | 9.3 | 11.0 |
| Provision (benefit) for income taxes | (0.1) | 0.2 | 3.1 | 6.6 |
| Net income (loss) | $ (1.3) | $ (2.5) | $ 10.0 | $ 14.0 |

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Cash and cash equivalents | $ 173.5 | $ 270.8 |
| Other current assets | 145.6 | 135.0 |
| Non-current assets | 800.9 | 775.8 |
| Total assets | $ 1,120.0 | $ 1,181.6 |
| | | |
| Current liabilities | $ 87.3 | $ 79.9 |
| Non-current liabilities | 879.5 | 956.7 |
| Total liabilities | $ 966.8 | $ 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 is combined with our 50% interest in ARO's net income. A reconciliation of those components is presented below (in millions):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| 50% interest in ARO net income | $ (0.7) | $ (1.3) |
| Amortization of basis differences | 3.6 | 3.9 |
| Equity in earnings of ARO | $ 2.9 | $ 2.6 |

| | Successor | | Predecessor |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| 50% interest in ARO net income | $ 5.0 | $ 1.0 | $ 6.0 |
| Amortization of basis differences | 10.9 | 6.4 | (2.9) |
| Equity in earnings of ARO | $ 15.9 | $ 7.4 | $ 3.1 |

*Related-Party Transactions*

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Lease revenue | $ 13.8 | $ 14.2 |

| | Successor | | Predecessor |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| Lease revenue | $ 42.6 | $ 24.5 | $ 21.7 |

Amounts receivable from ARO related to the Lease Agreements totaled $8.2 million and $12.1 million as of September 30, 2022 and December 31, 2021, respectively, and are included in Accounts receivable, net, on our Condensed Consolidated Balance Sheets.

We had $19.1 million and $36.3 million of Contract liabilities and Accounts payable, respectively, related to the Lease Agreements as of September 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 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.

The principal amount, discount and interest receivable of the shareholder notes receivable from ARO were as follows (in millions):

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Principal amount | $ 402.7 | $ 442.7 |
| Discount | (155.8) | (193.6) |
| Carrying value | $ 246.9 | $ 249.1 |
| | | |
| Interest receivable[(1)(2)] | $ 8.6 | $ — |

(1) Our interest receivable from ARO is included in Accounts receivable, net in our Condensed Consolidated Balance Sheet.

(2) 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.

In September 2022, the Company received a principal payment of $40.0 million from ARO representing a partial early repayment of the shareholder notes receivable. In connection with this repayment, we recognized non-cash interest income of $14.8 million in the third quarter of 2022 for the discount attributable to this repayment.

Interest income earned on the shareholder notes receivable were as follows (in millions):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Interest income | $ 2.8 | $ 2.7 |
| Non-cash amortization | 22.4 | 6.9 |
| Total interest income on the shareholder notes receivable | $ 25.2 | $ 9.6 |

| | Successor | | Predecessor |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| Interest income | $ 8.6 | $ 4.4 | $ 3.5 |
| Non-cash amortization | 37.8 | 12.9 | — |
| Total interest income on the shareholder notes receivable | $ 46.4 | $ 17.3 | $ 3.5 |

*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.

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Total assets | $ 366.9 | $ 348.1 |
| Less: total liabilities | 55.4 | 49.1 |
| Maximum exposure to loss | $ 311.5 | $ 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):

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Senior secured first lien notes | $ 541.8 | $ 537.2 | $ 545.3 | $ 575.7 |

The estimated fair value of the Senior Secured First Lien Notes due 2028 (the "First Lien Notes") was determined using quoted market prices, which are level 1 inputs.

As of September 30, 2022, the estimated fair value of our notes receivable from ARO was $268.1 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, short-term investments, accounts receivable and trade payables approximated their carrying values as of September 30, 2022 and December 31, 2021.

**Note 5 - Property and Equipment**

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

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Drilling rigs and equipment | $ 990.1 | $ 886.9 |
| Work-in-progress | 58.9 | 35.6 |
| Other | 38.1 | 34.5 |
| | $ 1,087.1 | $ 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 meet 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 September 30, 2022, or December 31, 2021.

*Successor*

In September 2022, we reached an agreement to sell VALARIS 54 to a third party, the closing of which is subject to customary closing conditions, after completion of its current contract in March 2023. We expect to recognize a pre-tax gain on the sale of approximately $28 million during the first half of 2023.

During the second quarter of 2022, we sold VALARIS 113 and VALARIS 114 for an aggregate pre-tax gain of $120.0 million, VALARIS 36 for a pre-tax gain of $8.5 million and recognized a pre-tax gain of $7.0 million related to additional proceeds received for our 2020 sale of VALARIS 68 resulting from post-sale conditions of that sale agreement. In the first quarter of 2022, we sold VALARIS 67 for a pre-tax gain of $2.0 million. Gains on sales are included in Other, net on the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2022.

In August 2021, VALARIS 100 was sold resulting in an insignificant pre-tax gain, which is included in Other, net on the Condensed Consolidated Statements of Operations for the five months ended September 30, 2021 (Successor).

*Predecessor*

In April 2021, VALARIS 101 was sold resulting in a pre-tax gain of $5.3 million. In March 2021, our Australia office building was sold resulting in an insignificant pre-tax gain. Gains on sales are 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 income were as follows (in millions):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Interest cost | $ 5.7 | $ 5.8 |
| Expected return on plan assets | (9.7) | (9.5) |
| Net periodic pension and retiree medical income [(1)] | $ (4.0) | $ (3.7) |

| | Successor | | Predecessor |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| Interest cost | $ 16.8 | $ 9.6 | $ 6.6 |
| Expected return on plan assets | (28.8) | (15.7) | (12.1) |
| Amortization of net loss | (0.1) | — | 0.1 |
| Net periodic pension and retiree medical income [(1)] | $ (12.1) | $ (6.1) | $ (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 lower pension contribution requirements over the next few years. During the nine months ended September 30, 2022 (Successor), we contributed or directly paid $3.3 million to our pension and other post-retirement benefit plans. We currently expect to contribute or directly pay $1.7 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 (Loss) 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 included the effect of all potentially dilutive stock options and excluded non-vested shares.

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Income (loss) from continuing operations attributable to our shares | $ 74.3 | $ (54.5) |
| Weighted average shares outstanding: | | |
| Basic | 75.1 | 75.0 |
| Effect of stock equivalents | 0.5 | — |
| Diluted | 75.6 | 75.0 |

| | Successor | | Predecessor [1] |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Month Ended April 30, 2021 |
| Income (loss) from continuing operations attributable to our shares | $ 147.3 | $ (60.7) | $ (4,467.0) |
| Weighted average shares outstanding: | | | |
| Basic | 75.0 | 75.0 | 199.6 |
| Effect of stock equivalents | 0.5 | — | — |
| Diluted | 75.5 | 75.0 | 199.6 |

[1] No amounts were allocated to non-vested share awards in these periods given that losses are not allocated to non-vested share awards.

Anti-dilutive share awards totaling 38,000 and 103,000 were excluded from the computation of diluted EPS for the three and nine months ended September 30, 2022 (Successor), respectively.

Due to the net loss position of the Successor during the three and five months ended September 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 three and five months ended September 30, 2021, there were approximately 600,000 and 400,000 anti-dilutive shares, respectively.

Due to the net loss position of the Predecessor, during the 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 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 September 30, 2022 to purchase common shares of Valaris Limited (the "Common Shares") 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. Upon issuance, the Warrants were 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 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: (1) 8.25% per annum, payable in cash; (2) 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 (3) 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% of the principal amount 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 (which are expressed as percentages of the principal amount) beginning at 104% on April 30, 2023 and declining each 12 month period thereafter to 100% on and after April 30, 2026, 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: (1) incur, assume or guarantee additional indebtedness; (2) pay dividends or distributions on equity interests or redeem or repurchase equity interests; (3) make investments; (4) repay or redeem junior debt; (5) transfer or sell assets; (6) enter into sale and lease back transactions; (7) create, incur or assume liens; and (8) 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.

On August 19, 2022, the Company completed a consent solicitation pursuant to which the Company amended the Indenture to (1) implement a consolidated net income builder basket for restricted payments, increase the general basket for restricted payments from $100 million to $175 million and make other incremental changes to the Company's restricted payments capacity and (2) increase the general basket for investments from the greater of $100 million and 4.0% of total assets to the greater of $175 million and 6.5% of total assets. The Company incurred $4.2 million of costs, of which $3.9 million had been paid as of September 30, 2022, in connection with the consent solicitation, comprised of a consent fee paid to consenting holders and professional fees. These costs are being amortized into interest expense over the expected term of the First Lien Notes using the effective interest method.

**Note 9 - Shareholders' Equity**

Activity in our various shareholders' equity accounts for the three and nine months ended September 30, 2022 (Successor), the three and five months ended September 30, 2021 (Successor), and the four months ended April 30, 2021 (Predecessor) were as follows (in millions):

| | Shares | Par Value | Additional Paid-in Capital | Warrants | Retained Earnings (Deficit) | AOCI | 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 | $ 1,089.7 | $ 16.4 | $ 40.0 | $ (9.2) | $ 2.7 |
| Net income | — | — | — | — | 74.3 | — | 3.4 |
| Share-based compensation cost | — | — | 4.6 | — | — | — | — |
| Shares withheld for taxes on vesting of share-based awards | — | — | (2.3) | — | — | — | — |
| Net other comprehensive income | — | — | — | — | — | 0.1 | — |
| BALANCE, September 30, 2022 (Successor) | 75.0 | $ 0.8 | $ 1,092.0 | $ 16.4 | $ 114.3 | $ (9.1) | $ 6.1 |

| | 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 |
| Net loss | — | — | — | — | (54.5) | — | — | 1.7 |
| Share-based compensation cost | — | — | 1.6 | — | — | — | — | — |
| BALANCE, September 30, 2021 (Successor) | 75.0 | $ 0.8 | $ 1,080.3 | $ 16.4 | $ (60.7) | $ (0.2) | $ — | $ 2.7 |

*Share Repurchase Program*

In September 2022, our Board of Directors authorized a share repurchase program under which we may purchase up to $100 million of our outstanding Common Shares. The share repurchase program does not have a fixed expiration, and may be modified, suspended or discontinued at any time. As of September 30, 2022 (Successor), there have been no share repurchases under this repurchase program.

**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 nine months ended September 30, 2022 (Successor), the three and five months ended September 30, 2021 (Successor), and the four months ended April 30, 2021 (Predecessor), and therefore, we used a discrete effective tax rate method to calculate income taxes for each of these periods. 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 September 30, 2022 (Successor) was $1.4 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 benefits attributable to the resolution of other prior period tax matters. Discrete income tax benefit for the nine months ended September 30, 2022 (Successor) was $6.9 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, 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 nine months ended September 30, 2022 (Successor) was $12.4 million and $40.2 million, respectively.

Discrete income tax expense for the three months ended September 30, 2021 (Successor) was $39.2 million and was primarily attributable to changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years. Discrete income tax expense for the five months ended September 30, 2021 (Successor) was $44.8 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 three and five months ended September 30, 2021 (Successor), and the four months ended April 30, 2021 (Predecessor) was $14.1 million, $23.6 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 September 30, 2022 (Successor) totaled $130.4 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 September 30, 2022 (Successor), we had collateral deposits in the amount of $15.7 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.

## 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 nine months ended September 30, 2022 (Successor), the three and five months ended September 30, 2021 (Successor), and the four months ended April 30, 2021 (Predecessor), respectively, are presented below (in millions).

*Three Months Ended September 30, 2022 (Successor)*

| | Floaters | Jackups | ARO | Other | Reconciling Items | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenues | $ 201.7 | $ 195.9 | $ 111.4 | $ 39.6 | $ (111.4) | $ 437.2 |
| Operating expenses | | | | | | |
| Contract drilling (exclusive of depreciation) | 160.5 | 128.0 | 90.0 | 17.8 | (59.6) | 336.7 |
| Depreciation | 12.6 | 8.7 | 15.4 | 1.2 | (15.3) | 22.6 |
| General and administrative | — | — | 4.7 | — | 14.5 | 19.2 |
| Equity in earnings of ARO | — | — | — | — | 2.9 | 2.9 |
| Operating income (loss) | $ 28.6 | $ 59.2 | $ 1.3 | $ 20.6 | $ (48.1) | $ 61.6 |
| Property and equipment, net | $ 473.4 | $ 386.7 | $ 757.7 | $ 57.7 | $ (721.9) | $ 953.6 |

*Three Months Ended September 30, 2021 (Successor)*

| | Floaters | Jackups | ARO | Other | Reconciling Items | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenues | $ 104.3 | $ 186.3 | $ 117.7 | $ 36.1 | $ (117.7) | $ 326.7 |
| Operating expenses | | | | | | |
| Contract drilling (exclusive of depreciation) | 91.6 | 141.7 | 94.4 | 14.2 | (67.3) | 274.6 |
| Depreciation | 11.4 | 12.1 | 16.8 | 0.9 | (16.8) | 24.4 |
| General and administrative | — | — | 5.4 | — | 21.8 | 27.2 |
| Equity in earnings of ARO | — | — | — | — | 2.6 | 2.6 |
| Operating income (loss) | $ 1.3 | $ 32.5 | $ 1.1 | $ 21.0 | $ (52.8) | $ 3.1 |
| Property and equipment, net | $ 416.2 | $ 394.2 | $ 728.3 | $ 47.3 | $ (693.7) | $ 892.3 |

*Nine Months Ended September 30, 2022 (Successor)*

| | Floaters | Jackups | ARO | Other | Reconciling Items | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenues | $ 489.5 | $ 562.4 | $ 339.1 | $ 117.0 | $ (339.1) | $ 1,168.9 |
| Operating expenses | | | | | | |
| Contract drilling (exclusive of depreciation) | 473.4 | 409.4 | 256.3 | 58.0 | (167.3) | 1,029.8 |
| Loss on impairment | 34.5 | — | — | — | — | 34.5 |
| Depreciation | 37.1 | 26.5 | 47.3 | 3.4 | (46.9) | 67.4 |
| General and administrative | — | — | 13.1 | — | 43.9 | 57.0 |
| Equity in earnings of ARO | — | — | — | — | 15.9 | 15.9 |
| Operating income (loss) | $ (55.5) | $ 126.5 | $ 22.4 | $ 55.6 | $ (152.9) | $ (3.9) |
| Property and equipment, net | $ 473.4 | $ 386.7 | $ 757.7 | $ 57.7 | $ (721.9) | $ 953.6 |

*Five Months Ended September 30, 2021 (Successor)*

| | Floaters | Jackups | ARO | Other | Reconciling Items | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenues | $ 154.0 | $ 314.8 | $ 201.7 | $ 60.7 | $ (201.7) | $ 529.5 |
| Operating expenses | | | | | | |
| Contract drilling (exclusive of depreciation) | 136.9 | 237.1 | 157.3 | 23.4 | (111.5) | 443.2 |
| Depreciation | 19.3 | 19.9 | 26.5 | 1.7 | (26.4) | 41.0 |
| General and administrative | — | — | 8.5 | — | 31.4 | 39.9 |
| Equity in earnings of ARO | — | — | — | — | 7.4 | 7.4 |
| Operating income (loss) | $ (2.2) | $ 57.8 | $ 9.4 | $ 35.6 | $ (87.8) | $ 12.8 |
| Property and equipment, net | $ 416.2 | $ 394.2 | $ 728.3 | $ 47.3 | $ (693.7) | $ 892.3 |

*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 September 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 | 6 | 8 | 17 | 7 |
| Asia & Pacific Rim | 2 | 4 | — | 6 | — |
| Total | 16 | 28 | 8 | 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):

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Trade | $ 379.3 | $ 296.8 |
| Income tax receivable | 148.4 | 151.1 |
| Other | 25.0 | 12.7 |
| | 552.7 | 460.6 |
| Allowance for doubtful accounts | (17.2) | (16.4) |
| | $ 535.5 | $ 444.2 |

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

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Deferred costs | $ 62.1 | $ 26.9 |
| Prepaid taxes | 47.2 | 44.4 |
| Prepaid expenses | 26.5 | 23.1 |
| Other | 27.1 | 23.4 |
| | $ 162.9 | $ 117.8 |

Other assets consisted of the following (in millions):

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Tax receivables | $ 60.8 | $ 64.8 |
| Deferred tax assets | 51.3 | 59.7 |
| Right-of-use assets | 23.7 | 20.5 |
| Other | 39.7 | 31.0 |
| | $ 175.5 | $ 176.0 |

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

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Deferred revenue | $ 84.8 | $ 45.8 |
| Income and other taxes payable | 51.0 | 45.7 |
| Personnel costs | 48.3 | 47.3 |
| Accrued claims | 23.9 | 17.3 |
| Accrued interest | 18.9 | 7.6 |
| Lease liabilities | 9.7 | 10.0 |
| Other | 25.9 | 22.5 |
| | $ 262.5 | $ 196.2 |

Other liabilities consisted of the following (in millions):

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Unrecognized tax benefits (inclusive of interest and penalties) | $ 271.0 | $ 320.2 |
| Pension and other post-retirement benefits | 189.8 | 204.0 |
| Other | 79.0 | 56.9 |
| | $ 539.8 | $ 581.1 |

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

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Pension and other post-retirement benefits | $ (9.2) | $ (9.1) |
| Currency translation adjustment | 0.1 | — |
| | $ (9.1) | $ (9.1) |

*Condensed Consolidated Statements of Operations Information*

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Net foreign currency exchange gains | $ 9.8 | $ 1.7 |
| Net periodic pension income | 4.0 | 3.7 |
| Net gain on sale of property | 0.1 | 0.3 |
| Other income (expense) | 0.2 | (0.2) |
| | $ 14.1 | $ 5.5 |

| | Successor | | Predecessor |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| Net gain on sale of property | $ 137.7 | $ 0.2 | $ 6.0 |
| Net foreign currency exchange gains | 25.2 | 4.8 | 13.4 |
| Net periodic pension income | 12.1 | 6.1 | 5.4 |
| Other income (expense) | (0.2) | — | 1.1 |
| | $ 174.8 | $ 11.1 | $ 25.9 |

*Condensed Consolidated Statement of Cash Flows Information*

Our restricted cash of $18.2 million and $35.9 million at September 30, 2022 and December 31, 2021, respectively, consists primarily of $15.7 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 short-term 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:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| BP plc ("BP")[(1)] | 14 % | 9 % |
| Equinor ASA ("Equinor")[(2)] | 6 % | 6 % |
| TotalEnergies SE ("Total")[(3)] | 4 % | 14 % |
| Other | 76 % | 71 % |
| | 100 % | 100 % |

| | Successor | | Predecessor |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| BP[1] | 14 % | 9 % | 14 % |
| Equinor[2] | 10 % | 6 % | 6 % |
| Total[3] | 5 % | 9 % | — % |
| Other | 71 % | 76 % | 80 % |
| | 100 % | 100 % | 100 % |

(1) During the three months ended September 30, 2022 (Successor), 34% of the revenues provided by BP were attributable to our Floaters segment, 25% of the revenues were attributable to our Jackups segment and the remaining were attributable to our managed rigs.

During the nine months ended September 30, 2022 (Successor), 37% 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 three months ended September 30, 2021 (Successor), 24% of the revenues provided by BP were attributable to our Jackups segment, 3% of the revenues were attributable to our Floaters segment, and the remaining were attributable to our managed rigs. During the five months ended September 30, 2021 (Successor), 24% of the revenues were attributable to our Jackups segment, 2% of the revenues were attributable to our Floaters segment and the remaining were attributable to our managed rigs. During the four months ended April 30, 2021 (Predecessor), 37% of the revenue provided by BP were attributable to our Floaters segment, 17% of the revenue were attributable to our Jackups segment and the remaining were attributable to our managed rigs.

(2) During the three months ended September 30, 2022 (Successor), all revenues provided by Equinor were attributable to our Jackups segment.

During the nine months ended September 30, 2022 (Successor), 55% of the revenues provided by Equinor were attributable to our Jackups segment and 45% of the revenues were attributable to our Floaters segment.

During the three and five months ended September 30, 2021 (Successor) and four months ended April 30, 2021 (Predecessor), all revenues provided by Equinor were attributable to our Jackups segment.

(3) During the three and nine months ended September 30, 2022 (Successor) and three and five months ended September 30, 2021 (Successor), all revenues provided by Total were attributable to our Floaters segment.

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):

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 |
|---|---|---|
| U.S. Gulf of Mexico[1] | $ 95.2 | $ 40.2 |
| United Kingdom[2] | 71.4 | 69.9 |
| Australia[3] | 51.8 | 33.4 |
| Norway[2] | 38.6 | 49.4 |
| Saudi Arabia[4] | 30.9 | 33.5 |
| Mexico[5] | 10.7 | 33.4 |
| Other | 138.6 | 66.9 |
| | $ 437.2 | $ 326.7 |

| | Successor | | Predecessor |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| U.S. Gulf of Mexico[1] | $ 271.6 | $ 71.1 | $ 74.4 |
| United Kingdom[2] | 200.1 | 111.0 | 75.7 |
| Australia[3] | 90.9 | 51.2 | 1.0 |
| Norway[2] | 91.0 | 89.9 | 73.3 |
| Saudi Arabia[4] | 104.1 | 58.7 | 53.6 |
| Mexico[5] | 53.4 | 52.3 | 44.3 |
| Other | 357.8 | 95.3 | 75.1 |
| | $ 1,168.9 | $ 529.5 | $ 397.4 |

(1) During the three months ended September 30, 2022 (Successor), 65% and 8% 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 nine months ended September 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 three and five months ended September 30, 2021 (Successor), 46% and 50% of the revenues earned in U.S. Gulf of Mexico were attributable to our Floaters segment respectively. The remaining revenues were attributable to our managed rigs. During the four months ended April 30, 2021 (Predecessor) 64% 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 nine months ended September 30, 2022 (Successor), five months ended September 30, 2021 (Successor) and four months ended April 30, 2021 (Predecessor), all revenues earned in the United Kingdom and Norway were attributable to our Jackups segment.

(3) During the three and nine months ended September 30, 2022 (Successor), 78% and 80%, respectively, of the revenues earned in Australia were attributable to our Floaters segment and the remaining revenues were attributable to our Jackups segment.

During the three and five months ended September 30, 2021 (Successor), 64% and 62%, respectively, of the revenues earned in Australia were attributable to our Floaters segment and the remaining were attributable to Jackups segment. During the four months ended April 30, 2021 (Predecessor), 77% of the revenues earned in Australia were attributable to our Floaters segment, and the remaining revenues earned in Australia were attributable to our Jackups segment.

(4) During the three and nine months ended September 30, 2022 (Successor), 54% and 58%, 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 three and five months ended September 30, 2021 (Successor), 56% and 57%, respectively, of the revenues earned in Saudi Arabia were attributable to our Jackups segment. During the four months ended April 30, 2021 (Predecessor) 57% of the revenues earned in Saudi Arabia were attributable to our Jackups segment. The remaining revenues were attributable to our Other segment and relates to our rigs leased to ARO and certain revenues related to our Secondment Agreement.

(5) During the three months ended September 30, 2022 (Successor), all revenues earned in Mexico were attributable to our Jackups segment. During the nine months ended September 30, 2022 (Successor), 91% of the revenues earned in Mexico were attributable to our Jackups segment, and the remaining revenues were attributable to our Floaters segment.

During the three and five months ended September 30, 2021 (Successor), 52% and 54%, 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 four months ended April 30, 2021 (Predecessor), 51% of the revenues earned in Mexico were attributable to our Jackups segment and the remaining revenues were attributable to our Floaters 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.

Oil prices remain volatile through 2022. In the first half of 2022, Brent crude oil prices and volatility increased dramatically, 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 2022.

By the end of September 2022, the spot Brent crude price had declined to approximately $88 per barrel due in part to high inflation rates and fears of a global recession that could negatively impact oil demand. In October 2022, Brent crude prices increased after OPEC+ announced that it will cut production quotas by two million barrels per day starting from November 2022.

Despite the high volatility in spot oil prices described above, our customers tend to be more focused on medium-term and long-term commodity prices when making investment decisions due to the longer lead times for offshore projects. These forward prices have experienced far less volatility in 2022 and have maintained levels which are highly constructive for offshore project demand. This is evidenced by increased rig years awarded and increased tendering activity in 2022.

We are experiencing the impacts of global inflation, both in increased personnel costs as well as in the prices of goods and services required to reactivate or 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. Although 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.

To date, the COVID-19 pandemic has resulted in limited operational downtime. Costs have resulted from additional personnel, housing and logistics costs in order to mitigate the potential impacts of COVID-19 to our operations. In limited instances, we have been reimbursed for these costs by our customers. 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.

The outlook for the offshore drilling industry has improved since the beginning of 2021, as evidenced by increasing global utilization and 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 October 31, 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 $129.6 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 June 2022, the customer terminated the contract.

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 nine months ended September 30, 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 $1.3 billion and $1.5 billion as of October 31, 2022 and February 21, 2022, respectively, inclusive of backlog on both ARO owned rigs and rigs leased from us, as revenues realized were partially offset by recent contract awards. 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. On a trailing twelve-month basis, rig years awarded for benign environment floaters are more than 40% higher than the previous twelve months and tendering activity has continued to improve. This increase in activity is also particularly evident for drillships with several multi-year contracts awarded and a meaningful improvement in day rates for this class of assets. We have recently completed the reactivation of three drillships and one semisubmersible which have commenced long-term contracts, and we were awarded an additional long-term contract for one of our stacked drillships that is expected to commence in mid-2023.

Our backlog for our floater segment was $1.4 billion and $1.7 billion as of October 31, 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 million of backlog, and revenues realized, partially offset by recent contract awards and contract extensions.

Utilization for our floaters was 48% during the third quarter of 2022 compared to 31% in the second quarter of 2022. Average day rates were approximately $222,000 during the third quarter of 2022 compared to approximately $213,000 in the second quarter of 2022. The increase in average day rate and utilization is primarily due to rigs that were reactivated in the second quarter and subsequently commenced drilling operations.

Benign environment floater supply has declined by 44% to 158 from a peak of 281 in late 2014. Globally, there are 18 newbuild drillships and benign environment semisubmersible rigs reported to be under construction that could increase global supply. However, there are 28 benign environment floaters that are either older than 20 years of age and currently idle or 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**

Contracting and tendering activity for jackups began to improve during 2021 as a result of the more constructive oil price environment. Further, we have seen a notable increase in jackup activity in 2022, primarily driven by demand from the Middle East. On a trailing twelve-month basis, rig years awarded for jackups are more than double the previous twelve months and tendering activity has continued to increase.

Our backlog for our jackup segment was $662.7 million and $643.0 million as of October 31, 2022 and February 21, 2022, respectively. The increase in our backlog was due to recent contract awards and contract extensions, partially offset by revenues realized.

Utilization for our jackups of 67% during the third quarter of 2022 was in line with the second quarter of 2022. Average day rates were approximately $100,000 during the third quarter of 2022 compared to approximately $94,000 in the second quarter of 2022. The increase in average day rate was primarily due to rigs that commenced contracts at higher day rates towards the end of the second quarter.

Jackup supply has declined by 9% to 493 from a peak of 542 in early 2015. Globally, there are 21 newbuild jackup rigs reported to be under construction that could increase global supply, of which two are contracted. However, there are 80 jackups that are either older than 30 years and currently idle or 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 September 2022, we reached an agreement to sell VALARIS 54 to a third party, the closing of which is subject to customary closing conditions, after completion of its current contract in March 2023. We expect to recognize a pre-tax gain on the sale of approximately $28 million during the first half of 2023.

During the second quarter of 2022, we sold VALARIS 113 and VALARIS 114 for an aggregate pre-tax gain of $120.0 million, VALARIS 36 for a pre-tax gain of $8.5 million and recognized a pre-tax gain of $7.0 million related to additional proceeds received for our 2020 sale of VALARIS 68 resulting from post-sale conditions of that sale agreement. In the first quarter of 2022, we sold VALARIS 67 for a pre-tax gain of $2.0 million. Gains on sales are included in Other, net on the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2022.

**RESULTS OF OPERATIONS**

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

| | Three Months Ended | |
|---|---|---|
| | **September 30, 2022** | **June 30, 2022** |
| Revenues | $ 437.2 | $ 413.3 |
| Operating expenses | | |
| Contract drilling (exclusive of depreciation) | 336.7 | 361.8 |
| Loss on impairment | — | 34.5 |
| Depreciation | 22.6 | 22.3 |
| General and administrative | 19.2 | 19.0 |
| Total operating expenses | 378.5 | 437.6 |
| Equity in earnings of ARO | 2.9 | 8.7 |
| Operating income (loss) | 61.6 | (15.6) |
| Other income, net | 29.9 | 148.6 |
| Provision for income taxes | 13.8 | 20.2 |
| Net income | 77.7 | 112.8 |
| Net income attributable to noncontrolling interests | (3.4) | (1.2) |
| Net income attributable to Valaris | $ 74.3 | $ 111.6 |

| | Successor | Successor | Predecessor | Combined (Non-GAAP)[1] |
|---|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 | Nine Months Ended September 30, 2021 |
| Revenues | $ 1,168.9 | $ 529.5 | $ 397.4 | $ 926.9 |
| Operating expenses | | | | |
| Contract drilling (exclusive of depreciation) | 1,029.8 | 443.2 | 343.8 | 787.0 |
| Loss on impairment | 34.5 | — | 756.5 | 756.5 |
| Depreciation | 67.4 | 41.0 | 159.6 | 200.6 |
| General and administrative | 57.0 | 39.9 | 30.7 | 70.6 |
| Total operating expenses | 1,188.7 | 524.1 | 1,290.6 | 1,814.7 |
| Equity in earnings of ARO | 15.9 | 7.4 | 3.1 | 10.5 |
| Operating income (loss) | (3.9) | 12.8 | (890.1) | (877.3) |
| Other income (expense), net | 187.9 | (1.3) | (3,557.5) | (3,558.8) |
| Provision for income taxes | 33.3 | 68.4 | 16.2 | 84.6 |
| Net income (loss) | 150.7 | (56.9) | (4,463.8) | (4,520.7) |
| Net income attributable to noncontrolling interests | (3.4) | (3.8) | (3.2) | (7.0) |
| Net loss attributable to Valaris | $ 147.3 | $ (60.7) | $ (4,467.0) | $ (4,527.7) |

[1] We believe that the discussion of our results of operations for the five months ended September 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 $23.9 million, or 6%, for the current quarter as compared to the preceding quarter, primarily due to $62.2 million from increased operating days across the fleet, $13.0 million from higher average day rates on certain rigs and a $11.2 million increase in amortization of deferred mobilization and capital upgrade revenue. These increases were partially offset by the $51.0 million fee related to the termination of the VALARIS DS-11 contract recorded in the preceding quarter and $6.7 million from lower customer reimbursable revenue.

Revenues increased $242.0 million, or 26%, for the nine months ended September 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily due to $130.7 million from increased operating days across the fleet, a $51.0 million fee related to the termination of the VALARIS DS-11 contract, $30.3 million from higher amortization of deferred revenue, $21.6 million from higher customer reimbursable revenue, and $4.6 million from increased average day rates on certain rigs.

Contract drilling expense decreased $25.1 million, or 7%, for the current quarter as compared to the preceding quarter, primarily due to a $25.6 million decrease in the costs for certain claims, $7.6 million decrease in repair costs for a certain rig, $6.5 million decrease in reactivation costs, $5.3 million decrease in reimbursable costs and $2.4 million decrease due to VALARIS 141, which commenced its lease to ARO in the current quarter. These decreases were partially offset by a $33.4 million increase in costs primarily attributable to reactivated rigs that have returned to work.

Contract drilling expense increased $242.8 million, or 31%, for the nine months ended September 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily due to $125.6 million increase attributable to rigs that have returned to work upon completion of reactivation projects or after being idle in the prior year period, $48.7 million increase in reactivation costs, $34.5 million increase in the costs for certain claims and $28.2 million increase in reimbursable costs.

During the second quarter of 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 $133.2 million, or 66%, for the nine months ended September 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 $13.6 million, or 19%, for the nine months ended September 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily due to a change in incentive compensation structure following the Effective Date.

Other income, net, decreased $118.7 million for the current quarter as compared to the preceding quarter due to gains of $135.5 million that were recognized during the preceding quarter from the sale of VALARIS 113, VALARIS 114 and VALARIS 36 as well as additional proceeds received in the preceding quarter on the sale of a rig in a prior year as a result of post-sale conditions of that sale agreement. This decrease was partially offset by non-cash interest income of $14.8 million recognized in the current quarter for the adjustment to the discount resulting from the partial early repayment on our shareholder notes receivable from ARO.

Other income (expense), net, changed from an expense of $3.6 billion in the combined Successor and Predecessor prior year period to income of $187.9 million for the nine months ended September 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 pre-tax gain on sale of property of $137.5 million from the sale of VALARIS 113, VALARIS 114, VALARIS 36 and VALARIS 67 as well as additional proceeds received in the current year period on the sale of a rig in a prior year as a result of post-sale conditions of that sale agreement.

**Rig Counts, Utilization and Average Day Rates**

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

| | **September 30, 2022** | **June 30, 2022** | **September 30, 2021** |
|---|---|---|---|
| Floaters | 16 | 16 | 16 |
| Jackups(1) | 28 | 29 | 33 |
| Other(2) | 8 | 7 | 8 |
| Held-for-sale(3) | — | — | 2 |
| Total Valaris | 52 | 52 | 59 |
| ARO(4) | 7 | 7 | 7 |

(1) 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. During the third quarter of 2022, we leased VALARIS 141 to ARO.

(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 37, which was 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. During the third quarter of 2022, VALARIS 141 was leased to ARO.

(3) During the fourth quarter of 2021, we sold VALARIS 142 and VALARIS 22 which were classified as held-for-sale as of September 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.

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

| | Three Months Ended September 30, 2022 | Three Months Ended June 30, 2022 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| **Rig Utilization**[1] | | | | |
| Floaters | 48 % | 31 % | 35 % | 27 % |
| Jackups | 67 % | 67 % | 65 % | 54 % |
| Other [2] | 100 % | 100 % | 100 % | 100 % |
| Total Valaris | 66 % | 61 % | 62 % | 55 % |
| ARO | 89 % | 96 % | 92 % | 88 % |
| **Average Day Rates**[3] | | | | |
| Floaters | $ 221,581 | $ 213,452 | $ 213,438 | $ 194,687 |
| Jackups | 100,352 | 93,851 | 94,170 | 97,025 |
| Other [2] | 37,688 | 39,076 | 38,652 | 30,956 |
| Total Valaris | $ 112,462 | $ 97,717 | $ 100,346 | $ 88,694 |
| ARO | $ 93,364 | $ 92,397 | $ 93,834 | $ 94,709 |

(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) 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."

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 nine months ended September 30, 2022 (Successor), the five months ended September 30, 2021 (Successor) and the four months ended April 30, 2021 (Predecessor) and the combined Successor and Predecessor results for the nine months ended September 30, 2021 (Non-GAAP) is as follows (in millions):

*Three Months Ended September 30, 2022 (Successor)*

| | Floaters | Jackups | ARO | Other | Reconciling Items | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenues | $ 201.7 | $ 195.9 | $ 111.4 | $ 39.6 | $ (111.4) | $ 437.2 |
| Operating expenses | | | | | | |
| Contract drilling (exclusive of depreciation) | 160.5 | 128.0 | 90.0 | 17.8 | (59.6) | 336.7 |
| Depreciation | 12.6 | 8.7 | 15.4 | 1.2 | (15.3) | 22.6 |
| General and administrative | — | — | 4.7 | — | 14.5 | 19.2 |
| Equity in earnings of ARO | — | — | — | — | 2.9 | 2.9 |
| Operating income (loss) | $ 28.6 | $ 59.2 | $ 1.3 | $ 20.6 | $ (48.1) | $ 61.6 |

*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) |

*Nine Months Ended September 30, 2022 (Successor)*

| | Floaters | Jackups | ARO | Other | Reconciling Items | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenues | $ 489.5 | $ 562.4 | $ 339.1 | $ 117.0 | $ (339.1) | $ 1,168.9 |
| Operating expenses | | | | | | |
| Contract drilling (exclusive of depreciation) | 473.4 | 409.4 | 256.3 | 58.0 | (167.3) | 1,029.8 |
| Loss on impairment | 34.5 | — | — | — | — | 34.5 |
| Depreciation | 37.1 | 26.5 | 47.3 | 3.4 | (46.9) | 67.4 |
| General and administrative | — | — | 13.1 | — | 43.9 | 57 |
| Equity in earnings of ARO | — | — | — | — | 15.9 | 15.9 |
| Operating income (loss) | $ (55.5) | $ 126.5 | $ 22.4 | $ 55.6 | $ (152.9) | $ (3.9) |

*Five Months Ended September 30, 2021 (Successor)*

| | Floaters | Jackups | ARO | Other | Reconciling Items | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenues | $ 154.0 | $ 314.8 | $ 201.7 | $ 60.7 | $ (201.7) | $ 529.5 |
| Operating expenses | | | | | | |
| Contract drilling (exclusive of depreciation) | 136.9 | 237.1 | 157.3 | 23.4 | (111.5) | 443.2 |
| Depreciation | 19.3 | 19.9 | 26.5 | 1.7 | (26.4) | 41.0 |
| General and administrative | — | — | 8.5 | — | 31.4 | 39.9 |
| Equity in earnings of ARO | — | — | — | — | 7.4 | 7.4 |
| Operating income (loss) | $ (2.2) | $ 57.8 | $ 9.4 | $ 35.6 | $ (87.8) | $ 12.8 |

*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 Nine Months Ended September 30, 2021 (Non-GAAP)*

| | Floaters | Jackups | ARO | Other | Reconciling Items | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenues | $ 269.7 | $ 547.2 | $ 365.2 | $ 110.0 | $ (365.2) | $ 926.9 |
| Operating expenses | | | | | | |
| Contract drilling (exclusive of depreciation) | 243.4 | 412.1 | 273.4 | 43.3 | (185.2) | 787.0 |
| Loss on impairment | 756.5 | — | — | — | — | 756.5 |
| Depreciation | 91.4 | 89.6 | 47.5 | 16.5 | (44.4) | 200.6 |
| General and administrative | — | — | 12.7 | — | 57.9 | 70.6 |
| Equity in earnings of ARO | — | — | — | — | 10.5 | 10.5 |
| Operating income (loss) | $ (821.6) | $ 45.5 | $ 31.6 | $ 50.2 | $ (183.0) | $ (877.3) |

*Floaters*

Floater revenue increased $13.6 million, or 7%, for the current quarter as compared to the preceding quarter, primarily due to $59.5 million from increased operating days, $10.2 million from higher average day rates on certain rigs and a $7.3 million increase in amortization of deferred mobilization and capital upgrade revenue. These increases were partially offset by a $51.0 million fee related to the termination of the VALARIS DS-11 contract recognized in the preceding quarter and $7.8 million from lower customer reimbursable revenue.

Floater revenue increased $219.8 million, or 81%, for the nine months ended September 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to $112.6 million from increased operating days, a $51.0 million fee recognized in the second quarter of 2022 related to the termination of the VALARIS DS-11 contract, $24.4 million from increased customer reimbursable revenue, $16.2 million from higher average day rates on certain rigs and a $10.7 million increase in amortization of deferred revenue.

Floater contract drilling expense decreased $4.8 million, or 3%, for the current quarter, as compared to the preceding quarter, primarily due to a $20.0 million decrease in the costs for certain claims, $6.3 million decrease in reimbursable costs, and $6.3 million decrease in rig reactivation costs. These decreases were partially offset by $33.4 million of increased costs primarily attributable to rigs that returned to work following reactivation projects.

Floater contract drilling expense increased $230.0 million, or 94%, for the nine months ended September 30, 2022 (Successor) as compared to the combined Successor and Predecessor prior year period, primarily due to a $95.5 million increase in reactivation costs, $67.0 million increase attributable to rigs that have returned to work upon completion of reactivation projects or after being idle in the prior year period, $25.4 million increase in the costs for certain claims, and $25.2 million increase in reimbursable costs.

During the preceding quarter and nine months ended September 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 $54.3 million, or 59%, for the nine months ended September 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 $10.1 million, or 5%, for the current quarter, as compared to the preceding quarter, primarily due to a $3.9 million increase in amortization of deferred mobilization and capital upgrade revenue, $3.1 million from higher average day rates on certain rigs, and $2.5 million attributable to increased operating days.

Jackup revenues increased $15.2 million, or 3%, for the nine months ended September 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to a $20.5 million increase in amortization of deferred revenue and $18.1 million from increased operating days. This increase was partially offset by a decline of $23.1 million due to lower average day rates, and $3.7 million from lower customer reimbursable revenue.

Jackup contract drilling expense decreased $14.2 million, or 10%, for the current quarter as compared to the preceding quarter, primarily due to a $7.6 million decrease in repair costs for a certain rig in the preceding quarter and a $2.4 million decrease due to VALARIS 141, which was leased to ARO the current quarter.

Jackup contract drilling expense decreased marginally by $2.7 million, or 1%, for the nine months ended September 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to a $46.5 million decrease in reactivation costs incurred on certain rigs and $11.9 million decrease due to VALARIS 140 and VALARIS 141, which were leased to ARO. These decreases were offset by a $58.6 million increase in costs attributable to rigs that have returned to work upon completion of reactivation projects or after being idle in the prior year period.

Jackup depreciation expense decreased $63.1 million, or 70%, for the nine months ended September 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 decreased $5.0 million, or 4%, for the current quarter, as compared to the preceding quarter, primarily due to a $7.6 million decrease from certain rigs which were undergoing planned maintenance in the current quarter and $2.7 million decrease from VALARIS 36, which operated in the prior quarter until it was sold. These decreases were partially offset by a $3.9 million increase from VALARIS 141, which was leased to ARO and commenced drilling operations in the current quarter.

ARO revenue decreased $26.1 million, or 7%, for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021, primarily due to a $44.6 million decline from three rigs which operated in the prior year period completing their contracts in 2021 or the current year period. This decrease was partially offset by a $19.5 million increase in revenues for VALARIS 140 and VALARIS 141, which were leased to ARO and commenced drilling operations during the first and third quarter of 2022, respectively.

ARO contract drilling expense increased $7.9 million, or 10%, for the current quarter, as compared to the preceding quarter, primarily due to an increase in payroll costs and higher repair and maintenance costs in the current quarter for certain rigs undergoing maintenance projects.

ARO contract drilling expense decreased $17.1 million, or 6%, for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, due to a decrease in bareboat charter lease expense of $13.2 million, primarily as a result of fewer rigs leased from Valaris during the nine months ended September 30, 2022 and a decrease in payroll costs of $6.7 million during the nine months ended September 30, 2021.

*Other*

Other revenue increased $7.0 million, or 6%, for the nine months ended September 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to $11.5 million from higher day rates on certain rigs, partially offset by $3.6 million of lower revenues earned from lease agreements with ARO.

Other contract drilling expenses decreased $6.9 million, or 28%, for the current quarter, as compared to the preceding quarter, due to a $8.4 million decrease in costs for certain claims.

Other contract drilling expenses increased $14.7 million, or 34%, for the nine months ended September 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to a $8.7 million increase in costs for certain claims and a $6.2 million increase in personnel costs.

Other depreciation expense decreased $13.1 million, or 79%, for the nine months ended September 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):

| | Three Months Ended | |
|---|---|---|
| | September 30, 2022 | June 30, 2022 |
| Interest income | $ 27.9 | $ 11.2 |
| Interest expense | (11.7) | (11.6) |
| Net foreign currency exchange gains | 9.8 | 10.7 |
| Reorganization items, net | (0.4) | (0.7) |
| Net gain on sale of property | 0.1 | 135.1 |
| Other | 4.2 | 3.9 |
| | $ 29.9 | $ 148.6 |

| | Successor | Successor | Predecessor | Combined (Non-GAAP) |
|---|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 | Nine Months Ended September 30, 2021 |
| Net gain on sale of property | $ 137.7 | $ 0.2 | $ 6.0 | $ 6.2 |
| Interest income | 50.0 | 17.5 | 3.6 | 21.1 |
| Interest expense | (34.8) | (19.3) | (2.4) | (21.7) |
| Net foreign currency exchange gains | 25.2 | 4.8 | 13.4 | 18.2 |
| Reorganization items, net | (2.1) | (10.6) | (3,584.6) | (3,595.2) |
| Other | 11.9 | 6.1 | 6.5 | 12.6 |
| | $ 187.9 | $ (1.3) | $ (3,557.5) | $ (3,558.8) |

Net gains on the sale of property of $135.5 million were recognized in the second quarter of 2022 related to the sales of VALARIS 113, VALARIS 114 and VALARIS 36 as well as additional proceeds received on the sale of a rig in a prior year as a result of post-sale conditions of that sale agreement.

Interest income increased by $16.7 million for the current quarter as compared to the preceding quarter, primarily due to non-cash interest income of $14.8 million recognized in the current quarter for the discount attributable to the partial repayment on our notes receivable from ARO.

Interest income increased by $28.9 million for the nine months ended September 30, 2022 (Successor), as compared to the combined Successor and Predecessor prior year period, primarily due to non-cash interest income of $14.8 million recognized in the third quarter for the discount attributable to the partial repayment on our shareholder notes receivable from ARO and incremental amortization as the discount on the shareholder notes were only amortized for five months in the combined prior year period as opposed to nine months in the current year period.

Interest expense increased by $13.1 million for the nine months ended September 30, 2022 (Successor), compared to the combined Successor and Predecessor prior year period, as our First Lien Notes were outstanding for five months in the combined prior year period as compared to nine months in the current year.

Reorganization items, net of $3.6 billion for the combined Successor and Predecessor prior year period were recognized related to legal and other professional advisory service fees pertaining to the Chapter 11 Cases, contract items related to rejecting certain operating leases and the effects of the emergence from bankruptcy; including the application of fresh start accounting.

Our functional currency is the U.S. dollar and we predominantly structure our drilling contracts in U.S. dollars, which significantly reduces the portion of our cash flows and assets denominated in foreign currencies. However, we have net assets and liabilities denominated in numerous foreign currencies 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 $9.8 million for the current quarter primarily included gains of $5.8 million, $1.7 million and $1.6 million related to euros, Norwegian krone and British pounds, respectively. Net foreign currency exchange gains of $10.7 million for the preceding quarter primarily included gains of $5.2 million, $2.1 million and $2.1 million related to euros, British pounds and Norwegian krone, respectively. Net foreign currency exchange gains of $25.2 million for the nine months ended September 30, 2022 (Successor), primarily included gains of $14.4 million, $3.9 million and $3.6 million related to euros, British pounds and Norwegian krone, respectively. Net foreign currency exchange gains of $18.2 million for the combined Successor and Predecessor prior year period primarily included gains of $11.7 million and $6.2 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 $1.4 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 benefits attributable to the resolution of other prior period tax matters. Discrete income tax expense for the preceding quarter was $6.2 million and was primarily attributable to income associated with a contract termination. Excluding the aforementioned discrete tax items, income tax expense for the current quarter and preceding quarter was $12.4 million and $14.0 million, respectively.

Discrete income tax benefit for the nine months ended September 30, 2022 (Successor) was $6.9 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, partially offset by discrete tax expense attributable to income associated with a contract termination. Discrete income tax expense for the five months ended September 30, 2021 (Successor) was $44.8 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 nine months ended September 30, 2022 (Successor), the five months ended September 30, 2021 (Successor) and the four months ended April 30, 2021 (Predecessor) was $40.2 million, $23.6 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, short-term investments 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, short-term investments, 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 incurrence of debt or the issuance of equity securities in the future to supplement our liquidity needs. However, the Indenture contains covenants that limit our ability to incur additional indebtedness.

As of September 30, 2022, our cash and cash equivalents and short-term investments were $406.0 million and $220.0 million respectively. As of December 31, 2021, our cash and cash equivalents were $608.7 million and there were no short-term investments. 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 |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| Net cash used in operating activities | $ (27.0) | $ (19.0) | $ (39.8) |
| Additions to property and equipment | $ (153.1) | $ (23.7) | $ (8.7) |

During the nine months ended September 30, 2022 (Successor), our uses of cash in operating activities of $27.0 million related primarily to the reactivation of drilling rigs for new contracts as well as the payment of certain taxes.

During the five months ended September 30, 2021 (Successor), our uses of cash in operating activities of $19.0 million primarily related to reorganization costs and mobilization of drilling rigs for new contracts.

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 primarily 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 $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 the reactivation cost will be operating expenses, recognized in the income statement, related to de-preservation activities, including reinstalling key pieces of equipment and crew costs. 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 $205 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 and completion of the consent solicitation during the third quarter of 2022.

*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. In September 2022, we received a payment of $40.0 million from ARO representing a partial early repayment of the shareholder notes receivable.

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

| **Maturity Date** | **Principal Amount** |
|---|---|
| October 2027 | $ 225.0 |
| October 2028 | 177.7 |
| Total | $ 402.7 |

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.

*Share Repurchase Program*

In September 2022, our Board of Directors authorized a share repurchase program under which we may purchase up to $100 million of our outstanding Common Shares. The share repurchase program does not have a fixed expiration, and may be modified, suspended or discontinued at any time. We are under no obligation to purchase any Common Shares under the share repurchase program. Common Shares may be repurchased under the repurchase program in open market purchases, private-negotiated purchases, through block trades, by effecting a tender offer, by way of accelerated share repurchase transactions or other derivative transactions, through the purchase of call options or the sale of put options, or otherwise, or by any combination of the foregoing. The manner, timing, pricing and amount of any repurchases will be subject to our discretion and may be based upon a number of factors, including market conditions, our earnings, capital requirements, financial conditions, available cash resources and competing uses for cash that may arise in the future, the Indenture's restrictions that govern the

First Lien Notes and other factors. We did not purchase any Common Shares during the three months ended September 30, 2022 under the repurchase program.

*Other Commitments*

We have other commitments that we are contractually obligated to fulfill with cash under certain circumstances. As of September 30, 2022, we were contingently liable for an aggregate amount of $130.4 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 September 30, 2022, we had collateral deposits in the amount of $15.7 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. While the shipyard contract contemplated that these newbuild rigs would be delivered in 2022, we expect delivery of the rigs to be delayed into 2023. ARO is expected to place orders for two additional newbuild jackups in the near term. 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 ($64.6 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 $16.5 million liability for unrecognized tax benefits relating to these assessments as of September 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, (1) first-priority perfected liens on 100% of the equity interests of each restricted subsidiary directly owned by Valaris Limited or any Guarantor and (2) 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 (1) that is not secured by a lien on the Collateral securing the First Lien Notes, or (2) 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 (1) that is secured by a lien on the Collateral that is senior or prior to the lien securing the First Lien Notes, or (2) 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 (1) approximately $312 million of cash held at Valaris Limited, (2) approximately $220 million of short-term investments, and (3) 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) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| Current assets | $ 1,284.2 | $ 1,147.4 |
| Amounts due from non-guarantor subsidiaries, current | 621.7 | 791.9 |
| Amounts due from related party, current | 9.0 | 13.1 |
| Noncurrent assets | 1,048.8 | 990.7 |
| Amounts due from non-guarantor subsidiaries, noncurrent | 1,466.9 | 1,469.7 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| Current liabilities | 432.6 | 309.6 |
| Amounts due to non-guarantor subsidiaries, current | 7.5 | 55.3 |
| Amounts due to related party, current | 36.3 | 38.3 |
| Long-term debt | 541.8 | 545.3 |
| Noncurrent liabilities | 454.1 | 438.6 |
| Amounts due to non-guarantor subsidiaries, noncurrent | 1,926.2 | 1,921.6 |
| Noncontrolling interest | 6.0 | 2.6 |

*Summarized Statement of Operations Information:*

| (in millions) | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 |
|---|---|---|
| Operating revenues | $ 400.0 | $ 295.7 |
| Operating revenues from related party | 14.2 | 14.7 |
| Operating costs and expenses | 358.9 | 308.6 |
| Reorganization expense | (0.4) | (6.5) |
| Income (loss) from continuing operations | 40.9 | (74.9) |
| Net income attributable to noncontrolling interest | (3.4) | (1.7) |
| Net income (loss) | 37.5 | (76.6) |

| | Successor | | Predecessor |
|---|---|---|---|
| (in millions) | Nine Months Ended September 30, 2022 | Five Months Ended September 30, 2021 | Four Months Ended April 30, 2021 |
| Operating revenues | $ 1,076.7 | $ 515.6 | $ 388.8 |
| Operating revenues from related party | 44.0 | 25.5 | 23.1 |
| Operating costs and expenses | 1,128.2 | 503.6 | 1,272.9 |
| Reorganization expense | (2.1) | (10.6) | (3,584.1) |
| Income (loss) from continuing operations | 58.3 | 99.5 | (4,343.4) |
| Net income attributable to noncontrolling interest | (3.4) | (3.8) | (3.2) |
| Net income (loss) | 54.9 | 95.7 | (4,346.6) |

## MARKET RISK

*Interest Rate Risk*

Our outstanding debt at September 30, 2022 consisted of our $550 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 interest income for the year ended December 31, 2022 by $4.0 million based on the principal amount outstanding at September 30, 2022 of $402.7 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 September 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 September 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 September 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.

### 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*

In September 2022, our Board of Directors authorized a share repurchase program under which we may purchase up to $100 million of our outstanding Common Shares. The share repurchase program does not have a fixed expiration, and may be modified, suspended or discontinued at any time. As of September 30, 2022, there have been no share repurchases under the share repurchase program.

**Item 6.** ***Exhibits***

| Exhibit Number | Exhibit |
|---|---|
| 4.1 | Fourth Supplemental Indenture, dated August 19, 2022, among Valaris Limited, the guarantors party thereto and Wilmington Savings Fund Society, FSB, as trustee and first lien collateral agent (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filled on August 22, 2022, File No, 1-8097) |
| +*10.1 | Employment Agreement, commencing as of September 24, 2022, by and between Ensco Services Limited and Matthew Lyne |
| *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 September 30, 2022, formatted in Inline XBRL (included with Exhibit 101 attachments). |

* Filed herewith.
** Furnished herewith.
+ Management contract or compensatory plan and arrangement required to be filed as an exhibit 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: November 1, 2022 | /s/ CHRISTOPHER T. WEBER |
| | Christopher T. Weber<br>Senior Vice President and Chief Financial Officer<br>(principal financial officer) |
| | /s/ COLLEEN W. GRABLE |
| | Colleen W. Grable<br>Vice President and Controller<br>(principal accounting officer) |

# EMPLOYMENT AGREEMENT

**DATED** May 24, 2022

**BETWEEN:**

(1) **ENSCO SERVICES LIMITED**, (No. 04605864) whose registered office is at Cannon Place, 78 Cannon Street, London, England, EC4N 6AF (the "**Company**"); and

(2) **MATTHEW LYNE**, ("**you**")

**WE AGREE AS FOLLOWS:**

## 1. Commencement of Employment

1.1 Your employment with the Company under the terms of this agreement (the **"Agreement"**) will commence on 24 September 2022 or such earlier date on which the parties agree (the **"Commencement Date"**), following release from your current employment. In the event that you secure an early release from your current employment then the Company will agree to bring forwards the Commencement Date to a date of your choosing provided: (i) the terms of your early release from your current employer do not entail post-employment restrictive covenants more onerous than those contained in your current terms and conditions of employment as at the date hereof; and (ii) you give the Company not less than 10 days' advance notice in writing of such earlier Commencement Date. No employment with a previous employer counts towards your period of continuous employment with the Company.

1.2 Your employment with the Company is conditional upon: (a) your producing such documentation as the Company requires to establish your right to work lawfully in the United Kingdom; and (b) your satisfactory completion of such other customary background and related checks and drug screening as are required by the Company. Should you fail to satisfy any of these conditions, then any offer of employment may be withdrawn and if already accepted, the Company may terminate your employment immediately without notice.

1.3 You will be provided with those rules, policies and procedures with which you must comply during your employment with the Company (the **"Policies"**). Although the Policies do not form part of your contract of employment with the Company and may be changed from time to time you are required to comply with the Policies, as made available to you, during the term of your employment with the Company. To the extent that there is a conflict between the terms of this agreement and the Policies, then this agreement shall prevail.

## 2. Job Title and duties

2.1 You will be employed as Senior Vice President and Chief Commercial Officer or in such other role as the Board may reasonably require and will report to the Chief Executive Officer of Valaris Limited (the **"CEO"**) or such other person(s) as the Board may nominate from time to time.

2.2 You are required to carry out your duties to the best of your ability and use your best endeavours to promote the Company and its interests and those of the Group Companies generally. You are required to carry out your work faithfully and diligently and to devote the whole of your working time and attention to the duties assigned to you.

2.3 When carrying out your duties you must comply with the Company's Policies and may not enter into any arrangement on behalf of the Company or any Group Company which is outside its normal course of business or the scope of any authority delegated to you.

2.4 You are required to comply with all reasonable and lawful directions given to you by the CEO and/or the Board.

2.5 You must immediately report to the Board the wrongdoing (including acts of misconduct, dishonesty, breaches of contract, fiduciary or statutory duty, company rules or the rules of the relevant regulatory bodies) whether committed, contemplated or discussed by you or any director or member of staff of the Company or any Group Company of which you become aware, irrespective of whether this may involve some degree of self-incrimination.

2.6 We take a zero-tolerance approach to tax evasion. You must not engage in any form of facilitating tax evasion, whether under UK law or under the law of any foreign country. You must immediately report to the General Counsel of Valaris Limited any request or demand from a third party to facilitate the evasion of tax or any concerns that such a request or demand may have been made.

2.7 All documents, manuals, hardware and software provided for your use by us, and any data or documents (including copies) produced, maintained or stored on our computer systems or other electronic equipment (including mobile phones) remain our property.

**3. Place of Work**

3.1 Your normal place of work will initially be at your home address in London or South East England but you acknowledge and agree that you may be required to relocate your normal place of work to such other location within a 35 mile radius of Central London, England as the Company may reasonably determine from time to time.

3.2 You also agree to travel to and work at such other places, throughout the United Kingdom and the rest of the world, as the Company may require for the proper and efficient performance of your duties. It is not currently envisaged that you would be required to work outside the United Kingdom for any continuous period of more than one month during the term of your employment.

**4. Salary**

4.1 Your basic salary is £447,155 per year, less deductions for income tax, national insurance and other deductions required by law. Your salary will accrue from day to day and will be payable monthly in arrears on or about the last day of each month.

4.2 Your salary may be reviewed from time to time at the Compensation Committee's absolute discretion. However, there is no obligation to award an increase.

4.3 The Company may deduct from your salary or other payments due to you any money which you owe to the Company or any Group Company at any time.

**5. Bonus and Annual Long-Term Incentive**

5.1 Annual Cash Bonus: Subject to and in accordance with the rules and terms and conditions thereof, you will be eligible to participate in an annual short-term incentive bonus plan offered by Valaris Limited ("**Valaris**") that is similar in all material respects to that applicable to other executive officers of Valaris and any Group Company of equivalent seniority (**"Annual Plan"**). Your target annual incentive compensation under the Annual Plan is currently targeted at 90% of base salary. It is acknowledged, notwithstanding the terms of the Annual Plan, you will be eligible to participate in the bonus plan in respect of your employment from the Commencement Date to the end of the performance period, subject to pro-ration to reflect days employed during the performance period. You acknowledge that you have no contractual right to be paid for a bonus. The fact that a bonus is paid in one or more years is no guarantee that bonuses will be paid in subsequent years.

5.2 Long-Term Incentive: You will be eligible to participate in and will receive awards under Valaris' long-term incentive award plans and programs as in effect from time to time at a level and on terms commensurate with similarly situated executive officers of Valaris and any Group Company of equivalent seniority (the "**LTIP Awards**"). As soon as reasonably practicable following commencement of your employment hereunder, you will receive an LTIP Award with a target value of USD 4,125,000 of which 80% (USD 3,300,000) will be granted in the form of performance share units and 20% (USD 825,000) will be granted as time-based RSUs. The value of these awards will be calculated using a 30-day trailing VWAP as of date upon which the Board approves your appointment as an officer of Valaris Limited (**"Initial LTIP Award"**). The LTIP Awards, including without limitation, the Initial LTIP Award, will be granted subject to the terms and conditions of the applicable plans and individual award agreements entered into between Valaris and you.

5.3 All bonuses are paid less deductions for income tax, national insurance contributions and other deductions required by law. Any bonus payment shall not be pensionable.

**6. Pension, Expenses and other Benefits**

6.1 Pension. You will be automatically enrolled into a retirement plan. Membership of and benefits under the plan are strictly subject to the rules of the plan and the tax reliefs and exemptions available from HM Revenue & Customs, in both cases as amended from time to time. During your employment hereunder, the Company shall contribute an amount equal to 4% of your basic salary or such other amount as the Company determines to contribute to the pension arrangements of its employees from time to time ("**Company Contribution"**) into such retirement plan on your behalf, subject to the rules of the plan and the tax reliefs and exemptions available from HM Revenue & Customs, in both cases as amended from time to time. In the event that such rules, tax reliefs and exemptions do not permit the Company to pay the full amount of the Company Contribution into the plan in a tax efficient manner then the Company shall pay such portion into the plan as it is so permitted to pay in a tax efficient manner and will pay to you the outstanding balance of the Company Contribution as an additional allowance subject to such deductions for income tax, national insurance and otherwise as are required by law. By entering into this contract of employment you consent to the Company deducting pension contributions from your salary at the rate required under the plan. The Company reserves the right to terminate or amend its participation or sponsorship of the retirement plan, or to substitute another retirement plan in its place.

6.2 Expenses. You will be reimbursed all reasonable out-of-pocket expenses necessarily and properly incurred by you on the business of the Company or any Group Company provided you produce to the Company such evidence of actual payment of the expenses concerned as the Company reasonably requires and comply with any Company expense policy issued from time to time.

6.3 Other Benefits. You shall be eligible to participate in the same benefit plans and programs in which other similarly situated employees who are based in the United Kingdom are eligible to participate, subject to the terms, conditions and limitations of the applicable plans and programs in effect from time to time and any applicable HM Revenue & Customs limits and other limits or restrictions under applicable law. The provision of any benefits shall not prevent the Company from terminating your employment at any time.

6.4 Further details of these benefits will be provided to you in due course. We may replace or withdraw such benefits, or amend the terms of such benefits, at any time on reasonable notice to you, provided that you are treated no less favourably than equivalent executives of Valaris or any Group Company who are similarly situated.

6.5 It is agreed that you will be:

6.5.1 covered by such directors and officers liability insurance (if any) as is provided from time to time by Valaris Limited and any Group Companies in which you hold office during the term of this Agreement for the benefit of its or their current executives (including in relation to those provisions which apply after a current executive has ceased to be so employed); and

6.5.2 entitled to the protection of such indemnification arrangements (if any) as is provided from time to time by Valaris Limited and any Group Companies in which you hold office during the term of this Agreement for the benefit of its or their current executives on such terms as are available to those executives (including in relation to those provisions which apply after a current executive has ceased to be so employed).

6.6 Furthermore, the Company shall cover:

6.6.1 Your reasonable legal costs incurred by you in connection with the negotiation of this Agreement subject to an aggregate maximum limit of £10,000 excluding VAT; and

6.6.2 Your reasonable accounting costs associated with (1) tax preparation services in the UK for all tax periods in which taxes fall due on payments or other compensation or equity you received or will receive from the Company or Valaris or any Group Company, including for the avoidance of doubt any such tax periods after termination of employment; and (2) the resolution of any tax disputes that may directly result from payments received in connection with your employment with the Company, whether arising during or after termination of employment. It is your responsibility to file all required returns and provide any required documentation on a timely basis to comply with the tax laws of the United Kingdom. The Company shall not be responsible for any penalties or interest incurred as a result of failure to timely file any return or timely provide any required information or documentation. Notwithstanding anything herein to the contrary, payment of third-party tax preparation services will only apply with respect to taxes due on payments and other compensation you received and will receive from the Company.

**7. Hours of Work**

7.1 The Company's core business hours are between 9:00 a.m. and 4:00 p.m. Monday to Thursday and 8:00 a.m. to 11:30 a.m. on Friday. You will be required to work such hours both during and outside the Company's core business hours as may be necessary for the proper and efficient performance of your duties without extra remuneration. You are asked to sign an opt-out from the 48 hour limit on weekly working time, which is attached as **Schedule 1**, but your employment is not conditional upon your signing the opt-out.

**8. Annual Leave**

8.1 You are entitled to 33 days' paid annual leave during each holiday year (to be pro-rated during your first and final year of employment). This is inclusive of fixed and floating public holiday dates. The Company's holiday year is the calendar year and extends from 1st January to 31st December. Annual leave must be taken in accordance with the Company's leave policy from time to time.

8.2 If on termination of your employment you have or are likely to have any accrued but untaken holiday, then the Company may either: (a) require you to take any accrued but untaken holiday during your notice period; or (b) make a payment to you in lieu of such accrued but untaken holiday. If on the termination of your employment you have taken more holiday than your accrued entitlement at the date of termination of your employment, the Company shall be entitled to deduct the appropriate amount from any payments due to you. For the purpose of this clause, each day of paid holiday is equal to 1/260 of your base salary.

8.3 Any accrued but unused holiday entitlement shall be deemed to be taken during any period of Garden Leave.

**9. Sickness**

9.1 If you are absent from work for any reason, you must comply with the Company's sickness absence policy from time to time which also sets out your entitlement (if any) to sick pay, save that it is agreed that you will be treated no less favourably than equivalent executives of Valaris or any Group Company who are similarly situated in the provision of sick pay.

9.2 You agree to consent to a medical examination (at the Company's expense) by a doctor nominated by the Company should the Company so require.

**10. Other paid leave**

10.1 Details of various forms of statutory leave to which you are legally entitled can be found at: www.gov.uk/browse/employing-people/time-off. These may be supplemented by the Policies from time to time.

**11. Other Work**

11.1 Save where permitted under the Policies from time to time, you will not at any time during your employment (whether directly or indirectly, paid or unpaid) be engaged, employed, concerned or interested in any other actual or prospective business, organisation or profession without the Company's prior written approval.

**12. Termination**

12.1 Subject to the remainder of this clause 12, either party may terminate your employment under this Agreement by giving to the other not less than six months' prior written notice.

12.2 Subject to clauses 12.3 and 12.4 below, the Company may, in its absolute discretion, terminate your employment immediately at any time by making you a payment in lieu of notice equivalent to your basic salary over any unexpired period of notice (less tax, national insurance contributions and other deductions required by law).

12.3 The Company may terminate your employment without notice and without a payment in lieu of notice in the event that: (i) your actions constitute Cause; or (ii) you have been absent from work through illness or injury for a continuous period of at least 6 months.

12.4 It is confirmed that you have been designated by the Valaris Compensation Committee to participate in the Valaris Executive Severance Plan (as amended from time to time, the **"Severance Plan"**) subject to and conditional upon the rules, terms and conditions of the Severance Plan. It is agreed that if there is a qualifying event under the Severance Plan, you will be entitled to receive the severance benefits set forth in the Severance Plan ("**Severance Benefits**"), subject to and conditional upon you having previously executed a Settlement Agreement within 14 days of termination of your employment with the Company (which Settlement Agreement shall replace the Release required pursuant to Section 2.2 of the Severance Plan but which for the avoidance of doubt will not contain more onerous post-termination restrictions (in duration or scope) with respect to any non-compete and non-solicit than those contained in the Severance Plan). It is further confirmed that in the event of termination by you for Good Reason (as defined in the Severance Plan) you will not be required to provide six months' notice of termination of your employment, but will instead be required to follow the procedure set out in Section 1.17 of the Severance Plan (or any equivalent provision in the Severance Plan as amended from time to time). You agree that the Severance Benefits will, for the avoidance of doubt, be inclusive of any payments or other benefits to which you would otherwise be entitled in connection with your employment or its termination (including any payment in lieu of any unexpired portion of your notice period). The Company also confirms that the definition of Disability for the purposes of the Severance Plan would be satisfied in circumstances where you are unable to perform your duties as a consequence of illness or injury for a continuous period in excess of six months.

12.5 Our rights under Clause 12.3 are without prejudice to any other rights that we might have at law to terminate your employment or to accept any breach of this agreement by you as having brought the agreement to an end. Any delay by us in exercising our rights to terminate shall not constitute a waiver of these rights.

12.6 The Company may suspend you on full pay pending the outcome of a disciplinary investigation. Whilst on suspension the Company may impose the same conditions as apply to employees on garden leave (see below).

## 13. Garden Leave

13.1 The Company shall be under no obligation to provide you with work during any period of notice to terminate your employment (or any part thereof), whether given by the Company or by you. During such period the Company may: (a) require you to carry out different duties from your normal duties; (b) require you not to attend at work; (c) require you to cease carrying out your duties altogether or to cease having any business dealings with the Company's officers, employees, consultants, clients, suppliers, customers and prospective customers, agents, distributors, shareholders, advisers or other business contacts of ours; and/or (d) exclude you from any premises of the Company or any Group Company. You will continue to receive your salary and all contractual benefits provided by your employment. During such period you shall remain our employee and your duties of good faith and loyalty will continue to apply and, without limitation, you must comply with clause 11 above.

## 14. Intellectual Property

14.1 You will give the Company full written details of all Inventions and of all works embodying Intellectual Property Rights made wholly or partially by you at any time during the course of your employment with us. You acknowledge that all Intellectual Property Rights subsisting (or which may in the future subsist) in all such Inventions and works shall automatically, on creation, vest in the Company absolutely. To the extent that they do not vest automatically you hold them on trust for us.

14.2 You hereby irrevocably waive all moral rights under the Copyright, Designs and Patents Act 1988 (and all similar rights in other jurisdictions) which you have or will have in any existing or future works referred to in clause 14.1 above.

14.3 You agree to promptly execute all documents and do all acts (at the request and expense of the Company) as may, in the opinion of the Company, be necessary or desirable to give effect to clause 14.1 above or to vest or evidence title in any Intellectual Property Rights in the Company and to obtain, maintain and defend such rights in any country of the world.

14.4 You irrevocably appoint every member of the Board to be your attorney in your name and on your behalf to execute documents, use your name and do all things which are necessary or desirable for us to obtain for ourselves or our nominee the full benefit of this clause.

## 15. Confidentiality

15.1 You acknowledge that in the course of your employment you will have access to confidential information. You therefore agree to accept the restrictions in this clause 15.

15.2 You shall not directly or indirectly (save in the proper course of your duties or as authorised by the Company in writing) use, disclose or communicate to any person, firm or entity any trade or business secrets or confidential information of or relating to the Company, any Group Company or their respective directors, employees, consultants, customers, suppliers, business partners and investors which you create, develop, receive or obtain during your employment. This restriction shall continue to apply after Termination without limit in time. Likewise, you shall use your best endeavours to prevent the use, disclosure or communication of such matters by others.

15.3 In this Agreement, confidential information includes, but is not limited to:

(a) corporate and business strategies and plans; (b) details of actual or prospective clients or customers (together with their requirements or potential requirements and contact details); (c) details of actual or prospective employees and consultants and their remuneration arrangements, other than your own; (d) details and terms of any investment, partnership, joint venture or other form of commercial co-operation or agreement; (e) internal operating systems, trade arrangements, terms of business and price lists not generally known to the public, including sales information, pricing policies, credit policies and procedures, profit margins, discounts, rebates, marketing information or strategies; (f) financial information including budgets, management accounts, financial models, spreadsheets, costings, sales forecasts, projections, estimates, or results, information relating to internal funding requirements or allocation of resources; (g) confidential aspects of computer technology including systems, confidential algorithms, information relating to proprietary computer hardware or software (including updates and source and object codes) which are not generally known to the public; (h) disputes (whether existing, pending, potential or threatened), settlement terms and legally privileged materials; (i) personal or special categories of personal data; (j) trade secrets, confidential techniques, technology, know-how, systems and processes used for the production or development of products and services, including manufacturing processes, formulations, formulae, recipes, raw materials and technical data and including information that is a trade secret as defined in Regulation 2 of the Trade Secrets (Enforcement, etc.) Regulations 2018, as amended; (k) research and development activities (including designs, applications, drawings or specifications of products and services contemplated or in the course of development, details of product or market testing), inventions, discoveries or improvements (whether patentable or not) and patent applications in the course of preparation; (l) details, designs, applications, drawings or specifications of products or services; (m) the identity of any investor in the Company and the details of their investment(s); (n) details of actual or potential suppliers; and (o) anything marked as confidential (or similar), which you are told is confidential, which you should realise is confidential, which is subject to an obligation of confidence owed to a third party, or which you should reasonably treat as being confidential; in all cases whether or not recorded in documentary form or stored on any magnetic or optical disk or memory.

15.4 Reference to confidential information in this Agreement shall not include information which is in the public domain at the time of its disclosure or which comes into the public domain after its disclosure otherwise than by reason of your breach of this Agreement.

15.5 Nothing in this agreement shall prevent you from:

15.5.1 reporting a criminal offence or suspected criminal offence to the police or any law enforcement agency or co-operating with the police or any law enforcement agency regarding a criminal investigation or prosecution;

15.5.2 making a disclosure to, or cooperating with any investigation by, a government body or a regulator, ombudsman or supervisory authority or any other body responsible for exercising regulatory, supervisory, investigatory or prosecutory functions in relation to the matters in question, regarding any misconduct, wrongdoing or serious breach of regulatory requirements (including giving evidence at a hearing);

15.5.3 complying with an order from, or giving evidence to, a court or tribunal of competent jurisdiction;

15.5.4 making any other disclosure as required by law or regulatory obligation; or

15.5.5 making a protected disclosure under section 43A of the Employment Rights Act 1996 (as amended).

**16. Company Property**

16.1 You may not, except in the proper performance of your duties or with the Company's permission: (a) remove any property belonging to the Company or any Group Company or relating to their affairs from their premises; or (b) make any copies or summaries of any documents or data relating to the Company, any Group Company or their affairs.

16.2 Upon the Company's request at any time and, in any event, on the termination of your employment: (a) you will immediately deliver up to the Company all property in your possession or control which belongs to the Company or any Group Company or relates to their business affairs, and which includes any plans, keys, mobile telephone, security passes, credit cards, customer lists, price lists, equipment, documents, records, papers, computer disks, tapes, computer hardware, memory, medium or devices (together with all copies of the same); and (b) if you have any information relating to the Company or any Group Company or work you have carried out for the Company or any Group Company which is stored on a device or medium (which for the purpose of this Agreement includes any personal computer, web-server, personal digital assistant, mobile telephone, memory, disk or any other storage medium) which does not belong to the Company, this must be disclosed to the Company and the Company shall be entitled to download the information and/or supervise its deletion from the device or medium concerned. You will, at the Company's request, furnish the Company with a written statement confirming that you have complied with your obligations under this clause 16.

**17. Disciplinary and Grievance Procedures**

17.1 Your attention is drawn to the disciplinary and grievance procedures applicable to your employment which will be provided to you separately. These procedures are of a policy nature only, may be changed from time to time and do not form part of your contract of employment.

**18. Data Protection and Information Systems**

18.1 We will collect and process information relating to you in accordance with our privacy notice.

18.2 You shall comply with our data protection policy when handling personal data in the course of your employment including personal data relating to any employee, worker, contractor, customer, client, supplier or agent of ours.

18.3 Our systems enable us to monitor telephone, email, voicemail, internet and other communications. In order to carry out its legal obligations as an employer (such as ensuring employee compliance with the Company's IT related policies), and for other business reasons, we may monitor use of systems including the telephone and computer systems, and any personal use of them, by automated software or otherwise. Monitoring is only carried out to the extent permitted or as required by law and as necessary and justifiable for business purposes.

**19. Compliance with Employment Rights Act 1996**

19.1 This Agreement contains a statement of the applicable terms of your employment as required by section 1 of the Employment Rights Act 1996. For the purposes of paragraph (c)(iii) of subsection 4 of section 1 of the Employment Rights Act 1996, your working hours and days are not variable. Save where expressly referred to in this Agreement, there are no particulars to be entered under any of the heads of paragraph (d) or (k) of subsection (4) of section 1 of the Employment Rights Act 1996, or under any of the other paragraphs of subsection (3) or (4) of that section.

**20. Miscellaneous**

20.1 The following terms used in this Agreement have the following meanings:

(a) "**Board**" means the board of directors of Valaris Limited;

(b) "**Cause**" shall have the meaning given to such term in the Severance Plan;

(c) "**Compensation Committee**" means the compensation committee of Valaris Limited;

(d) "**Garden Leave**" means any period during which the Company has exercised its rights under clause 13;

(e) "**Group Company**" means the Company and any undertaking in any jurisdiction which is from time to time: (a) a "group undertaking" of the Company (as defined by section 1161(5) of the Companies Act 2006); or (b) an "associated company" of the Company (as defined by section 416 of the Income and Corporation Taxes Act 1988), together the **"Group Companies"**;

(f) "**Intellectual Property Rights**" means patents, rights to Inventions, copyright and related rights, trade marks, trade names and domain names, rights in get-up, rights in goodwill or to sue for passing off or unfair competition, rights in designs, rights in computer software, database rights, rights to preserve the confidentiality of information (including know-how and trade secrets) and any other intellectual property rights, in each case whether registered or unregistered and including all applications (or rights to apply) for, and be granted, renewals or extensions of, and rights to claim priority from, such rights and all similar or equivalent rights or forms of protection which may now or in the future subsist in any part of the world;

(g) "**Inventions**" means inventions, ideas and improvements, whether or not patentable, and whether or not recorded in any medium; and

(h) "**Termination**" means the termination of your employment howsoever arising.

20.2 There is no collective agreement which directly affects your employment.

20.3 You undertake that any notice period you are required to serve with a previous employer has expired and that by entering into this Agreement or performing any of your duties for the Company, you will not be in breach of any other obligation binding on you.

20.4 The Company reserves the right to make reasonable changes to any of your terms of employment without prejudice to any right you may otherwise have under the Annual Plan, Severance Plan or Valaris' long-term incentive award plans and programs in each case as in effect from time to time. You will be notified in writing of any change as soon as possible and in any event within one month of the change.

20.5 Whilst nothing in this Agreement limits your common law duties, this Agreement is the entire agreement between the parties and is in substitution for and extinguishes any previous contract of employment, promises, assurances, warranties, representations or understanding between the Company and you relating to your employment, whether written or oral. You represent and warrant that you are not entering into this Agreement in reliance on any representation not expressly set out in this Agreement and there are no other agreements or arrangements (whether written, oral or implied) between you and the Company or any Group Company.

20.6 If your employment is terminated at any time by reason of the reconstruction or amalgamation of any Group Company, whether by winding up or otherwise, and you are offered employment with any concern or undertaking involved in or resulting from the reconstruction or amalgamation on terms which are no less favourable to any material extent than the terms of this agreement, you shall have no claim against us or any such undertaking arising out of or connected with the termination.

20.7 Any notice required to be given under this Agreement should be in writing. Notice may be given by either party by personal delivery or post or email addressed to the other party at (in the case of the Company) its registered office for the time being or by email to the head of Valaris' Human Resources function and (in your case) your last notified postal or personal email address. These notices will be deemed to have been given on the date of receipt if hand delivered, on the date of sending if sent by email and, if posted, on the day on which they would be delivered in the ordinary course of post.

20.8 This agreement may be executed in any number of counterparts, each of which shall constitute a duplicate original, but all the counterparts shall together constitute the one agreement.

20.9 No one other than a party to this agreement shall have any right to enforce any of its terms.

20.10 Your terms of employment with the Company and any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with this Agreement or its subject matter or formation are governed by English law and the parties submit to the exclusive jurisdiction of the English Courts.

**THIS AGREEMENT** has been entered into on the date stated at the beginning of it.

| | |
|---|---|
| Signed by John Winton for and on behalf of **ENSCO SERVICES LIMITED** | /s/ John Winton<br>Signatory |
| Signed by Matthew Lyne | /s/ Matthew Lyne |

## SCHEDULE 1

### Opt-Out from the 48 hour a week limit in the Working Time Regulations 1998

To: [●]

I agree that, if so required, I will work more than 48 hours a week on average over any 17 week period and that the limit (specified in Regulation 4(1) of the Working Time Regulations 1998) shall not apply to me.

I understand that this will permit me to work for the Company for periods exceeding 48 hours per week when averaged over a 17 week period.

This consent shall apply indefinitely but shall be terminable at any time by me giving three months' written notice of this to the Company.

I have read, understood and agreed to the above of my own free will.

Signed:./s/ Matthew Lyne................................................. Dated:May 24, 2022............
[●]

**List of Guarantor Subsidiaries and Affiliate Securities Pledged as Collateral**

As of October 31, 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 |
| Rowandrill, 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% |
| Rowandrill Labuan Limited | Ordinary Shares | 100.00% |
| Rowandrill 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% |

Exhibit 31.1

# CERTIFICATION

I, Anton Dibowitz, certify that:

1. I have reviewed this report on Form 10-Q for the fiscal quarter ending September 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: November 1, 2022

/s/ Anton Dibowitz

Anton Dibowitz
Director, President and Chief Executive Officer

Exhibit 31.2

# CERTIFICATION

I, Christopher T. Weber, certify that:

1. I have reviewed this report on Form 10-Q for the fiscal quarter ending September 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: November 1, 2022

/s/ Christopher T. Weber

Christopher T. Weber
Senior Vice President and Chief Financial Officer
(principal financial officer)

Exhibit 32.1

**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 September 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
November 1, 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.

Exhibit 32.2

**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 September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher T. Weber, Senior Vice President and Chief Financial Officer (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/ Christopher T. Weber

Christopher T. Weber
Senior Vice President and Chief Financial Officer
(principal financial officer)
November 1, 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.