

VALARIS

ARO  
DRILLING  
أرامكو روان للحفر

ARO Drilling

February 2022

# Forward-Looking Statements

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Statements contained in this investor presentation 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. 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, rig commitments and availability, cash flow, contract status, terms and duration, contract backlog, capital expenditures, insurance, financing and funding; the effect, impact, potential duration and other implications of the ongoing COVID-19 pandemic; impact of our emergence from bankruptcy; the offshore drilling market, including supply and demand, customer drilling programs, stacking of rigs, effects of new rigs on the market and effects of declines in commodity prices; expected work commitments, awards and contracts; effective tax rates; letters of intent; scheduled delivery dates for rigs; performance of our joint venture with Saudi Aramco; ability of ARO Drilling to obtain financing; the timing of delivery, mobilization, contract commencement, availability, relocation or other movement of rigs, including the ARO Drilling newbuild rigs; future rig reactivations; expected divestitures of assets; general market, business and industry conditions, trends and outlook; future operations; increasing regulatory complexity; the outcome of tax disputes, assessments and settlements; and expense management. Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including the COVID-19 outbreak and global pandemic and the related public health measures implemented by governments worldwide; cancellation, suspension, renegotiation or termination of drilling contracts and programs, including drilling contracts which grant the customer termination rights if final investment decision (FID) is not received with respect to projects for which the drilling rig is contracted; potential additional asset impairments; failure to satisfy our debt obligations; our ability to obtain financing and access to financing sources, service our debt, fund capital expenditures and pursue other business opportunities; adequacy of sources of liquidity for us and our customers; the effects of our emergence from bankruptcy on the Company's business, relationships, comparability of our financial results and ability to access financing sources; actions by regulatory authorities or other third parties; actions by our security holders; commodity price fluctuations and volatility, customer demand, new rig supply, downtime and other risks associated with offshore rig operations; severe weather or hurricanes; changes in worldwide rig supply and demand, competition and technology; consumer preferences for alternative fuels; increased scrutiny of our Environmental, Social and Governance ("ESG") practices and reporting responsibilities; changes in customer strategy; future levels of offshore drilling activity; governmental action, civil unrest and political and economic uncertainties; risks inherent to shipyard rig reactivation, upgrade, repair, maintenance or enhancement; our ability to enter into, and the terms of, future drilling contracts; suitability of rigs for future contracts; the cancellation of letters of intent or letters of award or 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; governmental regulatory, legislative and permitting requirements affecting drilling operations; our ability to attract and retain skilled personnel on commercially reasonable terms; environmental or other liabilities, risks or losses; debt restrictions that may limit our liquidity and flexibility; and cybersecurity risks and threats. In addition to the numerous factors described above, you should also 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 most recent annual report on Form 10-K, as updated in our subsequent quarterly reports on Form 10-Q, which are available on the SEC's website at [www.sec.gov](http://www.sec.gov) or on the Investor Relations section of our website at [www.valaris.com](http://www.valaris.com). Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to update or revise any forward-looking statements, except as required by law.

# ARO Drilling is a 50/50 joint venture between Valaris and Saudi Aramco

## Overview:

- ARO Drilling (“ARO”) is a 50/50 joint venture between Valaris and Saudi Aramco that owns and operates jackup drilling rigs in the Kingdom of Saudi Arabia
- Over the next decade, ARO intends to construct 20 newbuild rigs, supported by attractive, long-term contracts with Saudi Aramco
- ARO operates independently with a separate dedicated management team; both the CEO and the Managing Director are from Valaris; the CFO is from Saudi Aramco
- ARO Board of Directors is comprised of three members from Valaris and three members from Saudi Aramco; the Chairman is from Saudi Aramco
- ARO is treated as an equity investment by Valaris for accounting purposes, with financial results recognized primarily on the equity income line (not consolidated)

## Financing:

- Saudi Aramco and Valaris do not anticipate contributing additional capital into ARO for the newbuild program, however the program is supported by a \$1.25 billion capital commitment from each shareholder, which ratchets down over time as rigs are delivered
- Valaris expects the newbuilds to be fully financed by ARO, through ARO-generated cash flow and external financing, supported by long term contracts at ARO
- As of December 31, 2021, ARO had a cash balance of \$271 million
- As of December 31, 2021, the principal amount of Valaris’ shareholder note was \$443 million
- ARO EBITDA<sup>1</sup> in 2021 was \$91 million

## Value Drivers

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1

**Owned Rigs**

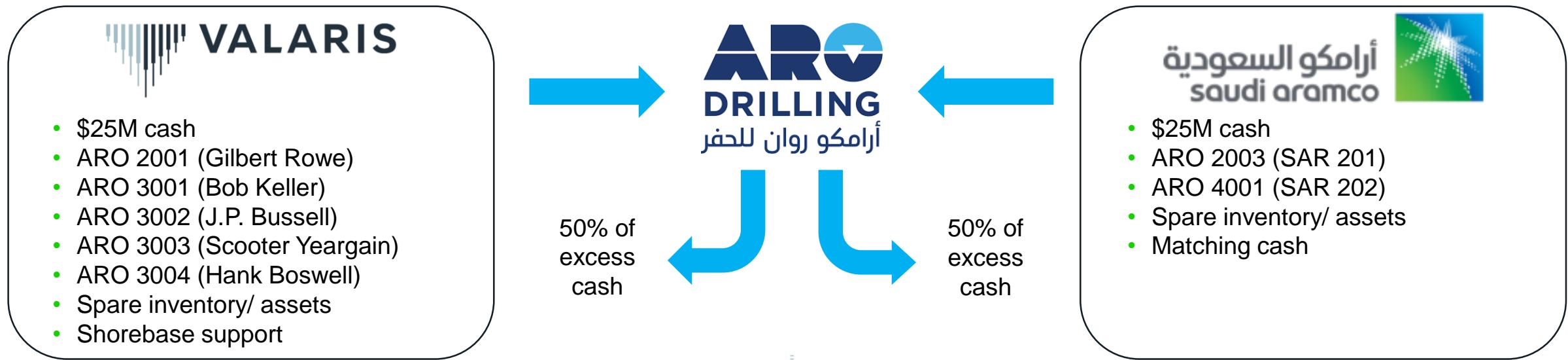
2

**Leased Rigs**

3

**Newbuild Rigs**

# 1 Owned Rigs: Overview of Contributions and Cash Flows

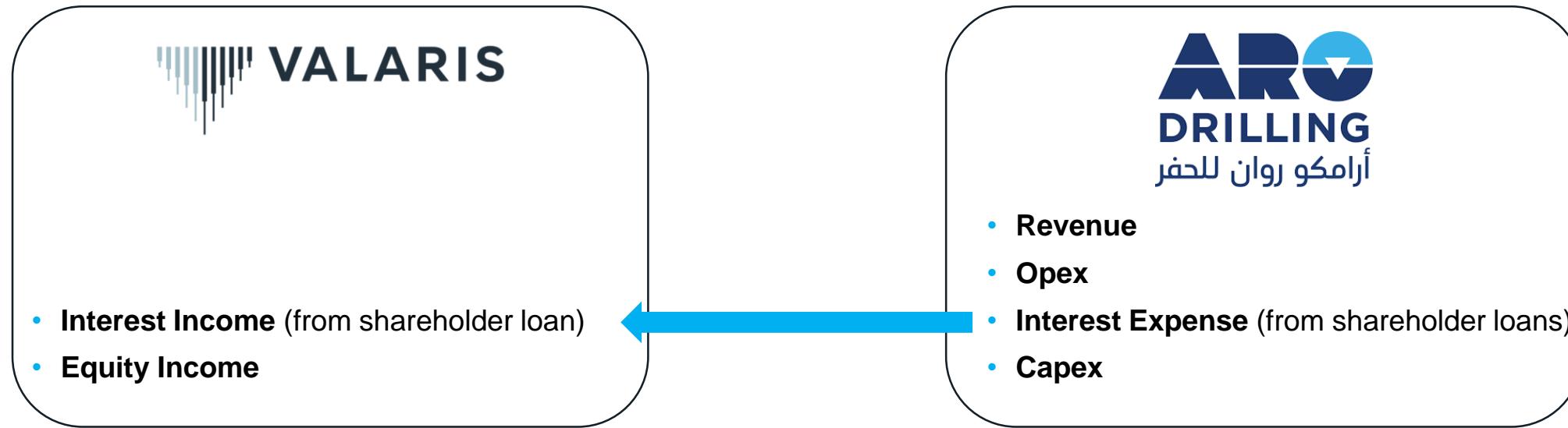


- In 2Q 2017, Valaris and Saudi Aramco contributed 25 million cash each to form ARO
- In 4Q 2017, Valaris transferred three jackups, and Saudi Aramco transferred two jackups and additional cash
- ARO commenced operations on October 17, 2017
- In 4Q 2017, Valaris and Saudi Aramco received \$88 million each as a cash distribution

- In 4Q 2018, Valaris transferred two jackups and Saudi Aramco transferred a matching contribution in cash
- In 4Q 2018, Valaris and Saudi Aramco received \$95 million each as a cash distribution
- On an annual basis, ARO Board of Directors elects to make interest payments in cash or payment-in-kind (LIBOR + 2%)
- As of December 31, 2021, the principal amount of Valaris' shareholder note was \$443 million

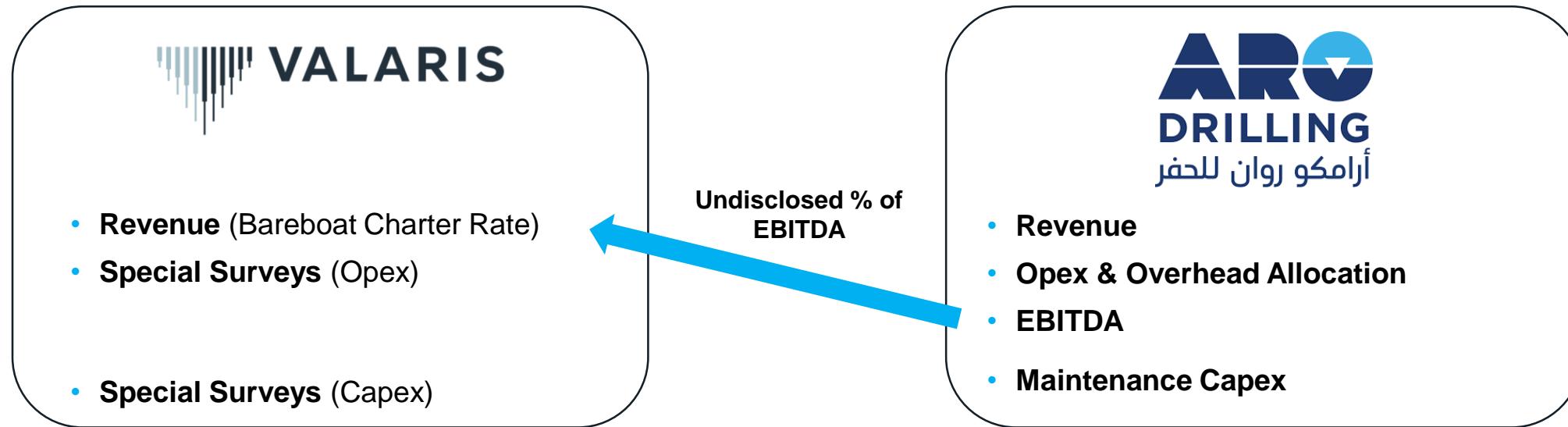
**VALARIS**

# 1 Owned Rigs: Income and Cash Flow Impacts



- Valaris receives interest income on its shareholder loan balance outstanding either in the form of a cash payment or payment-in-kind added to the principal balance of the note
- Owned rigs impact ARO net income, 50% of which flow through equity in earnings of ARO line in Valaris' income statement
- Owned rig results are recorded directly on ARO's income statement
- ARO receives revenues from rigs contracted to Saudi Aramco and incurs all operating costs associated with these rigs
- ARO is also responsible for all capital expenditures associated with owned rigs
- ARO records interest expense on the shareholder loans due to Valaris and Saudi Aramco

## 2 Leased Rigs: Overview and Financial Impact



- Currently seven Valaris rigs leased to ARO
- Valaris receives a percentage of rig EBITDA (after an ARO overhead allocation), which is recognized as revenue on Valaris' income statement
- Five-year special surveys are paid by Valaris
- Leased rigs impact ARO net income, 50% of which flow through equity in earnings of ARO line in Valaris' income statement

- Day rates for the leased rigs will be “consistent with the Pricing Mechanism, unless otherwise agreed”
- The market pricing mechanism is based on a global index of similar rigs (excluding Norway and other niche harsh environment markets) with a modest discount to market, and a floor that provides a minimum level of profitability
- Rig revenue and opex recorded on ARO's income statement
- Allocation of overhead costs based on rig's proportion of total ARO revenue
- Maintenance capex paid by ARO

### 3 Newbuild Rigs: Overview and Financial Impact

#### Overview:

- ARO intends to build 20 jackups over the next decade, with the first rig scheduled to be delivered in 4Q22 and the second rig expected in either 4Q22 or 1Q23
- Newbuild rigs 3 and 4 are expected to be ordered in 2022
- The first two jackups are being built at the Lamprell shipyard in UAE
- Thereafter, new rigs will be built at the new Maritime Yard - The King Salman International Complex for Maritime Industries and Services, a cornerstone project in the Saudi 2030 Vision
- The Maritime Yard is a joint venture between Saudi Aramco, Bahri, Hyundai Heavy Industries and Lamprell
- Newbuild rigs will be designed fit-for-purpose for Saudi Aramco operations. The first two newbuild rigs are based on the LeTourneau 116E design

#### Financial Impact:

- Day rates for the initial eight-year contracts will be determined using a pricing mechanism that targets a six-year payback for construction costs on an EBITDA basis
- These will be followed by a minimum of another eight years of term, re-priced every three years, based on a market pricing mechanism
- The market pricing mechanism is based on a global index of similar rigs (excluding Norway and other niche harsh environment markets) with a modest discount to market, and a floor that provides a minimum level of profitability
- Thereafter, if the rigs meet the technical specifications and the operational requirements of Saudi Aramco, preference for new Saudi Aramco drilling contracts will be given to these rigs
- Newbuild rigs impact ARO net income, 50% of which flow through equity in earnings of ARO line in Valaris' income statement

# Summary: Valaris and ARO Financials



REVENUE	<ul style="list-style-type: none"> <li>Leased Rigs – Bareboat Charter Fee</li> </ul>	<ul style="list-style-type: none"> <li>Owned Rigs</li> <li>Leased Rigs</li> <li>Newbuild Rigs</li> </ul>
OPEX	<ul style="list-style-type: none"> <li>Leased Rigs – Special Survey</li> </ul>	<ul style="list-style-type: none"> <li>Owned Rigs</li> <li>Leased Rigs</li> <li>Newbuild Rigs</li> <li>G&amp;A Expense</li> </ul>
OTHER INCOME / EXPENSE	<ul style="list-style-type: none"> <li>Interest Income on Shareholder Loan</li> </ul>	<ul style="list-style-type: none"> <li>Interest Expense on Shareholder Loan</li> </ul>
50% of ARO net earnings flow through equity in earnings of ARO line in Valaris' income statement		
CAPEX	<ul style="list-style-type: none"> <li>Leased Rigs – Special Survey</li> </ul>	<ul style="list-style-type: none"> <li>Owned Rigs</li> <li>Leased Rigs – Maintenance Capex</li> <li>Newbuild Rigs</li> </ul>

# Boldly First

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