SEADRILL LTD
Form 20-F
April 13, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from ____ to ____

OR

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

Date of event requiring this shell company report:

Commission file number: 001-34667

SEADRILL LIMITED
(Exact name of Registrant as specified in its charter)

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

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

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

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

As of December 31, 2017, there were 504,518,940 shares, par value $2.00 per share, of the Registrant's common stock outstanding.
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[_] Yes [X] No

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [_] Accelerated filer [X]
Non-accelerated filer [_] Emerging growth company [_]
If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, 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 which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

[X] U.S. GAAP

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

[_] Other

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

[_] Item 17

[_] Item 18

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- the impact of active negotiations and contingency planning efforts with respect to a comprehensive restructuring of our debt under Chapter 11 proceedings with the U.S. Bankruptcy Court for Southern District of Texas, Victoria division, the outcome of which is uncertain.
- our ability to maintain relationships with suppliers, customers, employees and other third parties as a result of our Chapter 11 filing;
- our ability to maintain and obtain adequate financing to support our business plans post-emergence from Chapter 11;
- the length of time that we will operate under Chapter 11 protection;
- risks associated with third-party motions in the Chapter 11 proceedings that may interfere with the solicitation and ability to confirm and consummate a plan of reorganization;
- factors related to the offshore drilling market, including changes in oil and gas prices and the state of the global economy on market outlook for our various geographical operating sectors and classes of rigs;
- supply and demand for drilling units and competitive pressure on utilization rates and dayrates;
- customer contracts, including contract backlog, contract commencements, contract terminations, contract option exercises, contract revenues, contract awards and rig mobilizations;
- the repudiation, nullification, modification or renegotiation of drilling contracts;
- delays in payments by, or disputes with, our customers under our drilling contracts;
- fluctuations in the market value of our drilling units and the amount of debt we can incur under certain covenants in our debt financing agreements;
- the liquidity and adequacy of cash flow for our obligations;
- our ability to successfully employ our drilling units;
- our ability to procure or have access to financing;
- our expected debt levels;

- our ability to comply with certain covenants in our debt financing agreements;
- credit risks of our key customers;
- political and other uncertainties, including political unrest, risks of terrorist acts, war and civil disturbances, public health threats, piracy, corruption, significant governmental influence over many aspects of local economies, or the seizure, nationalization or expropriation of property or equipment;
- the concentration of our revenues in certain jurisdictions;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- any inability to repatriate income or capital;
- the operation and maintenance of our drilling units, including complications associated with repairing and replacing equipment in remote locations and maintenance costs incurred while idle;
- newbuildings, upgrades, shipyard and other capital projects, including the completion, delivery and commencement of operation dates;
- import-export quotas;
- wage and price controls and the imposition of trade barriers;
- the recruitment and retention of personnel;

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- regulatory or financial requirements to comply with foreign bureaucratic actions, including potential limitations on drilling activity, changing taxation policies and other forms of government regulation and economic conditions that are beyond our control;
- the level of expected capital expenditures, our expected financing of such capital expenditures, and the timing and cost of completion of capital projects;
- fluctuations in interest rates or exchange rates and currency devaluations relating to foreign or U.S. monetary policy;
- effects of remediation efforts to address the material weakness discussed in "Item 15. Controls and Procedures" below;
- tax matters, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, including those associated with our activities in Bermuda, Brazil, Norway, the United Kingdom and the United States;
- legal and regulatory matters, including the results and effects of legal proceedings, and the outcome and effects of internal and governmental investigations;
- hazards inherent in the drilling industry and marine operations causing personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties or customers and the suspension of operations;
- customs and environmental matters; and
- other important factors described from time to time in the reports filed or furnished by us with the Securities and Exchange Commission, or the Commission, and the New York Stock Exchange, or the NYSE.

We caution readers of this annual report not to place undue reliance on these forward-looking statements, which speak only as at their dates. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement.

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PART 1.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

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

References in this annual report to “NADL,” “Sevan Drilling” and “AOD” refer specifically to our consolidated subsidiaries North Atlantic Drilling Ltd., Sevan Drilling Limited, and Asia Offshore Drilling Limited, respectively. We also consolidate certain subsidiaries of Ship Finance International Limited, or “Ship Finance.”

References in this annual report to “Seadrill Partners,” “SeaMex” and “Archer” refer to companies in which we have direct or indirect investments, Seadrill Partners LLC, SeaMex Limited, and Archer Limited, respectively. Our investments in Seabras Sapura Participacoes SA and Seabras Sapura Holding GmbH are together referred to as “Seabras Sapura.” We previously held investments in Sapura Energy Berhad, which was formerly known as SapuraKencana Petroleum Berhad, together referred to as “SapuraKencana.”

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

References in this annual report to “Total,” “Petrobras,” “ExxonMobil,” “LLOG,” and “Statoil” refer to our key customers Tot S.A., Petroleo Brasileiro S.A., Exxon Mobil Corporation, LLOG Exploration Company LLC and Statoil ASA, respectively.

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

A. SELECTED FINANCIAL DATA

Our selected statement of operations and other financial data with respect to the fiscal years ended December 31, 2017, 2016 and 2015 and our selected balance sheet data as of December 31, 2017 and 2016 have been derived from our consolidated financial statements included in Item 18 of this annual report, or the Consolidated Financial Statements, which have been prepared in accordance U.S. GAAP.

Our selected Statement of Operations and other financial data for the fiscal years ended December 31, 2014 and 2013 and our selected balance sheet data as of December 31, 2015, 2014 and 2013 have been derived from the consolidated financial statements that are not included herein.

The following table should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and our Consolidated Financial Statements and notes thereto, which are included herein. Our Consolidated Financial Statements are maintained in U.S. dollars. We refer you to the notes to our Consolidated Financial Statements for a discussion of the basis on which our Consolidated Financial Statements are prepared, and we draw your attention to the statement regarding going concern as described in Note 1 "General information" of our Consolidated Financial Statements included herein.

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

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	Year ended December 31,				
	2017	2016	2015	2014	2013
		(In millions of U.S. dollars except common share and per share data)			
Statement of Operations Data:					
Total operating revenues	2,088	3,169	4,335	4,997	5,282
Net operating (loss)/ income	(728)	1,026	1,019	2,279	2,098
Net (loss)/income	(3,102)	(155)	(635)	4,087	2,786
(Loss)/earnings per share, basic	(5.89)	(0.36)	(1.29)	8.32	5.66
(Loss)/earnings per share, diluted	(5.89)	(0.36)	(1.29)	8.30	5.47
Dividends paid	—	—	—	1,415	1,287
Dividends paid per share	—	—	—	2.98	2.74
Dividends declared per share *	—	—	—	2.00	3.72

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

	Year ended December 31,				
	2017	2016	2015	2014	2013
		(In millions of U.S. dollars except common share and per share data)			
Balance Sheet Data (at end of period):					
Cash and cash equivalents	1,255	1,368	1,044	831	744
Drilling units	13,216	14,276	14,930	15,145	17,193
Newbuildings	248	1,531	1,479	2,030	3,419
Investment in associated companies	1,473	2,168	2,592	2,898	140
Goodwill	—	—	—	604	1,200
Total assets	17,982	21,666	23,439	26,297	26,048
Long-term debt (including current portion) [1]	8,699	9,514	10,543	12,475	13,314
Common share capital	1,008	1,008	985	985	938
Total equity	6,959	10,063	10,068	10,390	8,202
Common shares outstanding (in millions)	504.5	504.4	492.8	492.8	469.0
Weighted average common shares outstanding (in millions)	504.5	501.0	492.8	478.0	469.0
Other Financial Data:					
Net cash provided by operating activities	399	1,184	1,788	1,574	1,695
Net cash provided by/ (used in) by investing activities	329	328	(190)	66	(2,964)
Net cash (used in)/provided by financing activities	(846)	(1,206)	(1,370)	(1,521)	1,695
Capital expenditures [2]	(150)	(231)	(1,041)	(3,168)	(4,463)

[1] Includes $7,705 million which has been reclassified into liabilities subject to compromise in 2017.
[2] Capital expenditures include additions to drilling units and equipment, additions to newbuildings, as well as payments for long-term maintenance.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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D. RISK FACTORS

Our assets are primarily engaged in offshore contract drilling for the oil and gas industry in benign and harsh environments worldwide, including ultra-deepwater environments. The following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the market for and ownership of our securities. The occurrence of any of the events described in this section could materially and negatively affect our business, financial condition, operating results, cash available for the payment of dividends or the trading price of our common shares. Unless otherwise indicated, all information concerning our business and our assets is as of December 31, 2017. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Risk Relating to the Bankruptcy Proceedings

We and a substantial number of our consolidated subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code, and we are subject to the risks and uncertainties associated with such bankruptcy proceedings.

On September 12, 2017, we entered into a restructuring support and lock-up agreement (the "RSA") with a group of bank lenders, bondholders, certain other stakeholders, and new-money providers (collectively, the "Consenting Stakeholders"). Our consolidated subsidiaries North Atlantic Drilling Ltd. ("NADL") and Sevan Drilling Limited ("Sevan"), together with certain other of our consolidated subsidiaries also entered into the RSA (collectively with Seadrill, the "Company Parties"). Ship Finance International Limited and three of its subsidiaries ("SFL"), which charter three drilling units to the Company Parties, also executed the RSA. In connection with the RSA, the Company Parties entered into an investment agreement (the "Investment Agreement") under which Hemen Investments Limited, an affiliate of Seadrill's largest shareholder Hemen Holding Ltd. and a consortium of additional investors, including the bondholder parties to the RSA (collectively, the "Commitment Parties"), committed to provide up to $1.06 billion in new cash, subject to certain terms and conditions.

On September 12, 2017, to implement the transactions contemplated by the RSA and Investment Agreement, the Company Parties (collectively, the "Debtors") commenced prearranged reorganization proceedings (the "Chapter 11 proceedings") under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the Southern District of Texas (the "Bankruptcy Court").

Subsequent to September 12, 2017, the Debtors negotiated with their various creditors, including an ad hoc group of holders of unsecured bonds (the "Ad Hoc Group") and ship yards with which the Debtors had a contractual relationship to build new rigs. On February 26, 2018, the Debtors announced a global settlement with the Ad Hoc Group, the official committee of unsecured creditors (the "Committee") and other major creditors in their Chapter 11 cases, including Samsung Heavy Industries Co., Ltd. and Daewoo Shipbuilding & Marine Engineering Co., Ltd., two of the Debtors' newbuild shipyards, and an affiliate of Barclays Bank PLC ("Barclays"), another holder of unsecured bonds. In connection with the global settlement, the Debtors entered into an amendment to the RSA and an amendment to the Investment Agreement. The amendments to the RSA and Investment Agreement provided for the inclusion of the Ad Hoc Group and Barclays into the Capital Commitment as Commitment Parties, increased the Capital Commitment to $1.08 billion, increased recoveries for general unsecured creditors of Seadrill, NADL, and Sevan under the plan of reorganization, an agreement regarding the allowed claim of the newbuild shipyards and an immediate cessation of all litigation and discovery efforts in relation to the plan of reorganization.

In connection with the global settlement, on February 26, 2018, the Debtors filed a proposed Second Amended Joint Chapter 11 Plan of Reorganization with the Bankruptcy Court (the "Plan"). By the voting deadline of April 5, 2018, the Plan received approval from every single class of creditors and holders of interests entitled to vote, exceeding the required thresholds for acceptance of the Plan.

We are subject to a number of risks and uncertainties associated with the Chapter 11 proceedings, which may lead to potential adverse effects on our liquidity, results of operations or business prospects. We cannot assure you of the outcome of the Chapter 11 proceedings. Risks associated with the Chapter 11 proceedings include the following:

- our ability to continue as a going concern;

- our ability to obtain Bankruptcy Court approval with respect to motions in the Chapter 11 proceedings and the outcomes of Bankruptcy Court rulings of the proceedings in general;
- our ability to comply with and to operate under the cash collateral order and any cash management orders entered by the Bankruptcy Court;
- the length of time we will operate under the Chapter 11 proceedings and our ability to successfully emerge, including with respect to obtaining any necessary regulatory approvals and to complete certain corporate reorganizations;
- our ability to negotiate, confirm and consummate a plan of reorganization with respect to the Chapter 11 proceedings;
- risks associated with third party motions, proceedings and litigation in the Chapter 11 proceedings, including by third parties that are not party to the RSA or the Investment Agreement, which may interfere with our plan of reorganization;
- the ability to maintain sufficient liquidity throughout the Chapter 11 proceedings;
- increased costs related to the bankruptcy filing, operating in Chapter 11 and other litigation;
- our ability to manage contracts that are critical to our operation, and to obtain and maintain appropriate credit and other terms with customers, suppliers and service providers;

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- our ability to attract, retain and motivate key employees;
- our ability to obtain the necessary debt and equity financing as described in our investment agreement;
- the disposition or resolution of all pre-petition claims against us; and
- our ability to maintain existing customers and vendor relationships and expand sales to new customers.

The Chapter 11 proceedings limit the flexibility of our management team in running the Debtors' business.

While we operate our business as debtors-in-possession under supervision by the Bankruptcy Court, we are required to obtain the approval of the Bankruptcy Court with respect to our business, and in some cases, the Consenting Stakeholders under the terms of the RSA and the Commitment Parties under the terms of the Investment Agreement, prior to engaging in certain activities or transactions as described therein, including activities and transactions that are outside the ordinary course of business. Bankruptcy Court approval of non-ordinary course activities entails preparation and filing of appropriate motions with the Bankruptcy Court, negotiation with various parties-in-interest, including any statutory committees appointed in our Chapter 11 proceedings, and one or more hearings. Such committees and parties-in-interest may be heard at any Bankruptcy Court hearing and may raise objections with respect to these motions. This process could delay major transactions and limit our ability to respond quickly to opportunities and events in the marketplace. Furthermore, in the event the Bankruptcy Court does not approve a proposed activity or transaction, we could be prevented from engaging in activities and transactions that we believe are beneficial to us.

Additionally, the terms of the cash collateral order entered by the Bankruptcy Court will limit our ability to undertake certain business initiatives. These limitations may include, among other things, our ability to:

- sell assets outside the normal course of business;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- grant liens;
- incur debt for borrowed money outside the ordinary course of business;
- prepay pre-petition obligations; and
- finance our operations, investments or other capital needs or to engage in other business activities that would be in our interests.

The Chapter 11 proceedings may disrupt our business and may materially and adversely affect our operations.

We have attempted to minimize the adverse effect of the Chapter 11 proceedings on our relationships with our employees, suppliers, customers and other parties. Nonetheless, our relationships with our customers, suppliers and employees may be adversely impacted by negative publicity or otherwise and our operations could be materially and adversely affected. In addition, the Chapter 11 proceedings could negatively affect our ability to attract new employees and retain existing high performing employees or executives, which could materially and adversely affect our operations.

The Investment Agreement is subject to significant conditions and milestones which may be difficult for us to satisfy.

We and the other Company Parties entered into the Investment Agreement with the Commitment Parties, pursuant to which, among other things, the Commitment Parties have committed to provide up to $1.08 billion in new cash. The obligations of the Commitment Parties under the Investment Agreement are subject to certain material conditions and milestones, including with respect to confirmation of the Plan, and the occurrence of the effective date of the Plan prior to an outside date. Our ability to timely complete such milestones is subject to risks and uncertainties that may be beyond our control. If the Commitment Parties are not required to provide the new cash under the Investment Agreement, the Plan may not be confirmed or may not become effective, in which case we would need to develop an alternative plan of reorganization.

The RSA is subject to significant conditions which may be difficult for us to satisfy.

We and the other Company Parties entered into the RSA pursuant to which, among other things, we agreed to file the Plan. While the Consenting Stakeholders who are entitled to vote have agreed to vote in favor of the Plan when properly solicited to do so, there are certain material conditions that must be satisfied, including our timely filing of the Plan and taking all steps reasonably necessary and desirable to consummate the restructuring transactions in accordance with the RSA, and certain events under which the RSA may be terminated, including upon certain terminations of the Investment Agreement or upon entry of an order of the Bankruptcy Court denying the

confirmation of the Plan. Our ability to satisfy such conditions or avoid such termination events is subject to risks and uncertainties that may be beyond our control. If the Consenting Stakeholders who are entitled to vote are not required to vote for the Plan, the Plan may not be confirmed, in which case we would need to develop an alternative plan of reorganization.

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We may not be able to obtain Bankruptcy Court confirmation of the Plan or may have to modify the terms of the Plan. Although we have received approval of the Plan by each class of holders of claims and interests entitled to vote (a "Voting Class"), the Bankruptcy Court may, as a court of equity, exercise substantial discretion and could choose not to confirm the Plan. Bankruptcy Code Section 1129 requires, among other things, a showing that confirmation of the Plan will not be followed by liquidation or the need for further financial reorganization for the Debtors, and that the value of distributions to dissenting holders of claims and interests will not be less than the value such holders would receive if the Debtors liquidated under Chapter 7 of the Bankruptcy Code. Although we believe that the Plan will satisfy such tests, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

Confirmation of the Plan will also be subject to certain conditions. These conditions may not be met and there can be no assurance that we and the Consenting Stakeholders will agree to modify or waive such conditions as required under the RSA. Further, changed circumstances may necessitate changes to the Plan. Any such modifications could result in less favorable treatment of any non-accepting class, as well as any classes junior to such non-accepting class, than the treatment that will currently be provided in the Plan in accordance with the RSA. Such less favorable treatment could include a distribution of property (including new securities) to the class affected by the modification of a lesser value than what the RSA contemplates will be provided in the Plan or no distribution of property whatsoever under the Plan. Changes to the Plan may also delay the confirmation of the Plan and the Debtors' emergence from bankruptcy.

The Plan may not become effective.

In the event the Plan is confirmed by the Bankruptcy Court, it may not become effective because it is subject to the satisfaction of certain conditions precedent (some of which are beyond our control). There can be no assurance that such conditions will be satisfied, and therefore, that the Plan will become effective and that the Debtors will emerge from the Chapter 11 proceedings as contemplated by the Plan. If the transactions contemplated by the Plan are not completed, it may become necessary to amend the Plan. Any new plan of reorganization would require the approval of the Bankruptcy Court and the approval of the required creditors, which could subject the Debtors to more lengthy and costly Chapter 11 proceedings. The Investment Agreement requires that the Plan be consummated by an outside date.

We may have insufficient liquidity for our business operations during the Chapter 11 proceedings.

Although we believe that we will have sufficient liquidity to operate our businesses during the pendency of the Chapter 11 proceedings, there can be no assurance that the revenue generated by our business operations and cash made available to us under the cash collateral order or otherwise in our restructuring process will be sufficient to fund our operations, especially as we expect to incur substantial professional and other fees related to our restructuring. We have not made arrangements for financing in the form of a debtor-in-possession credit facility, or DIP facility. In the event that revenue flows and other available cash are not sufficient to meet our liquidity requirements, we may be required to seek additional financing. There can be no assurance that such additional financing would be available or, if available, offered on terms that are acceptable. If, for one or more reasons, we are unable to obtain such additional financing, we could be required to seek a sale of the company or certain of its material assets or our businesses and assets may be subject to liquidation under Chapter 7 of the Bankruptcy Code, and we may cease to continue as a going concern.

Any plan of reorganization that we may implement will be based in large part upon assumptions and analyses developed by us. If these assumptions and analyses prove to be incorrect, our plan may not be successful in its execution.

Any plan of reorganization that we may implement could affect both our capital structure and the ownership, structure and operation of our businesses and will reflect assumptions and analyses based on our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we consider appropriate under the circumstances. Whether actual future results and developments will be consistent with our expectations and assumptions depends on a number of factors, including but not limited to (i) our ability to substantially change our capital structure, (ii) our ability to restructure our corporate organization, including the introduction of two intermediate holding companies and a new group that will issue new secured notes under the terms of the Plan, (iii) our ability to obtain adequate liquidity and financing sources, (iv) our ability to maintain customers' confidence in our viability as a continuing entity and to attract and retain sufficient business from them, (v) our ability to retain key employees and (vi) the overall strength and stability of general economic conditions in the

global markets. The failure of any of these factors could materially adversely affect the successful reorganization of our businesses.

In addition, any plan of reorganization will rely upon financial projections, including with respect to revenues, EBITDA, net income, debt service and cash flow. Financial forecasts are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. In our case, the forecasts will be even more speculative than normal, because they may involve fundamental changes in the nature of our capital structure and our corporate structure. Accordingly, we expect that our actual financial condition and results of operations will differ, perhaps materially, from what we have anticipated. Consequently, there can be no assurance that the results or developments contemplated by any plan of reorganization we may implement will occur or, even if they do occur, that they will have the anticipated effects on us and our subsidiaries or our businesses or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful execution of any plan of reorganization.

As a result of the Chapter 11 proceedings, realization of assets and liquidation of liabilities are subject to uncertainty. While operating under the protection of the Bankruptcy Code, and subject to Bankruptcy Court approval or otherwise as permitted in the normal course of business, we may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in our consolidated financial statements.

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As a result of the Chapter 11 proceedings, our historical financial information may not be indicative of our future financial performance.

Our capital structure and our corporate structure will likely be altered under any plan of reorganization ultimately confirmed by the Bankruptcy Court. Under fresh start accounting and reporting rules that may apply to us upon the effective date of a plan of reorganization, our assets and liabilities would be adjusted to fair values and our accumulated surplus would be restated to zero. Accordingly, if fresh start reporting rules apply, our financial condition and results of operations following our emergence from Chapter 11 proceedings would not be comparable to the financial condition and results of operations reflected in our historical financial statements. In connection with the Chapter 11 proceedings and the development of a plan of reorganization, it is also possible that additional restructuring and related charges may be identified and recorded in future periods. Such charges could be material to our consolidated financial position and results of operations in any given period.

Trading in our securities during the term of the Chapter 11 proceedings is highly speculative and poses substantial risks.

Trading in securities of an issuer in bankruptcy is extremely speculative, and there is a very significant risk that investors will lose all or a substantial portion of their investment. While the Plan provides for, under certain circumstances, some recoveries to holders of our debt securities, and, under certain circumstances, recoveries of 2% to our equity holders, we can provide no assurances that the Plan will be confirmed and consummated, whether such certain circumstances will arise and the amount of any recoveries. Therefore, we can give no assurance at this time whether holders of our debt securities or our equity securities will receive any distribution with respect to, or be able to recover any portion of, their investments. Trading prices for our securities may bear little or no relationship to actual recovery, if any, by holders thereof during the term of the Chapter 11 proceedings.

We caution and urge existing and future investors to carefully consider the significant risks with respect to investments in our securities.

Risks Relating to Our Company and Industry

The success and growth of our business depends on the level of activity in the offshore oil and gas industry generally, and the drilling industry specifically, which are both highly competitive and cyclical, with intense price competition.

Our business depends on the level of oil and gas exploration, development and production in offshore areas worldwide that is influenced by oil and gas prices and market expectations of potential changes in these prices.

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

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

Declines in oil and gas prices for an extended period of time, or market expectations of potential decreases in these prices, have negatively affected and could continue to negatively affect our future performance.

Continued periods of low demand can cause excess rig supply and intensify competition in our industry, which often results in drilling rigs, particularly older and less technologically-advanced drilling rigs, being idle for long periods of time. We cannot predict the future level of demand for drilling rigs or future conditions of the oil and gas industry with any degree of certainty. In response to the decrease in the prices of oil and gas, a number of our oil and gas company customers have announced significant decreases in budgeted expenditures for offshore drilling. Any future decrease in exploration, development or production expenditures by oil and gas companies could further reduce our revenues and materially harm our business.

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In addition to oil and gas prices, the offshore drilling industry is influenced by additional factors, which could reduce demand for our services and adversely affect our business, including:

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

The offshore drilling industry is highly competitive and fragmented and includes several large companies that compete in many of the markets we serve, as well as numerous small companies that compete with us on a local basis. Offshore drilling contracts are generally awarded on a competitive bid basis or through privately negotiated transactions. In determining which qualified drilling contractor is awarded a contract, the key factors are pricing, rig availability, rig location, the condition and integrity of equipment, the rig's and/or the drilling contractor's record of operating efficiency, including high operating uptime, technical specifications, safety performance record, crew experience, reputation, industry standing and customer relations. Our operations may be adversely affected if our current competitors or new market entrants introduce new drilling rigs with better features, performance, prices or other characteristics compared to our drilling rigs, or expand into service areas where we operate.

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

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

The oil and gas drilling industry is cyclical and is currently in a prolonged downcycle. The price of Brent crude has fallen from $115 per barrel in June 2014 to a low of $30 per barrel in January 2016. As at March 31, 2018, the price of Brent crude was approximately $70 per barrel. The significant decrease in oil and natural gas prices is expected to continue to reduce many of our customers' demand for our services in 2018, due to significant decreases in budgeted expenditures for offshore drilling.

Declines in capital spending levels, coupled with additional newbuild supply, are likely to continue to intensify price competition and put significant pressure on dayrates and utilization of our rigs.

If we are unable to secure contracts for our drilling units upon the expiration of our existing contracts, we may idle or stack our units. When idled or stacked, drilling units do not earn revenues, but continue to require cash expenditures for crews, fuel, insurance, berthing and associated items. We currently have seventeen idle units, either "warm stacked," which means the rig is kept operational and ready for redeployment, and maintains most of its crew, or "cold stacked," which means the rig is stored in a harbor, shipyard or a designated offshore area, and the crew is reassigned to an active rig or dismissed. Without new drilling contracts or additional financing being available when needed or available only on unfavorable terms, we will be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional drilling unit acquisitions or otherwise take advantage of business opportunities as they arise.

In the current environment, our customers may also seek to cancel or renegotiate our contracts for various reasons, including adverse conditions, resulting in lower dayrates. Our inability, or the inability of our customers to perform, under our or their contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

From time to time, we are approached by potential buyers for the outright purchase of some of our drilling units, businesses, or other fixed assets. We may determine that such a sale would be in our best interests and agree to sell certain drilling units or other assets. Such a sale could have an impact on short-term liquidity and net income. We may recognize a gain or loss on disposal depending on whether the fair value of the consideration received is higher or lower than the carrying value of the asset.

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

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There is substantial doubt regarding our ability to continue as a going concern.

As described in Note 1 "General information" to our Consolidated Financial Statements included herein, we do not currently expect that our cash flows from operations would be sufficient to repay our indebtedness and, accordingly, we have sought a reorganization under Chapter 11 of the Bankruptcy Code. The accompanying Consolidated Financial Statements have been prepared on the basis of accounting principles applicable to a going concern. Our ability to continue as a going concern is contingent upon, among other things, our ability to: (i) develop and successfully implement a restructuring plan within the timeframe required by the terms of the RSA and the Investment Agreement, (ii) comply with the covenants contained in the cash collateral order, including compliance with the approved budget, and the covenants contained in any post-restructuring financing arrangements, (iii) reduce debt and other liabilities through the restructuring process, (iv) generate sufficient cash flow from operations and (v) obtain financing sources to meet our future obligations. The accompanying consolidated financial statements also do not include any adjustments that might be necessary should we be unable to continue as a going concern. We believe the consummation of a successful Chapter 11 proceeding is critical to our continued viability and long-term liquidity. While we are working towards achieving these objectives, there can be no certainty that we will be successful in doing so.

We may not have sufficient liquidity to meet our obligations as they fall due or have the ability to raise new capital or refinance existing facilities on acceptable terms.

As at December 31, 2017, we had $9,015 million in principal amount of interest-bearing debt (including related party debt of $314 million), representing approximately 130% of our total net assets, of which $6,367 million was secured by, among other things, liens on our drilling units. We expect to amend our secured credit facilities and to equitize certain of our unsecured debt under the terms of the Plan. Nonetheless, our outstanding indebtedness and future indebtedness that we may incur could affect our future operations, since a portion of our cash flow from operations will be dedicated to the payment of interest and principal on such debt and will not be available for other purposes. Covenants contained in our debt agreements require us to meet certain financial tests and non-financial tests, which may affect our flexibility in planning for, and reacting to, changes in our business or economic conditions, may limit our ability to dispose of assets or place restrictions on the use of proceeds from such dispositions, withstand current or future economic or industry downturns, and compete with others in our industry for strategic opportunities, and may limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes. The amendments to our secured credit facilities under the terms of the Plan may introduce additional restrictive covenants, as well as revise certain financial tests we must meet. While the RSA remains in force and effect, our lenders have agreed to waive any breach of, and any default or event of default under, our debt agreements which arise as a result of or is related to, directly or indirectly, the Chapter 11 proceedings, and the actions or transactions required by, implemented by or undertaken pursuant to RSA.

Our ability to meet our debt service obligations and to fund planned expenditures, including construction costs for our newbuilding projects, will be dependent upon our future performance, which will be subject to prevailing economic conditions, industry cycles and financial, business, regulatory and other factors affecting our operations, many of which are beyond our control. Our future cash flows may be insufficient to meet all our debt obligations and contractual commitments, and any insufficiency could negatively impact our business. To the extent that we are unable to repay our indebtedness as it becomes due or at maturity, we may need to refinance our debt, raise new debt, sell assets or repay the debt with the proceeds from equity offerings. Our ability to amend our existing secured credit facilities and to refinance or retire other indebtedness is dependent on our effecting the terms of the Plan as contemplated by the RSA. Please also see “Item 5. Operating and Financial Review and Prospects-B. Liquidity and Capital Resources.”

The covenants in our credit facilities impose operating and financial restrictions on us, breach of which could result in a default under the terms of these agreements, which could accelerate our repayment of funds that we have borrowed.

Our credit facility agreements (as amended in April 2016 and as further amended to date) impose operating and financial restrictions on us. These restrictions may prohibit or otherwise limit our ability to undertake certain business activities without consent of the lending banks. These restrictions include:

- executing other financing arrangements;

- incurring additional indebtedness;
- creating or permitting liens on our assets;
- selling our drilling units or the shares of our subsidiaries;
- making investments;
- changing the general nature of our business;
- paying dividends to our shareholders;
- changing the management and/or ownership of the drilling units;
- making capital expenditures; and
- competing effectively to the extent our competitors are subject to less onerous restrictions.

Our lenders' interests may be different from ours and we may not be able to obtain our lenders' consent when beneficial for our business, which may impact our performance.

In addition, certain of our debt agreements, including those expected to be amended in accordance with the terms of the Plan, require us to maintain specified financial ratios and to satisfy financial covenants, including ratios and covenants that pertain to, among other things, our total equity, our total indebtedness and the market value of our drilling units. During the years ended December 31, 2017, 2016 and 2015, we recognized impairment charges of $841 million, $895 million and $1,285 million relating to certain of our investments due to declining dayrates and future market expectations for dayrates in the sector. During the year ended December 31, 2015, we recognized an impairment charge on goodwill of $563 million on our floater and jack-up segments. In the future, we may be required to record additional impairment charges to our investments

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or other assets. Any further impairment charges could adversely impact our ability to comply with the restrictions and covenants in our debt agreements, including meeting financial ratios and tests in those agreements. The amendments to our secured credit facilities under the terms of the Plan may introduce additional restrictive covenants, as well as revise certain financial tests we must meet. While the RSA remains in force and effect, our lenders have agreed to waive any breach of, and any default or event of default under, our debt agreements which arise as a result of or is related to, directly or indirectly, the Chapter 11 proceedings, and the actions or transactions required by, implemented by or undertaken pursuant to RSA.

If we are unable to comply with any of the restrictions and covenants in our debt agreements, or in current or future debt financing agreements, and we are unable to obtain a waiver or amendment from our lenders for such noncompliance, a default could occur under the terms of those agreements. If a default occurs under these agreements, lenders could terminate their commitments to lend or in some circumstances accelerate the outstanding loans and declare all amounts borrowed due and payable. All of our external facility agreements contain cross-default provisions, meaning that if we are in default under one of our loan agreements, amounts outstanding under our other loan agreements may also be in default, accelerated and become due and payable. Our drilling units and certain other assets also serve as security for our commercial bank indebtedness. If our lenders were to foreclose their liens on our drilling units in the event of a default, this may impair our ability to continue our operations. As at December 31, 2017, we had $6,367 million of interest-bearing debt secured by, among other things, liens on our drilling units and certain other assets. We expect that, under the terms of the Plan, additional security under the amended secured credit facilities will be granted to our lenders.

If any of the aforementioned events occur, our assets may be insufficient to repay in full all of our outstanding indebtedness, and we may be unable to find alternative financing. Even if we could obtain alternative financing, that financing might not be on terms that we find are favorable or acceptable. Moreover, in connection with any further waivers of or amendments to our credit facilities that we may obtain, our lenders may impose additional operating and financial restrictions on us or modify the terms of our existing credit facilities. Any of these events may further restrict our ability to pay dividends, repurchase our common shares, make capital expenditures or incur additional indebtedness.

Financing agreements containing operating and financial restrictions and other covenants may restrict our business and financing activities and our ability to pay for our newbuild drilling units.

Borrowings under our credit facilities, which are subject to certain covenants, and available cash on hand are not sufficient to pay the remaining installments related to our contracted commitments of our newbuilding drilling units outside Debtor entities, which as at December 31, 2017 was $1.7 billion. If we are not able to borrow additional funds, raise other capital or utilize available cash on hand, we may not be able to acquire these drilling units.

If we fail to make a payment when due under our newbuilding contracts, which may result in a default under our newbuilding contracts, or otherwise fail to take delivery of our newbuild units, we could be prevented from realizing potential revenues from these projects. We could also lose all or a portion of yard payments that were paid by us, which as at December 31, 2017 amounted to $0.2 billion, and we could be liable for penalties and damages under such contracts.

As part of the Chapter 11 proceedings the Debtors negotiated with their various creditors, including ship yards with which the Debtors had a contractual relationship to new build units. On February 26, 2018, the Debtors announced a global settlement with various creditors, including Samsung and DMSE, two of the Debtors' newbuild shipyards. In connection with the global settlement, the Debtors entered into an amendment to the RSA and an amendment to the Investment Agreement. The amendments to the RSA and Investment Agreement provided for, among other items, an agreement regarding the allowed claim of the newbuild shipyards and an immediate cessation of all litigation and discovery efforts in relation to the plan of reorganization as well as the Debtors' rejection and recognized termination of the newbuild contracts. The settlement agreement is contingent on confirmation of the Plan. We can give no assurances that the Plan will be confirmed or that we will not be required to change the terms of the Plan.

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

Certain of our affiliated or related companies may be unable to service their debt requirements and comply with the provisions contained in their loan agreements.

The failure of certain of our affiliated or related companies to service their debt requirements and comply with the provisions contained in their debt agreements may lead to an event of default under such agreements, which may have a material adverse effect on us. Such affiliated and related companies include (i) our subsidiaries, NADL, AOD and Sevan Drilling, (ii) certain subsidiaries of Ship Finance, (iii) SeaMex and (iv) Seabras Sapura.

If a default occurs under the debt agreements of our affiliated or related companies, the lenders could accelerate the outstanding borrowings and declare all amounts outstanding due and payable. In this case, if such entities are unable to obtain a waiver or an amendment to the applicable provisions of the debt agreements, or do not have enough cash on hand to repay the outstanding borrowings, the lenders may, among other things, foreclose their liens on the drilling units and other assets securing the loans, if applicable, or seek repayment of the loan from such entities.

We have provided guarantees over certain debt facilities of our affiliates and related companies. In the event that our affiliates or related companies are unable to meet their obligations outlined above the lenders could look to us to meet such liabilities. Some examples are outlined in the following paragraphs.

We have provided guarantees over NADL’s, AOD's and Sevan Drilling's senior secured debt and we may not have sufficient funds to repay lenders in full if they seek to enforce the guarantees. To the extent such debt becomes classified as “current” in the financial statements of our affiliated companies, we may be required under applicable accounting standards to mark such indebtedness as “current” in our Consolidated

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Financial Statements. The characterization of the indebtedness in our Consolidated Financial Statements as "current" may, among other things, adversely impact our compliance with the covenants contained in our existing and future debt agreements.

We also consolidate certain subsidiaries of Ship Finance into our Consolidated Financial Statements as variable interest entities or VIEs. To the extent that the VIEs default under their indebtedness and their debt becomes classified as current in their financial statements, we would in turn mark such indebtedness as current in our Consolidated Financial Statements. The characterization of the indebtedness in our Consolidated Financial Statements as current may adversely impact our compliance with the covenants contained in our existing and future debt agreements.

We also provide financial guarantees over Seabras Sapura's senior secured credit facility agreements in order to part fund the acquisition of its pipe-laying support vessels. As a condition to the lenders making the loan available to each of the borrowers, we provide several guarantees on a 50:50 basis for five of the vessels and one vessel on a joint and several basis with SapuraKencana, in respect of the obligations of the borrowers during certain defined time periods, the release of such guarantees being subject to the satisfaction of certain defined conditions. The guarantees cover obligations and liabilities of the borrowers under the facility agreement which arise during the period between the expiry of a contract and extension or renewal of that contract and following a guarantee extension relating to early termination of a contract. During these periods, the guarantees can only be called if the facility is in default. The total amount guaranteed as of December 31, 2017 was $698 million.

If Seabras Sapura is unable to meet its obligations under the above references credit facilities, the lenders could look to us to meet such liabilities.

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

The occurrence of any of the events described above would have a material adverse effect on our business, and may impair our ability to continue as a going concern.

We may not be able to delay entry of newbuild drilling units into our active fleet.

We currently have purchase commitments for eight jack-up rigs under construction and an option to acquire one semi-submersible rig. Of the rigs under construction, none have drilling contracts that commence upon delivery. Excluded from the above are four drillships which were terminated as part of the Chapter 11 proceedings in which the Debtors negotiated and announced a global settlement with various creditors, including Samsung and DSME, two of the Debtors' newbuild shipyards, which hold two newbuild contracts each. In connection with the global settlement, the Debtors entered into an amendment to the RSA and an amendment to the Investment Agreement. The amendments to the RSA and Investment Agreement provided for, among other items, an agreement regarding the allowed claim of the newbuild shipyards and an immediate cessation of all litigation and discovery efforts in relation to the plan of reorganization as well as the Debtors' rejection and recognized termination of the newbuild contracts. The settlement agreement is contingent on confirmation of the Plan. We can give no assurances that the Plan will be confirmed or that we will not be required to change the terms of the Plan.

In addition, NADL had agreed with Jurong to, among other things, delay taking delivery of the West Rigel until July 6, 2018, at which point, if NADL had not secured acceptable employment for the rig, it was to be sold into a joint asset holding company with Jurong. We were advised by Jurong that they are working on a specific 3rd party sale of the rig and, on April 5, 2018, we entered into a settlement and release agreement, subject to Bankruptcy Court approval, with Jurong in respect of the West Rigel whereby we agreed that the share of sale proceeds from the sale of the West Rigel by Jurong would be $126 million.

Borrowings under our current credit facilities, which are subject to certain conditions, and available cash on hand are not sufficient to pay the remaining installments related to our contracted commitments of our newbuilding drilling units not held by Debtor entities, which as at March 31, 2018 was $1.7 billion. If we are not able to borrow additional

funds, raise other capital or utilize available cash on hand, we may not be able to acquire these drilling units, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. If for any reason we fail to make a payment when due under our newbuilding contracts, which may result in a default under our newbuilding contracts, or otherwise fail to take delivery of our newbuild units, we would be prevented from realizing potential revenues from these projects, we could also lose all or a portion of our yard payments that were paid by us, which as at March 31, 2018 amounted to $0.2 billion, and we could be liable for penalties and damages under such contracts. Following such potential defaults we would also be exposed under cross-default provisions in our loan financing agreements.

Our customers may seek to cancel or renegotiate their contracts to include unfavorable terms such as unprofitable rates, particularly in the circumstance that operations are suspended or interrupted.

In the current market conditions, some of our customers may seek to terminate their agreements with us. Examples include, but are not limited to: the termination of the West Epsilon effective September 27, 2016; the termination of the West Pegasus effective August 16, 2016; the termination of the West Hercules effective May 20, 2016; and the termination of the Sevan Driller effective March 30, 2016.

Some of our customers have the right to terminate their drilling contracts without cause upon the payment of an early termination fee. The general principle is that such early termination fee shall compensate us for lost revenues less operating expenses for the remaining contract period; however, in some cases, such payments may not fully compensate us for the loss of the drilling contract.

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Under certain circumstances our contracts may permit customers to terminate contracts early without the payment of any termination fees, as a result of non-performance, periods of downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events beyond our control. In addition, national oil company customers may have special termination rights by law. During periods of challenging market conditions, we may be subject to an increased risk of our customers seeking to repudiate their contracts, including through claims of non-performance.

In the current environment our customers may seek to renegotiate our contracts using various techniques, including threatening breaches of contract and applying commercial pressure, resulting in lower dayrates or the cancellation of contracts with or without any applicable early termination payments.

Reduced day rates in our customer contracts and cancellation of drilling contracts (with or without early termination payments) may lead to reduced revenues from our operations and performance of our business and adversely affect our performance.

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

As of March 31, 2018, our contract backlog was approximately $2.4 billion. The contract backlog presented in this annual report and our other public disclosures is only an estimate. The actual amount of revenues earned and the actual periods during which revenues are earned will be different from the contract backlog projections due to various factors, including shipyard and maintenance projects, downtime and other events within or beyond our control. In addition, we or our customers may seek to cancel or renegotiate our contracts for various reasons, including adverse conditions, such as the current environment, resulting in lower dayrates. In some instances, there is an option for a customer to terminate a drilling contract prematurely for convenience on payment of an early termination fee. However, this fee may not adequately compensate us for the loss of this drilling contract.

For example, in February 2016, we extended the contract for the West Tellus with Petrobras by 18 months in exchange for a dayrate reduction on the current contract, resulting in an increase in contract backlog of $32 million; in May 2016, we received a notice of termination from Statoil for the West Hercules drilling contract that decreased our contract backlog; in August 2016, we received a notice of termination from Pemex for the West Pegasus drilling contract, resulting in a backlog reduction of $266 million; and in September 2016, we received a notice of termination from Statoil for the West Epsilon drilling contract, resulting in a backlog reduction.

Our inability, or the inability of our customers, to perform under our or their contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

We may not be able to renew or obtain new and favorable contracts for our newbuild drilling units or for our drilling units whose contracts have expired or been terminated.

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

As at March 31, 2018, we had ten contracts that expire in 2018, eight contracts that expire in 2019, two contracts that expire in 2020, and contracts that expire in each of 2021, 2027 and 2028. Our ability to renew these contracts or obtain new contracts will depend on our customers and prevailing market conditions, which may vary among different geographic regions and types of drilling units.

The over-supply of drilling units will be exacerbated by the entry of newbuild rigs into the market, many of which are without firm drilling contracts. The supply of available uncontracted units has intensified price competition as scheduled delivery dates occur and contracts terminate without renewal, reducing dayrates as the active fleet grows. Customers may opt to contract older rigs in order to reduce costs which could adversely affect our ability to obtain new drilling contracts due to our newer fleet. Customers may also choose not to award drilling contracts to us due to our debt restructuring activities.

If we are unable to secure contracts for our drilling units, including for when newbuildings are delivered to us and upon the expiration of our existing contracts, we may continue to idle or stack our units. When idled or stacked, drilling units do not earn revenues, but continue to require cash expenditures for crews, fuel, insurance, berthing and

associated items. As at March 31, 2018, we had seventeen units either “warm stacked,” which means the rig is kept operational and ready for redeployment, and maintains most of its crew, or “cold stacked,” which means the rig is stored in a harbor, shipyard or a designated offshore area, and the crew is reassigned to an active rig or dismissed. Please see “-Our drilling contracts contain fixed terms and day-rates, and consequently we may not fully recoup our costs in the event of a rise in expenses, including operating and maintenance costs and cost-overruns on our newbuild projects.”

If we are not able to obtain new contracts in direct continuation of existing contracts, or if new contracts are entered into at dayrates substantially below the existing dayrates or on terms otherwise less favorable compared to existing contract terms, our revenues and profitability could be adversely affected. We may also be required to accept more risk in areas other than price to secure a contract and we may be unable to push this risk down to other contractors or be unable or unwilling at competitive prices to insure against this risk, which will mean the risk will have to be managed by applying other controls. This could lead to us being unable to meet our liabilities in the event of a catastrophic event on one of our rigs.

The market value of our current and newbuild drilling units we have commissioned may decrease.

The market values of drilling units have been trending lower as a result of the recent continued decline in the price of oil, which has impacted the spending plans of our customers. During 2017, the estimated fair value of our drilling units, based upon various broker valuations, has

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decreased by approximately 16% (this also includes the effect of the increasing rig ages by one year). In addition, on April 29, 2017, we reached agreement with Shelf Drilling to sell the West Triton, West Mischief and West Resolute for total consideration of $225 million. As the book value on disposal was $391 million, a $166 million loss on disposal was recognized.

If the offshore drilling industry suffers further adverse developments in the future, the fair market value of our drilling units may decline further. The fair market value of the drilling units that we currently own, or may acquire in the future, may increase or decrease depending on a number of factors, including:

- the general economic and market conditions affecting the offshore contract drilling industry, including competition from other offshore contract drilling companies;
- the types, sizes and ages of drilling units;
- the supply and demand for drilling units;
- the costs of newbuild drilling units;
- the prevailing level of drilling services contract dayrates;
- government or other regulations; and
- technological advances.

If drilling unit values fall significantly, we may have to record an impairment adjustment in our Consolidated Financial Statements, which could adversely affect our financial results and condition. Additionally, if we sell one or more of our drilling units at a time when drilling unit prices have fallen and before we have recorded an impairment adjustment to our Consolidated Financial Statements, the sale price may be less than the drilling unit's carrying value in our Consolidated Financial Statements, resulting in a loss on disposal and a reduction in earnings and cause us to breach the covenants in our finance agreements. For more information see "-The current downturn in activity in the oil and gas drilling industry has had and is likely to continue to have an adverse impact on our business and results of operations", and "-The covenants in our credit facilities impose operating and financial restrictions on us, breach of which could result in a default under the terms of these agreements, which could accelerate our repayment of funds that we have borrowed."

Under certain of our secured bank credit facilities, we are required to comply with loan-to-value or minimum-value-clauses, which could require us to post additional collateral or prepay a portion of the outstanding borrowings should the value of the drilling units securing borrowings under each of such agreements decrease below required levels. If we are unable to comply with the restrictions and covenants in the agreements governing our indebtedness or in current or future debt financing agreements, a default could occur under the terms of those agreements. While the RSA remains in force and effect, our lenders have agreed to waive any breach of, and any default or event of default under, our debt agreements which arise as a result of or is related to, directly or indirectly, the Chapter 11 proceedings, and the actions or transactions required by, implemented by or undertaken pursuant to RSA.

Our business and operations involve numerous operating hazards, and in the current market we are increasingly required to take additional contractual risk in our customer contracts and we may not be able to procure insurance to adequately cover potential losses.

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

Damage to the environment could also result from our operations, particularly through spillage of fuel, lubricants or other chemicals and substances used in drilling operations, or extensive uncontrolled fires. We may also be subject to property, environmental and other damage claims by oil and gas companies.

Our insurance policies and contractual rights to indemnity may not adequately cover losses, and we do not have insurance coverage or rights to indemnity for all risks. Consistent with standard industry practice, our customers generally assume, and indemnify us against, well control and subsurface risks under dayrate contracts. These are risks associated with the loss of control of a well, such as blowout or cratering, the cost to regain control of or re-drill the well and associated pollution. However, there can be no assurances that these customers will be willing or financially able to indemnify us against all these risks. Customers may seek to cap indemnities or narrow the scope of their coverage, reducing our level of contractual protection. Please see “-Our customers may seek to cancel or renegotiate their contracts to include unfavorable terms such as unprofitable rates, particularly in the circumstance that operations are suspended or interrupted".

In addition, a court may decide that certain indemnities in our current or future contracts are not enforceable. For example, in a 2012 decision in a case related to the fire and explosion that took place on the unaffiliated Deepwater Horizon Mobile Offshore Drilling Unit in the Gulf of Mexico in April 2010, or the Deepwater Horizon Incident (to which we were not a party), the U.S. District Court for the Eastern District of Louisiana invalidated certain contractual indemnities for punitive damages and for civil penalties under the U.S. Clean Water Act under a drilling contract governed by U.S. maritime law as a matter of public policy. Further, pollution and environmental risks generally are not totally insurable.

If a significant accident or other event occurs that is not fully covered by our insurance or an enforceable or recoverable indemnity from a customer, the occurrence could adversely affect our performance.

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The amount recoverable under insurance may also be less than the related impact on enterprise value after a loss or not cover all potential consequences of an incident and include annual aggregate policy limits. As a result, we retain the risk through self-insurance for any losses in excess of these limits. Any such lack of reimbursement may cause us to incur substantial costs.

We could decide to retain more risk through self-insurance in the future. This self-insurance results in a higher risk of losses, which could be material, which are not covered by third-party insurance contracts. Specifically, we have at times in the past elected to self-insure for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico due to the substantial costs associated with such coverage. Beginning on April 1, 2014, we have insured a limited part of this windstorm risk in a combined single limit annual aggregate policy. We elected to place an insurance policy for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico with a combined single limit of $100 million in the annual aggregate, which includes loss of hire. We have renewed our policy to insure a limited part of this windstorm risk for a further period starting May 1, 2017 through April 30, 2018. If we elect to self-insure such risks again in the future and such windstorms cause significant damage to any rig and equipment we have in the U.S. Gulf of Mexico, it could have a material adverse effect on our financial position, results of operations or cash flows.

No assurance can be made that we will be able to maintain adequate insurance in the future at rates that we consider reasonable, or that we will be able to obtain insurance against certain risks.

We rely on a small number of customers.

Our contract drilling business is subject to the risks associated with having a limited number of customers for our services. As at March 31, 2018, our five largest customers accounted for approximately 90% of our future contracted revenues, or contract backlog. In addition, mergers among oil and gas exploration and production companies will further reduce the number of available customers, which would increase the ability of potential customers to achieve pricing terms favorable to them. Our results of operations could be materially adversely affected if any of our major customers fail to compensate us for our services or take actions outline above. Please see "-Our customers may seek to cancel or renegotiate their contracts to include unfavorable terms such as unprofitable rates, particularly in the circumstance that operations are suspended or interrupted".

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

Our drilling contracts contain fixed terms and day-rates, and consequently we may not fully recoup our costs in the event of a rise in expenses, including operating and maintenance costs and cost-overruns on our newbuild projects.

Our operating costs are generally related to the number of units in operation and the cost level in each country or region where the units are located. A significant portion of our operating costs may be fixed over the short term. The majority of our contracts have dayrates that are fixed over the contract term. In order to mitigate the effects of inflation on revenues from term contracts, most of our long-term contracts include escalation provisions. These provisions allow us to adjust the dayrates based on stipulated cost increases, including wages, insurance and maintenance costs. However, actual cost increases may result from events or conditions that do not cause correlative changes to the applicable indices. Furthermore, certain indices are updated semiannually, and therefore may be outdated at the time of adjustment. The adjustments are typically performed on a semi-annual or annual basis. For these reasons, the timing and amount awarded as a result of such adjustments may differ from our actual cost increases, which could adversely affect our financial performance. Some of our long-term contracts contain rate adjustment provisions based on market dayrate fluctuations rather than cost increases. In such contracts, the dayrate could be adjusted lower during a period when costs of operation rise, which could adversely affect our financial performance. Shorter-term contracts normally do not contain escalation provisions. In addition, our contracts typically contain provisions for either fixed or dayrate compensation during mobilization. These rates may not fully cover our costs of mobilization, and mobilization may be delayed, increasing our costs, without additional compensation from

the customer, for reasons beyond our control.

In connection with new assignments, we might incur expenses relating to preparation for operations under a new contract. Expenses may vary based on the scope and length of such required preparations and the duration of the contractual period over which such expenditures are amortized.

As at March 31, 2018, we had an outstanding newbuilding order book with Dalian for an additional eight drilling units with corresponding contractual yard and other payment commitments totaling $1.7 billion. These construction projects are subject to risks of delay or cost overruns inherent in any large construction project from numerous factors, including shortages of equipment, materials or skilled labor, unscheduled delays in the delivery of ordered materials and equipment or shipyard construction, the failure of equipment to meet quality and/or performance standards, financial or operating difficulties experienced by equipment vendors or the shipyard, unanticipated actual or purported change orders, the inability to obtain required permits or approvals, unanticipated cost increases between order and delivery, design or engineering changes, and work stoppages and other labor disputes, adverse weather conditions or any other events of force majeure, terrorist acts, war, piracy or civil unrest. Significant cost overruns or delays could adversely affect our financial position, results of operations and cash flows. Additionally, failure to complete a project on time may result in the delay of revenue from that rig. New drilling rigs may also experience start-up difficulties following delivery or other unexpected operational problems that could result in uncompensated downtime, which also could adversely affect our financial position, results of operations and cash flows or the cancellation or termination of drilling contracts.

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Equipment maintenance costs fluctuate depending upon the type of activity that the unit is performing and the age and condition of the equipment. Our operating expenses and maintenance costs depend on a variety of factors, including crew costs, provisions, equipment, insurance, maintenance and repairs, and shipyard costs, many of which are beyond our control.

In situations where our drilling units incur idle time between assignments, the opportunity to reduce the size of our crews on those drilling units is limited, as the crews will be engaged in preparing the unit for its next contract. When a unit faces longer idle periods, reductions in costs may not be immediate as some of the crew may be required to prepare drilling units for stacking and maintenance in the stacking period. Should units be idle for a longer period, we will seek to redeploy crew members who are not required to maintain the drilling unit to active rigs, to the extent possible. However, there can be no assurance that we will be successful in reducing our costs in such cases.

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

Operating revenues may fluctuate as a function of changes in supply of offshore drilling units and demand for contract drilling services. This could adversely affect our revenue from operations. For more information please see “-The success and growth of our business depends on the level of activity in the offshore oil and gas industry generally, and the drilling industry specifically, which are both highly competitive and cyclical, with intense price competition", “-Our customers may seek to cancel or renegotiate their contracts to include unfavorable terms such as unprofitable rates, particularly in the circumstance that operations are suspended or interrupted" and “-Our contract backlog for our fleet of drilling units may not be realized".

Consolidation and governmental regulation of suppliers may increase the cost of obtaining supplies or restrict our ability to obtain needed supplies.

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

We may be unable to obtain, maintain, and/or renew permits necessary for our operations or experience delays in obtaining such permits including the class certifications of rigs.

The operation of our drilling units will require certain governmental approvals, the number and prerequisites of which cannot be determined until we identify the jurisdictions in which we will operate on securing contracts for the drilling units. Depending on the jurisdiction, these governmental approvals may involve public hearings and costly undertakings on our part. We may not obtain such approvals or such approvals may not be obtained in a timely manner. If we fail to secure the necessary approvals or permits in a timely manner, our customers may have the right to terminate or seek to renegotiate their drilling contracts to our detriment.

Every offshore drilling unit is a registered marine vessel and must be “classed” by a classification society to fly a flag. The classification society certifies that the drilling unit is “in-class,” signifying that such drilling unit has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the drilling unit’s country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned. Our drilling units are certified as being “in class” by the American Bureau of Shipping, or ABS, Det Norske Veritas and Germanisher Lloyd, or DNV GL, and the relevant national authorities in the countries in which our drilling units operate. If any drilling unit loses its flag, does not maintain its class and/or fails any periodical survey or special survey, the drilling unit will be unable to carry on operations and will be unemployable and uninsurable. Any such inability to carry on operations or be employed could have a material adverse impact on the results of operations. Please see “Item 8. Financial Information-Legal Proceedings-Seabras Sapura joint venture” for

more information.

The international nature of our operations involves additional risks including foreign government intervention in relevant markets particularly in Brazil.

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

- terrorist acts, armed hostilities, war and civil disturbances;
- acts of piracy, which have historically affected ocean-going vessels;
- significant governmental influence over many aspects of local economies;
- the seizure, nationalization or expropriation of property or equipment;
- uncertainty of outcome in foreign court proceedings;
- the repudiation, nullification, modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- political unrest;
- foreign and U.S. monetary policy and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls, and the imposition of trade barriers;
- U.S. and foreign sanctions or trade embargoes;
- compliance with various jurisdictional regulatory or financial requirements;

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- compliance with and changes to taxation;
- other forms of government regulation and economic conditions that are beyond our control; and
- government corruption.

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

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

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

In the years ended December 31, 2017, 2016 and 2015, 17%, 15% and 20%, respectively, of our contract revenues were derived from our Brazilian operations, particularly from our contract with Petrobras. The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies, changes in legislation price controls, currency devaluations, capital controls and limits on imports. Further changes to monetary policy, the regulatory environment of our industry, and legislation could impact our performance.

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

On June 29, 2015, Sevan Drilling disclosed that it had initiated an internal investigation into activities with an agent under certain drilling contracts with Petrobras in Brazil, which were entered prior to the separation from the Sevan Marine Group. Please see "Item 8. Financial Information-Legal Proceedings-Other matters.". In addition, on March 30, 2016, Sevan Drilling and Petrobras terminated early the Sevan Driller contract and reduced the contract dayrate on the drilling contract for the Sevan Brasil. Subsequent to the effective cancellation of the contract the unit was awarded a

contract by Shell in Brazil for 60 days. The combined impact of the cancellation, reduction and new award was a decrease in contract backlog of approximately $127 million.

These and other developments in Brazil's political conditions, economy and government policies may, directly or indirectly, adversely affect our business and results of operations.

Compliance with, and breach of, the complex laws and regulations governing international trade could be costly, expose us to liability and adversely affect our operations.

Our business in the offshore drilling industry is affected by laws and regulations relating to the energy industry and the environment in the geographic areas where we operate.

Accordingly, we are directly affected by the adoption of laws and regulations that, for economic, environmental or other policy reasons, curtail exploration and development drilling for oil and gas. For example, on December 20, 2016, the United States President invoked a law that banned offshore oil and gas drilling in large areas of the Arctic and the Atlantic Seaboard. It is presently unclear how long this ban will remain in effect. A ban on new drilling in Canadian Arctic waters was announced simultaneously. We may be required to make significant capital expenditures or operational changes to comply with governmental laws and regulations. It is also possible that these laws and regulations may, in the future, add significantly to our operating costs or significantly limit drilling activity.

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Import activities are governed by unique customs laws and regulations in each of the countries of operation. Moreover, many countries, including the United States, control the export and re-export of certain goods, services and technology and impose related export recordkeeping and reporting obligations.

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

Offshore drilling in certain areas, including arctic areas, has been curtailed and, in certain cases, prohibited because of concerns over protecting of the environment.

New laws or other governmental actions that prohibit or restrict offshore drilling or impose additional environmental protection requirements that result in increased costs to the oil and gas industry, in general, or to the offshore drilling industry, in particular, could adversely affect our performance.

The amendment or modification of existing laws and regulations or the adoption of new laws and regulations curtailing or further regulating exploratory or development drilling and production of oil and gas could have a material adverse effect on our business, results of operations or financial condition. Future earnings may be negatively affected by compliance with any such new legislation or regulations.

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

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

Environmental laws often impose strict liability for the remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA,

for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. An oil or chemical spill, for which we are deemed a responsible party, could result in us incurring significant liability, including fines, penalties, criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Furthermore, the 2010 explosion of the Deepwater Horizon well and the subsequent release of oil into the Gulf of Mexico, or other similar events, may result in further regulation of the shipping industry, and modifications to statutory liability schemes, thus exposing us to further potential financial risk in the event of any such oil or chemical spill.

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

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

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

If we are able to obtain from our customers some degree of contractual indemnification against pollution and environmental damages in our contracts, such indemnification may not be enforceable in all instances or the customer may not be financially able to comply with its indemnity obligations in all cases, and we may not be able to obtain such indemnification agreements in the future. In addition, a court may decide that certain indemnities in our current or future contracts are not enforceable.

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

Failure to comply with international anti-corruption legislation, including the U.S. Foreign Corrupt Practices Act 1977 or the U.K. Bribery Act 2010, could result in fines, criminal penalties, damage to our reputation and drilling contract terminations.

We currently operate, and historically have operated, our drilling units in a number of countries throughout the world, including some with developing economies. We interact with government regulators, licensors, port authorities and other government entities and officials. Also, our business interaction with national oil companies as well as state or government-owned shipbuilding enterprises and financing agencies puts us in contact with persons who may be considered to be “foreign officials” under the U.S. Foreign Corrupt Practices Act of 1977 or the FCPA and the Bribery Act 2010 of the United Kingdom or the U.K. Bribery Act.

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

We are subject to the risk that we or our affiliated companies or our or their respective officers, directors, employees and agents may take actions determined to be in violation of anti-corruption laws, including the FCPA and the U.K. Bribery Act. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. For instance, our controlled subsidiary Sevan has previously disclosed that its predecessor entity, Sevan Drilling ASA, has been accused of breaches of Norwegian law in respect of payments made in connection with the performance during 2012 to 2015 of drilling contracts originally awarded by Petrobras to subsidiaries of Sevan Marine ASA in the period between 2005 and 2008. Furthermore, detecting, investigating and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

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

The U.S. and other governments may impose economic sanctions against certain countries, persons and other entities that restrict or prohibit transactions involving such countries, persons and entities. U.S. sanctions in particular are targeted against countries (such as Russia, Venezuela, Iran and others) that are heavily involved in the petroleum and petrochemical industries, which includes drilling activities. U.S. and other economic sanctions change frequently and

enforcement of economic sanctions worldwide is increasing.

In 2010, the United States enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to non-U.S. companies such as ours, and introduced limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. On August 10, 2012, the U.S. signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which places further restrictions on the ability of non-U.S. companies to do business or trade with Iran and Syria. Perhaps the most significant provision in the Iran Threat Reduction Act is that prohibitions in the existing Iran sanctions applicable to U.S. persons will now apply to any foreign entity owned or controlled by a U.S. person. The other major provision in the Iran Threat Reduction Act is that issuers of securities must disclose in their annual and quarterly reports filed with the Commission after February 6, 2013 if the issuer or "any affiliate" has "knowingly" engaged in certain sanctioned activities involving Iran during the timeframe covered by the report. At this time, we are not aware of any violation conducted by us or by any affiliate, which is likely to trigger such a disclosure requirement.

On November 24, 2013, the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) entered into an interim agreement with Iran entitled the "Joint Plan of Action," or the JPOA. Under the JPOA it was agreed that, in exchange for Iran taking certain voluntary measures to ensure that its nuclear program is only used for peaceful purposes, the United States and the European Union would voluntarily suspend certain sanctions for a period of six months. On January 20, 2014, the United States and the European Union began implementing the temporary relief measures provided for under the JPOA.

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

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

On October 13, 2017, the current U.S. administration announced it would not certify Iran's compliance with the JCPOA. This did not withdraw the U.S. from the JCPOA or re-instate any sanctions. However, they have criticized the JCPOA and threatened to withdraw the U.S. from the JCPOA. Further, the administration must periodically renew sanction waivers and his refusal to do so could result in the reinstatement of certain sanctions currently suspended under the JCPOA.

OFAC acted several times in 2017 to add Iranian individuals and entities to its list of Specially Designated Nationals whose assets are blocked and with whom U.S. persons are generally prohibited from dealing. Moreover, in August 2017, the U.S. passed the "Countering America's Adversaries Through Sanctions Act" (Public Law 115-44) (CAATSA), which authorizes imposition of new sanctions on Iran, Russia, and North Korea. The CAATSA sanctions with respect to Russia create heightened sanctions risks for companies operating in the oil and gas sector, including companies that are based outside of the United States. OFAC sanctions targeting Venezuela have likewise increased in the past year, and any new sanctions targeting Venezuela could further restrict our ability to do business in such country.

In addition to the sanctions against Iran, subject to certain limited exceptions, U.S. law continues to restrict U.S. owned or controlled entities from doing business with Cuba and various U.S. sanctions have certain other extraterritorial effects that need to be considered by non-U.S. companies. Moreover, any U.S. persons who serve as officers, directors or employees of our subsidiaries would be fully subject to U.S. sanctions. It should also be noted that other governments are more frequently implementing and enforcing sanctions regimes.

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

Certain parties with whom we have entered into contracts may be the subject of sanctions imposed by the United States, the European Union or other international bodies as a result of the annexation of Crimea by Russia in March 2014 and the subsequent conflict in eastern Ukraine, or may be affiliated with persons or entities that are the subject of such sanctions. If we determine that such sanctions require us to terminate existing contracts or if we are found to be in violation of such applicable sanctions, our results of operations may be adversely affected or we may suffer reputational harm. Such sanctions may prevent us from closing the previously announced transactions between our subsidiary NADL and Rosneft, or performing some or all of our obligations under any potential drilling contracts with Rosneft, which could impact our future revenue, contract backlog and results of operations, and adversely affect our business reputation. We may also lose business opportunities to companies that are not required to comply with these sanctions.

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

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

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

Negative developments in worldwide financial and economic conditions could further cause our ability to access the capital markets to be severely restricted at a time when we would like, or need, to access such markets, which could impact our ability to react to changing economic and business conditions. Worldwide economic conditions have in the past impacted, and could in the future impact, lenders willingness to provide credit facilities to our customers, causing them to fail to meet their obligations to us.

A portion of the credit under our credit facilities is provided by European banking institutions. If economic conditions in Europe preclude or limit financing from these banking institutions, we may not be able to obtain financing from other institutions on terms that are acceptable to us, or at all, even if conditions outside Europe remain favorable for lending.

In June 2016, the U.K. voted to exit from the European Union (commonly referred to as Brexit). The impact of Brexit and the resulting U.K. and European relationship are uncertain for companies doing business both in the U.K. and the overall global economy.

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

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

Any reductions in drilling activity by our customers may not be uniform across different geographic regions. Locations where costs of drilling and production are relatively higher, such as Arctic or deepwater locations, may be subject to greater reductions in activity. Such reductions in high cost regions may lead to the relocation of drilling units, concentrating drilling units in regions with relatively fewer reductions in activity leading to greater competition.

If our lenders are not confident that we are able to employ our assets, we may be unable to secure additional financing on terms acceptable to us or at all for the remaining installment payments we are obligated to make before the delivery of our remaining newbuildings and our other capital requirements, including principal repayments.

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

We currently hold investments in several other companies in our industry that own/operate offshore drilling rigs with similar characteristics to our fleet of rigs or deliver various other oilfield services. These investments include equity interests in Seadrill Partners, SeaMex, Archer and Seabras Sapura.

The market value of our equity interest in these companies has been, and may continue to be, volatile and has fluctuated, and may continue to fluctuate, in response to changes in oil and gas prices and activity levels in the offshore oil and gas industry. If we sell our equity interest in an investment at a time when the value of such investment has fallen, we may incur a loss on the sale or an impairment loss being recognized, ultimately leading to a reduction in earnings. Furthermore, dividends from Seadrill Partners may be reduced or cancelled going forward as they have been in the past.

During the years ended December 31, 2017, 2016 and 2015 we recognized charges of $841 million, $895 million and $1,285 million respectively relating to certain of our investments due to declining dayrates and future market expectations for dayrates in the sector. Please see Note 8 "Impairment loss on marketable securities and investments in associated companies" to our Consolidated Financial Statements included herein for further information.

Our ability to operate our drilling units in the U.S. Gulf of Mexico could be impaired by governmental regulation particularly in the aftermath of the moratorium on offshore drilling in the U.S. Gulf of Mexico, and new regulations adopted as a result of the investigation into the Macondo well blowout.

In the aftermath of the incident (in which we were not involved) on the Transocean "Deepwater Horizon" rig that led to the Macondo well blowout, the U.S Department of the Interior, U.S Bureau of Safety and Environmental Enforcement, or the BSEE and its predecessor put in place new and revised regulations governing safety and environmental management systems or SEMS, commonly referred to as SEMS II. During 2013, BSEE adopted a final rule modifying the SEMS requirements. The SEMS II regulations focus on operator obligations. However, they also require operators to flow SEMS obligations and commitments through their supply chain including adherence to policies, training and ensuring safe work practices.

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The U.S. Occupational Safety and Health Act imposes additional recordkeeping obligations concerning occupational injuries and illnesses for Mobile Offshore Drilling Units, or MODUs, attached to the outer continental shelf.

In addition, in order to obtain drilling permits, operators must submit applications that demonstrate compliance with the enhanced regulations, which require independent third-party inspections, certification of well design and well control equipment and emergency response plans in the event of a blowout, among other requirements. Operators have previously had, and may in the future have, difficulties obtaining drilling permits in the U.S. Gulf of Mexico.

In addition, the oil and gas industry has adopted new equipment and operating standards, such as the American Petroleum Institute Standard 53 relating to the design, maintenance, installation and testing of well control equipment. Likewise, in August 2015, the U.S Bureau of Ocean Energy Management or BOEM issued a Notice to Lessees (NTL 2015-NO4), regarding issues such as the general financial assurance required before drilling. In December 2015, the BSEE announced a new pilot inspection program for offshore facilities. In April 2015, it was announced that new regulations are expected to be implemented in the United States regarding offshore oil and gas drilling and the BSEE announced a new Well Control Rule in April 2016 (discussed further below). These new guidelines and standards for safety, environmental and financial assurance and any other new guidelines or standards the U.S. government or industry may issue or any other steps the U.S. government or industry may take, could disrupt or delay operations, increase the cost of operations, increase out-of-service time or reduce the area of operations for drilling rigs in U.S. and non-U.S. offshore areas.

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

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

In addition, hurricanes have from time to time caused damage to a number of drilling units and production facilities unaffiliated to us in the Gulf of Mexico. The Bureau of Ocean Energy Management, Regulation and Enforcement or the BOEMRE (formerly the Minerals Management Service of the U.S. Department of the Interior), effective October 1, 2011, reorganized into two new organizations: the BOEM and the BSEE, and issued guidelines for tie-downs on drilling units and permanent equipment and facilities attached to outer continental shelf production platforms, and moored drilling unit fitness. The BSEE subsequently issued additional guidelines requiring MODUs to be outfitted with global positioning systems, or GPS, and to provide the BSEE with real-time GPS location data for MODUs effective March 19, 2013 which expired January 1, 2015. These guidelines effectively imposed new requirements on the offshore oil and natural gas industry in an attempt to increase the likelihood of the survival of offshore drilling units during a hurricane. The guidelines also provide for enhanced information and data requirements from oil and natural gas companies that operate properties in the U.S. Gulf of Mexico region of the outer continental shelf. Implementation of new guidelines or regulations that may apply to ultra-deepwater drilling units may subject us to increased costs and limit the operational capabilities of our drilling units, although such risks should rest with our

customers, to the extent possible.

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

Failure to obtain or retain highly skilled personnel, and to ensure they have the correct visas and permits to work in the locations in which they are required, could adversely affect our operations.

We require highly skilled personnel in the right locations to operate and provide technical services and support for our business.

Competition for skilled and other labor required for our drilling operations has increased in recent years as the number of rigs activated or added to worldwide fleets has increased, and this may continue to rise. Notwithstanding the general downturn in the drilling industry, in some regions, such as Brazil and Western Africa, the limited availability of qualified personnel in combination with local regulations focusing on crew composition, are expected to further increase the demand for qualified offshore drilling crews, which may increase our costs. These factors could further create and intensify upward pressure on wages and make it more difficult for us to staff and service our rigs. Such developments could adversely affect our financial results and cash flow. Furthermore, as a result of any increased competition for qualified personnel, or as a result of our Chapter 11 proceedings, we may experience a reduction in the experience level of our personnel, which could lead to higher downtime and more operating incidents.

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Our ability to operate worldwide depends on our ability to obtain the necessary visas and work permits for our personnel to travel in and out of, and to work in, the jurisdictions in which we operate. Governmental actions in some of the jurisdictions in which we operate may make it difficult for us to move our personnel in and out of these jurisdictions by delaying or withholding the approval of these permits. If we are not able to obtain visas and work permits for the employees we need for operating our rigs on a timely basis, or for third-party technicians needed for maintenance or repairs, we might not be able to perform our obligations under our drilling contracts, which could allow our customers to cancel the contracts. Please see “-Our customers may seek to cancel or renegotiate their contracts to include unfavorable terms such as unprofitable rates, particularly in the circumstance that operations are suspended or interrupted".

Labor costs and our operating restrictions that apply could increase following collective bargaining negotiations and changes in labor laws and regulations.

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

Interest rate fluctuations could affect our earnings and cash flow.

In order to finance our growth we have incurred significant amounts of debt. With the exception of some of our bonds, the majority of our debt arrangements have floating interest rates. As such, following our emergence from Chapter 11 proceedings, significant movements in interest rates could have an adverse effect on our earnings and cash flow. We had previously managed our exposure to interest rate fluctuations through interest rate swaps that effectively fixed a part of our floating rate debt obligations. These swaps were terminated on September 13, 2017 as a result of entering Chapter 11.

If we are unable to effectively manage our interest rate exposure through interest rate swaps in the future, any increase in market interest rates would increase our interest rate exposure and debt service obligations, which would exacerbate the risks associated with our leveraged capital structure.

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

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

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

Brexit, or similar events in other jurisdictions, can impact global markets, which may have an adverse impact on our business and operations as a result of changes in currency, exchange rates, tariffs, treaties and other regulatory matters.

A change in tax laws in any country in which we operate could result in higher tax expense.

We conduct our operations through various subsidiaries in countries throughout the world. Tax laws, regulations and treaties are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, regulations and treaties in and between the countries in which we operate, including treaties between the United States and other nations. Our income tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, regulations or treaties, including those

in and involving the United States, or in the interpretation thereof, or in the valuation of our deferred tax assets, which is beyond our control, could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings.

In addition, the United States in December 2017 enacted major tax reform legislation. This could lead to a material increase in the amount of overall U.S. tax liabilities of the group if it reduces the tax deductions for certain payments our U.S. operating companies make to non-U.S. rig owners. The extent of the impact is still being analyzed especially given a number of subsequent regulations which may be issued and will need to be interpreted with advisers as necessary.

A loss of a major tax dispute or a successful tax challenge to our operating structure, intercompany pricing policies or the taxable presence of our subsidiaries in certain countries could result in a higher tax rate on our worldwide earnings, which could result in a significant negative impact on our earnings and cash flows from operations.

Our income tax returns are subject to review and examination. We do not recognize the benefit of income tax positions we believe are more likely than not to be disallowed upon challenge by a tax authority. If any tax authority successfully challenges our operational structure, intercompany pricing policies or the taxable presence of our subsidiaries in certain countries; or if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure; or if we lose a material tax dispute in any country, our effective tax rate on our worldwide earnings could increase substantially and our earnings and cash flows from operations could be materially adversely affected.

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

Due to concern over the risk of climate change, a number of countries and the IMO have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions or the Paris Agreement, which resulted from the 2015 United Nations Framework Convention on Climate Change conference in Paris and entered into force on November 4, 2016. As at January 1, 2013, all ships (including rigs and drillships) must comply with mandatory requirements adopted by the IMO's Maritime Environment Protection Committee, or the MEPC, in July 2011 relating to greenhouse gas emissions. A roadmap for a "comprehensive IMO strategy on a reduction of GHG emissions from ships" was also approved by MEPC at its 70th session in October 2016. These requirements could cause us to incur additional compliance costs.

In addition, the European Union has indicated that it intends to propose an expansion of the existing European Union Emissions Trading Scheme to include emissions of greenhouse gases from marine vessels. In April 2015, a regulation was adopted requiring that large ships (over 5,000 gross tons) calling at European Union ports from January 2018 collect and publish data on carbon dioxide emissions and other information. In the United States, the Environmental Protection Agency, or the EPA, has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from drilling units, such regulation of drilling units is foreseeable, and the EPA has received petitions from the California Attorney General and various environmental groups seeking such regulation. In the United States, individual states can also enact environmental regulations. For example, California has introduced caps for greenhouse gas emission and, in the end of 2016, signaled it might take additional actions regarding climate change.

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

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

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

Acts of terrorism, piracy, and political and social unrest, brought about by world political events or otherwise, have caused instability in the world's financial and insurance markets in the past and may occur in the future. Such acts could be directed against companies such as ours. Our drilling operations could also be targeted by acts of sabotage carried out by environmental activist groups.

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

In addition, acts of terrorism and social unrest could lead to increased volatility in prices for crude oil and natural gas and could affect the markets for drilling services and result in lower dayrates. Insurance premiums could also increase and coverage may be unavailable in the future. Increased insurance costs or increased costs of compliance with applicable regulations may have a material adverse effect on our results of operations.

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

We are currently involved in various litigation matters, and we anticipate that we will be involved in litigation matters from time to time in the future. The operating hazards inherent in our business expose us to litigation, including personal injury litigation, environmental litigation, contractual litigation with customers, intellectual property litigation, tax or securities litigation and maritime lawsuits, including the possible arrest of our drilling units. We cannot predict with certainty the outcome or effect of any claim or other litigation matter, or a combination of these. If we are involved in any future litigation, or if our positions concerning current disputes are found to be incorrect, there may be an adverse effect on our business, financial position, results of operations and available cash, because of potential negative outcomes, the costs associated with asserting our claims or defending such lawsuits, and the diversion of management's attention to these matters.

We may also be subject to significant legal costs in defending these actions, which we may or may not be able to recoup depending on the results of such claim.

To the extent claims are filed on existing litigious matters, those claims are being adjudicated as part of the Chapter 11 proceedings.

For additional information on litigation matters that we are currently involved in, please see "Item 8. Financial Information-A. Consolidated Statements and Other Financial Information-Legal Proceedings."

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We cannot guarantee that the use of our drilling units will not infringe the intellectual property rights of others.
The majority of the intellectual property rights relating to our drilling units and related equipment are owned by our suppliers. In the event that one of our suppliers becomes involved in a dispute over an infringement of intellectual property rights relating to equipment owned by us, we may lose access to repair services or replacement parts, or could be required to cease using some equipment. In addition, our competitors may assert claims for infringement of intellectual property rights related to certain equipment on our drilling units and we may be required to stop using such equipment and/or pay damages and royalties for the use of such equipment. The consequences of these technology disputes involving our suppliers or competitors could adversely affect our financial results and operations.
We have indemnity provisions in some of our supply contracts to give us some protection from the supplier against intellectual property lawsuits. However, we cannot make any assurances that these suppliers will have sufficient financial standing to honor their indemnity obligations, or guarantee that the indemnities will fully protect us from the adverse consequences of such technology disputes. We also have provisions in some of our client contracts to require the client to share some of these risks on a limited basis, but we cannot provide assurance that these provisions will fully protect us from the adverse consequences of such technology disputes. For information on certain intellectual property litigation that we are currently involved in, please see “Item 8. Financial Information-A. Consolidated Statements and Other Financial Information-Legal Proceedings”.
We depend on directors who are associated with affiliated companies, which may create conflicts of interest.
Our principal shareholder is Hemen Holding Limited, or Hemen. Many of our directors also serve as directors of other companies affiliated with Hemen. Our directors owe fiduciary duties to both us and other related parties, and may have conflicts of interest in matters involving or affecting us and our customers. Please see “Item 6. Directors, Senior management and Employees-C. Board Practices” for more information.
We may be restricted from granting long-term contracts as a result of the Omnibus Agreement with Seadrill Partners.
We have entered into an omnibus agreement with Seadrill Partners, or the Omnibus Agreement, in connection with its initial public offering, which may restrict our ability to, among other things, acquire, own, operate or contract for certain drilling units operating under drilling contracts of five or more years, unless we offer to sell such drilling units to Seadrill Partners. These restrictions could harm our business and adversely affect our financial position and results of operations and ability to implement our growth strategy. For additional information, please see “Item 7. Major Shareholders and Related Party Transactions-B. Related Party Transactions-Seadrill Partners-Omnibus Agreement with Seadrill Partners.”
If we fail to comply with requirements relating to internal control over financial reporting our business could be harmed and our common stock price could decline.
Rules adopted by the Securities and Exchange Commission pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require that we assess our internal control over financial reporting annually. The rules governing the standards that must be met for management to assess its internal control over financial reporting are complex. They require significant documentation, testing, and possible remediation of any significant deficiencies in and / or material weaknesses of internal controls in order to meet the detailed standards under these rules. Although we have evaluated our internal control over financial reporting as effective as of December 31, 2017, in future fiscal years, we may encounter unanticipated delays or problems in assessing our internal control over financial reporting as effective or in completing our assessments by the required dates. In addition, we cannot assure you that our independent registered public accountants will attest that internal control over financial reporting is effective in future fiscal years.
If we are unable to maintain effective internal controls over financial reporting and disclosure controls, investors may lose confidence in our reported financial information, which could lead to a decline in the price of common shares, limit our ability to access the capital markets in the future, and require us to incur additional costs to improve our internal control over financial reporting and disclosure control systems and procedures. Further, if lenders lose confidence in the reliability of our financial statements, it could have a material adverse effect on our ability to fund our operations.
Public health threats could have an adverse effect on our operations and financial results.
Public health threats, such as Ebola, influenza, SARS, the Zika virus, and other highly communicable diseases or viruses, outbreaks of which have from time to time occurred in various parts of the world in which we operate, could

adversely impact our operations, and the operations of our customers. In addition, public health threats in any area, including areas where we do not operate, could disrupt international transportation. Our crews generally work on a rotation basis, with a substantial portion relying on international air transport for rotation. Any such disruptions could impact the cost of rotating our crews, and possibly impact our ability to maintain a full crew on all rigs at a given time. Any of these public health threats and related consequences could adversely affect our financial results.

Data protection and regulations related to privacy, data protection and information security could increase our costs, and our failure to comply could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations, as well as have an impact on our reputation.

We are subject to regulations related to privacy, data protection and information security in the jurisdictions in which we do business. As privacy, data protection and information security laws are interpreted and applied, compliance costs may increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

In recent years, there has been increasing regulatory enforcement and litigation activity in the areas of privacy, data protection and information security in the U.S. and in various countries in which we operate. In addition, legislators and/or regulators in the U.S., the European Union and other jurisdictions in which we operate are increasingly adopting or revising privacy, data protection and information security laws that could create compliance uncertainty and could increase our costs or require us to change our business practices in a manner adverse to our business.

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For example, the European Union and U.S. Privacy Shield framework was designed to allow for legal certainty regarding transfers of data. However, the agreement itself faces a number of legal challenges and is subject to annual review. This has resulted in some uncertainty and compliance obligations with regards to cross-border data transfers. Moreover, compliance with current or future privacy, data protection and information security laws could significantly impact our current and planned privacy, data protection and information security related practices, our collection, use, sharing, retention and safeguarding of consumer and/or employee information, and some of our current or planned business activities. Our failure to comply with privacy, data protection and information security laws could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business, as well as have an impact on our reputation. For example, the General Data Protection Regulations of the European Union is enforceable in all 28 EU member states as of May 25, 2018 and will require us to undertake enhanced data protection safeguards, with fines for non-compliance up to 4% of global total annual worldwide turnover or €20 million (whichever is higher), depending on the type and severity of the breach.

Risks Relating to Our Common Shareholders

The market price of our common shares has declined significantly. As a result of the trading price of our common shares and our Chapter 11 proceedings, our common shares may be subject to a trading suspension or delisting from the NYSE.

Our common shares are currently listed on the New York Stock Exchange ("NYSE"), and have been trading below $1.00 since April 4, 2017. Under the continued listing rules for the NYSE, we are required to comply with various continued listing standards, including the maintenance of a minimum average closing price of at least $1.00 per share during a consecutive 30 trading-day period. On May 4, 2017, we were notified by the NYSE that we were no longer compliant with the minimum average closing price continued listing standard.

Additionally, under the continued listing rules, a company that files or announces an intent to file for relief under Chapter 11 of the Bankruptcy Code may be subject to immediate suspension and delisting, subject to, among other things, an evaluation by the NYSE of recoveries to existing shareholders under the proposed plan of reorganization. We have been in communication with the NYSE and, to date, our common shares have continued to trade on the NYSE.

In addition to potentially commencing suspension or delisting procedures in respect of our common shares if we fail to meet other continued listing standards, our common shares could be suspended from trading and delisted pursuant to Section 802.01 of the NYSE Listed Company Manual if the trading price of our common shares on the NYSE is abnormally low, which has generally been interpreted to mean at levels below $0.16 per share.

The commencement of suspension or delisting procedures by an exchange remains, at all times, at the discretion of such exchange and would be publicly announced by the exchange. If a suspension or delisting were to occur, there would be significantly less liquidity in the suspended or delisted securities. In addition, our ability to raise additional necessary capital through equity or debt financing would be greatly impaired. Furthermore, with respect to any suspended or delisted common shares, we would expect decreases in institutional and other investor demand, analyst coverage, market making-activity and information available concerning trading prices and volume, and fewer broker-dealers would be willing to execute trades with respect to such common shares. A suspension or delisting would likely decrease the attractiveness of our common shares to investors, may cause a breach under our debt agreements and cause the trading volume of our common shares to decline, which could result in a further decline in the market price of our common shares.

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

The market price of our common shares has fluctuated widely and may continue to do so as a result of many factors, such as actual or anticipated fluctuations in our operating results, the outcome of our Chapter 11 proceedings, changes in financial estimates by securities analysts, economic and regulatory trends, general market conditions, rumors and other factors, many of which are beyond our control. Further, there may be no continuing active or liquid public market for our common shares. If an active trading market for our common shares does not continue, the price of our

common shares may be more volatile and it may be more difficult and time consuming to complete a transaction in our common shares, which could have an adverse effect on the realized price of our common shares. In addition, an adverse development in the market price for our common shares could negatively affect our ability to issue new equity to fund our activities. For our share price history, please see “Item 9. The Offer and Listing-A. Offer and Listing Details.”

We may not pay dividends in the future.

Under our bye-laws, any dividends declared will be in the sole discretion of our Board of Directors, or the Board, and will depend upon earnings, market prospects, current capital expenditure programs and investment opportunities. Under Bermuda law, we may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) we are, or would after the payment be, unable to pay our liabilities as they become due or (b) the realizable value of our assets would thereby be less than our liabilities. In addition, since we are a holding company with no material assets other than the shares of our subsidiaries through which we conduct our operations, our ability to pay dividends will depend on our subsidiaries distributing to us their earnings and cash flow. We suspended the payment of dividends in November 2014, and we cannot predict when, or if, dividends will be paid in the future. As part of additional amendments to other covenants contained in our senior secured credit facilities in April 2016, as further amended in 2017, we are currently restricted from paying dividends or making distributions effectively until a restructuring of our senior secured credit facilities is agreed to, including the extension of their tenor and the amendment of financial covenants. During the Chapter 11 proceedings, we would need to seek approval of the Bankruptcy Court to pay any dividend. We do not expect to seek such approval during the Chapter 11 proceedings.

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

We are incorporated under the laws of Bermuda, and substantially all of our assets are located outside of the United States. In addition, our directors and officers generally are or will be non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible for you to effect service of process on these individuals in the United States or to enforce in the United States judgments obtained in U.S. courts against us or our directors and officers based on the civil liability provisions of applicable U.S. securities laws.

In addition, you should not assume that courts in the countries in which we are incorporated or where our assets are located (1) would enforce judgments of U.S. courts obtained in actions against us based upon the civil liability provisions of applicable U.S. securities laws or (2) would enforce, in original actions, liabilities against us based on those laws.

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

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

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

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders may face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those shareholders make an election available under the United States Internal Revenue Code of 1986, as amended, or the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Item 10. Additional Information-E. Taxation"), such shareholders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of the common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of the common shares. In the event that our shareholders face adverse U.S. federal income tax consequences as a result of investing in shares of our common stock, this could adversely affect our ability to raise additional capital through the equity markets. See "Item 10. Additional Information-E. Taxation" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders if we are treated as a PFIC.

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

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

Several provisions of our bye-laws may have anti-takeover effects. These provisions may avoid costly takeover battles, lessen our vulnerability to a hostile change of control and enhance the ability of our Board to maximize shareholder value in connection with any unsolicited offer to acquire us. However, these anti-takeover provisions

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

We are an offshore drilling contractor providing worldwide offshore drilling services to the oil and gas industry. Our primary business is the ownership and operation of drillships, semi-submersible rigs and jack-up rigs for operations in shallow-, mid-, deep-, and ultra-deepwater areas, and in benign and harsh environments. We contract our drilling units primarily on a dayrate basis to drill wells for our customers, who are oil

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super-majors and major integrated oil and gas companies, state-owned national oil companies, and independent oil and gas companies. A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well or group of wells or covering a stated term. We also provide management services to certain unconsolidated companies in which we hold investments.

Through a number of acquisitions of companies, secondhand units and contracts for newbuildings, we have developed into one of the world's largest international offshore drilling contractors, employing approximately 4,328 skilled employees. As of March 31, 2018, we had a fleet of 35 offshore drilling units consisting of 12 semi-submersible rigs, 7 drillships and 16 jack-up rigs in operation, and contracts for the construction of 8 jack-up rigs and an option to acquire 1 semi-submersible rig. Of the total fleet, 17 are currently idle. Please see "Item 4. Information on the Company—D. Property, Plant and Equipment," for further information on our fleet of drilling units and newbuildings.

Our Majority-Owned Subsidiaries

NADL, a controlled subsidiary, is a Bermuda company formed in 2011 that focuses entirely on harsh environment offshore drilling operations. In January 2014, NADL completed its initial public offering in the United States of 13,513,514 common shares at $9.25 per share. On September 12, 2017, NADL, Seadrill Limited and certain other of Seadrill's consolidated subsidiaries commenced prearranged reorganization proceedings under Chapter 11 of Title 11 of the United States Code in the Southern District of Texas. As a result of Chapter 11 proceedings, the NYSE delisted NADL's common stock in October 2017. For the year ended December 31, 2017, NADL contributed $258 million (or 12%) to our revenues, and a $133 million loss (or 18%) to our operating loss. The outstanding debt of NADL as of December 31, 2017 amounted to $1,998 million (or 23%), of which $1,089 million is guaranteed by Seadrill. On filing for Chapter 11, the outstanding debt balance is held as a "liability subject to compromise" in the Consolidated Balance Sheet as at December 31, 2017. As of March 31, 2018, we owned approximately 70.4% of NADL's outstanding common shares, some of which trade over the counter in the United States and some of which are listed on the Norwegian Over-the-Counter Exchange, or Norwegian OTC, under the symbol "NADL."

Sevan Drilling, a controlled subsidiary, is a Bermuda company that focuses on owning and operating drilling units and specializes in the ultra-deepwater segment. As of March 31, 2018, we owned 50.1% of the outstanding shares in Sevan Drilling. Sevan Drilling's common shares trade on the OSE under the symbol "SEVDR." On September 12, 2017, Sevan, Seadrill Limited and certain other of Seadrill's consolidated subsidiaries commenced prearranged reorganization proceedings under Chapter 11 of Title 11 of the United States Code in the Southern District of Texas. As a result of the bankruptcy proceedings, The Oslo Børs suspended the trading of Sevan Drilling shares under The Stock Exchange Act section 25(1) in September 2017. For the year ended December 31, 2017, Sevan Drilling contributed $198 million (or 9%) to our revenues, and a $65 million loss (or 9%) to our operating loss. The outstanding debt of Sevan Drilling as of December 31, 2017 amounted to $856 million (or 10%), all of which is guaranteed by Seadrill. On filing for Chapter 11, the outstanding debt balance is held as a "liability subject to compromise" in the Consolidated Balance Sheet as at December 31, 2017.

AOD, a controlled subsidiary, is a company incorporated in Bermuda that owns three high-specification jack-up drilling rigs, which are leased to a Seadrill operating subsidiary. As of March 31, 2018, we owned 66.2% of the outstanding shares in AOD. For the year ended December 31, 2017, AOD contributed $60 million (or 3%) and $17 million (or -2%) to our revenue and operating income, respectively. The outstanding debt of AOD as of December 31, 2017 amounted to $210 million (or 2%), which is guaranteed by Seadrill.

Investments in Other Companies

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

- Seadrill Partners, an associated company, is a Marshall Islands limited liability company that focuses on owning and operating offshore drilling rigs under long-term contracts with major oil companies. Seadrill Partners was previously a consolidated subsidiary of Seadrill, but as of January 2, 2014, we deconsolidated Seadrill Partners from our Consolidated Financial Statements. As of March 31, 2018, we own 46.6% of the outstanding limited liability interests of Seadrill Partners, which includes outstanding common and subordinated units. Seadrill Partners' common units trade on the NYSE under the symbol "SDLP". We also own significant non-controlling interests in various subsidiaries of Seadrill Partners.

- Archer is a global oilfield service company that specializes in drilling and well services. As of March 31, 2018 we own 15.7% of the outstanding common shares of Archer. In addition we provide various performance and supplier guarantees on behalf of Archer. The total outstanding guarantees to Archer as of December 31, 2017 were $18 million.

As part of their financial restructuring, Archer completed two share issuances in March and April 2017, which diluted Seadrill's ownership interest in Archer to 39.7% as at December 31, 2016 to 15.7% as at December 31, 2017. Following these events we concluded that we no longer have significant influence over Archer's financial and operating decisions, primarily as a result of the reduction in our shareholding and the significant reduction in our interests in related debt and guarantees. Our investment in Archer was derecognized as an investment in associate and recognized as an available-for-sale security.

As part of Archer's restructuring plans we have also agreed to convert $146 million outstanding in subordinated loans, fees, and interest provided to Archer into a $45 million subordinated convertible loan. The subordinated convertible loan will bear interest of 5.5%, matures in December 2021 and have a conversion right into equity of Archer Limited in 2021 based on a strike price of US$2.083 per share (subject to appropriate adjustment mechanics), which is approximately 75% above the subscription price in Archer's private placement on March 2, 2017. The convertible loan had a fair value of $52 million as at December 31, 2017.

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On April 25, 2017, as part of our restructuring plans, we signed and closed an agreement with Archer and its lenders to extinguish approximately $253 million in financial guarantees provided by us in exchange for a cash payment of approximately $25 million. On June 6, 2017, we signed and closed an agreement with Archer and its lenders to extinguish the remaining $25 million of financial guarantees in exchange for a cash payment of approximately $3 million.

- Seabras Sapura is a group of related companies that construct, own and operate pipe-laying service vessels in Brazil. As of March 31, 2018, we have a 50% ownership stake in each of these companies. We have provided Seabras Sapura with various loans to finance working capital and financial guarantees. The total amount of loans outstanding as of December 31, 2017 was $99 million and the total amount guaranteed as of December 31, 2017 was $698 million.

- SeaMex, a joint venture, that owns and operates five jack-up drilling units located in Mexico under contract with Pemex. As of March 31, 2018, we had a 50% ownership stake in SeaMex. The other 50% was owned by an investment fund controlled by Fintech Advisory Inc., ("Fintech"). SeaMex was deconsolidated from our Consolidated Financial Statements on March 10, 2015. We have provided a $250 million seller’s credit to SeaMex, and made available a subordinated unsecured credit facility of $20 million, which is to be provided by both Seadrill and Fintech at a ratio of 50% each. The unsecured credit facility matured at the end of December 2016.

In addition, we have entered into sale and leaseback agreements for three drilling units: the West Taurus, West Hercules and West Linus with Ship Finance, a related party. We consolidate certain related subsidiaries of Ship Finance into our Consolidated Financial Statements as variable interest entities or VIEs. As of March 31, 2018, through our VIEs, we had gross and net loans outstanding to Ship Finance amounting to $314 million, following a loan principal prepayment of $101 million made in June 2017.

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

Management of the Company

As described under Section D of Item 3, upon the filing of voluntary petitions to restructure under the protections Chapter 11 of the Bankruptcy Code, we operate the business as debtors-in-possession under supervision of the Bankruptcy Court. Debtors-in-possession status requires that we obtain approval of the Bankruptcy Court with respect to our business, and in some cases, the Consenting Stakeholders under the terms of the RSA and the Commitment Parties under the terms of the Investment Agreement, prior to engaging in certain activities or transactions. Accordingly, ultimate discretion of many operational and non-routine activities is subject to final supervision of the Bankruptcy Court and does not reside in solely with management.

The Board has organized the provision of management services through Seadrill Management Ltd., or Seadrill Management, one of our subsidiaries incorporated in the United Kingdom. The Board has defined the scope and terms of the services to be provided by Seadrill Management. The Board must be consulted on all matters of material importance and/or of an unusual nature and, for such matters, will provide specific authorization to personnel in Seadrill Management to act on its behalf. Our consolidated subsidiaries, NADL, Sevan Drilling and AOD, have their own boards, with delegated authority and responsibility for the management of the respective subgroups.

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

Significant Developments for the Period from January 1, 2015 through and including December 31, 2017

Restructuring Agreement and Bankruptcy Proceedings under Chapter 11

Over the past two years we have been engaged in extensive discussions with our secured lenders and potential new money investors regarding the terms of a comprehensive restructuring. These discussions have also included an ad hoc committee of bondholders. The objectives of the restructuring are to build a bridge to a recovery and achieve a sustainable capital structure. We have proposed to achieve this by extending bank maturities, reducing fixed amortization, amending financial covenants and raising new capital.

On April 4, 2017 we reached an agreement with our banking group to extend the comprehensive restructuring plan negotiating period until July 31, 2017. Further we agreed to extend the related covenant amendments and waivers granted in prior years, expiring on June 30, 2017, to September, 30 2017 and received lender consent to extend the maturity dates of certain facilities falling due within that period. Refer to Note 22 "Long-term debt—Covenants contained within our debt facilities" to our Consolidated Financial Statements included herein for more information. This provided us with additional time to advance ongoing negotiations regarding the terms of a comprehensive restructuring plan.

On April 25, 2017, as part of our restructuring plans, we signed and closed an agreement with Archer and its lenders to extinguish approximately $253 million in financial guarantees provided by us in exchange for a cash payment of approximately $25 million. On June 6, 2017, we signed and closed a further agreement with Archer and its lenders to extinguish the remaining $25 million of financial guarantees in exchange for a cash payment of approximately $3 million.

In July 2017, we reached an agreement with our bank group to further extend the restructuring plan negotiation period until September 12, 2017. We also extended the maturities of our $400 million credit facility and the $450 million credit facility provided to Seadrill Eminence Ltd to September 14, 2017.

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The $440 million facility provided to Seadrill Eminence Ltd was further amended in August 2017 by way of a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda to align the maturity of the facility with that of (i) our $400 million credit facility and (ii) the revolving credit facility provided to NADL.

In August 2017 we completed amendments to three secured credit facilities that related to rigs purchased by Seadrill Partners from us that insulated Seadrill Partners from events of default related to our likely use of in-court processes, including Chapter 11 proceedings, to implement a restructuring plan. The amendments to the three facilities remove Seadrill Partners and its consolidated entities as a borrower or guarantor and separate the facilities such that each resulting Seadrill Limited facility is secured only by Seadrill Limited's assets without recourse to Seadrill Partners or its assets.

On September 12, 2017, Seadrill entered into the RSA with the Consenting Stakeholders. Seadrill’s consolidated subsidiaries North Atlantic Drilling Ltd. and Sevan Drilling Limited, together with certain other of its consolidated subsidiaries also entered into the RSA together with Seadrill. Ship Finance International Limited and three of its subsidiaries, which charter three drilling units to the Company Parties, also executed the RSA. In connection with the RSA, the Company Parties entered into the Investment Agreement under which Hemen and a consortium of investors, including the bondholder parties to the RSA, committed to provide $1.06 billion in new cash commitments, subject to certain terms and conditions.

On September 12, 2017, to implement the transactions contemplated by the RSA and Investment Agreement, the Debtors commenced prearranged Chapter 11 proceedings under the Bankruptcy Code in the Southern District of Texas [case number 17-60079]. During the course of the bankruptcy proceedings, the Debtors continue to operate their business as a debtor in possession.

On the Petition Date, the Bankruptcy Court issued certain additional customary interim and final orders with respect to the Debtors’ first day motions and other operating motions that allow the Debtors to operate their businesses in the ordinary course. The first-day motions provided for, among other things, the payment of certain pre-petition employee and retiree expenses and benefits, the use of the Debtors’ existing cash management system, the payment of certain pre-petition amounts to certain critical vendors, the ability to pay certain pre-petition taxes and regulatory fees, the payment of certain pre-petition claims owed on account of insurance policies and programs and authorizing the use of cash collateral.

On February 26, 2018, the Debtors announced a global settlement with various creditors, including an ad hoc group of holders of unsecured bonds (the “Ad Hoc Group”), the official committee of unsecured creditors (the “Committee”) and other major creditors in its Chapter 11 cases, including Samsung Heavy Industries Co., Ltd. ("Samsung") and Daewoo Shipbuilding & Marine Engineering Co., Ltd ("DSME")., two of the Debtors’ newbuild shipyards, and an affiliate of Barclays Bank PLC (“Barclays”), another holder of unsecured bonds. In connection with the global settlement, the Debtors entered into an amendment to the RSA and an amendment to the Investment Agreement. The amendments to the RSA and Investment Agreement provided for the inclusion of the Ad Hoc Group and Barclays into the Capital Commitment as Commitment Parties, increased the Capital Commitment to $1.08 billion, increased recoveries for general unsecured creditors of Seadrill, NADL, and Sevan under the plan of reorganization, an agreement regarding the allowed claim of the newbuild shipyards and an immediate cessation of all litigation and discovery efforts in relation to the plan of reorganization as well as the Debtors’ rejection and recognized termination of the newbuild contracts.

The Investment Agreement, as amended, provides for certain milestones for the Debtors’ restructuring: (1) the Bankruptcy Court must enter an order confirming the Plan by June 9, 2018 (the “Confirmation Date”) and (2) the effective date of the Plan must occur within 90 days of the Confirmation Date and, in any event, no later than August 8, 2018.

In connection with the global settlement, on February 26, 2018, the Debtors filed a proposed Second Amended Joint Chapter 11 Plan of Reorganization with the Bankruptcy Court (the "Plan"). On February 26, 2018, the Bankruptcy Court entered an order approving (i) the adequacy of the Disclosure Statement, (ii) the solicitation and notice procedures with respect to confirmation of the Debtors' proposed Plan, (iii) the rights offering procedures for the rights offerings contemplated by the Plan and (iv) other related matters. By the voting deadline of April 5, 2018 the Plan received approval from every single class of creditors and holders of interests entitled to vote, exceeding the required thresholds for acceptance of the Plan. The confirmation hearing for the Plan is currently scheduled for April 17, 2018. If the Plan is confirmed by the Bankruptcy Court, once each of the conditions precedent to the Plan's effectiveness have been satisfied or waived, the Plan will become effective and each of the Debtors will emerge from the Chapter 11 proceedings.

Concurrent with the commencement of the prearranged reorganization proceedings in the Bankruptcy Court, Seadrill, NADL and Sevan (collectively, the "Bermuda Debtors") commenced provisional liquidation proceedings pursuant to section 161 and 170 of the Bermuda Companies Act 1981 by presenting "winding up" petitions to the Bermuda Court. Upon the application of the Bermuda Debtors, the Bermuda Court appointed three joint provisional liquidators for each of the Bermuda Debtors. Under the order to appoint the joint provisional liquidators, the joint provisional liquidators' powers are limited such that the Bermuda Debtors' management team and boards of directors remain in control of the Bermuda Debtors' day-to-day operations. Upon the appointment of the joint provisional liquidators in respect to each of the Bermuda Debtors, a statutory stay of proceedings in Bermuda against those three entities or their assets automatically arose. The next hearing in the Bermuda Court with respect to the "winding up" petitions was set for April 27, 2018. In addition to the statutory stay, as soon as practicable following the effective date (in accordance with the Plan of Reorganization), the provisional liquidators' Bermuda law counsel, with the support of the Debtors, will apply for winding up orders in respect of each of the Bermuda Debtors. The joint provisional liquidators will also seek formal recognition of the Confirmation Order from the United States Bankruptcy Court in Bermuda.

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Please see "Item 4. Information on the company - B. Business Overview - Restructuring Agreement and Bankruptcy Proceedings under Chapter 11" for more information.

West Rigel settlement agreement

On April 5, 2018, we entered into a settlement and release agreement, subject to Bankruptcy Court approval, with Jurong in respect of the West Rigel whereby we agreed that the share of sale proceeds from the sale of the West Rigel by Jurong would be $126 million. We consider this agreement provides additional evidence of the value of the asset held for sale at December 31, 2017, and have therefore reflected the agreed share of sales proceeds in the value of the asset held for sale at the balance sheet date and recognized a $2 million loss on disposal.

Contract award and extension for the West Elara and West Linus

On April 11, 2017, NADL announced the contract awards and extension for the jack-ups West Elara and West Linus with ConocoPhillips Skandinavia AS, or ConocoPhillips, for work in the Greater Ekofisk Area. The contracts are for a period of 10 years and the total additional backlog for the new contract awards is estimated at $1.4 billion, excluding performance bonuses. The contracts include market indexed dayrates and the estimated backlog is subject to change based on market conditions.

Archer's refinancing

On April 26, 2017, as part of Archer’s restructuring plans, we agreed to convert $146 million, including accrued interest and fees, in subordinated loans provided to Archer into a $45 million subordinated convertible loan. The subordinated convertible loan bears interest of 5.5%, matures in December 2021 and has a conversion right into equity of Archer Limited in 2021. The exercise price of the option is $2.083 per share, which is approximately 75% above the subscription price in Archer’s private placement on March 2, 2017.

Disposals

On April 29, 2017 we reached an agreement with Shelf Drilling to sell the West Triton, West Mischief and West Resolute for a total consideration of $225 million. The West Triton and West Resolute were delivered in May 2017, whilst the West Mischief was delivered in September 2017. The sale resulted in a loss on disposal of $166 million.

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

West Mira

On March 13, 2017, we reached settlement with HSHI with regard to the West Mira, pursuant to which we received a cash payment of $170 million on March 14, 2017, representing the yard installment receivable excluding any additional accrued interest. We recorded a non-cash impairment of $44 million for the year ended December 31, 2016 to reflect the difference in the carrying value of the West Mira receivable and the settlement value.

As part of this settlement, Seatankers, a related party, has purchased the West Mira from HSHI. Seatankers is an asset holding company and is not expected to engage in offshore drilling activities in competition with Seadrill. We have executed an agreement with Seatankers for the commercial and technical management of the West Mira as well as a right of first refusal for purchase of the Unit.

Capital expenditures

We had total capital expenditures on our drilling units and newbuildings of approximately $150 million, $231 million and $1,041 million in the years 2017, 2016 and 2015, respectively. This includes maintenance expenditures of $58 million, $95 million and $106 million in the years ended 2017, 2016 and 2015, respectively. Our capital expenditures

related primarily to our newbuild drilling unit program, capital additions and equipment to our existing drilling units and payments for long-term maintenance of our fleet. We financed this capital expenditure through cash generated from operations, secured and unsecured debt arrangements, and the sale of partial ownership interests in certain subsidiaries and investments. Please see “Item 4. Information on the Company—D. Property, Plant and Equipment” and “Item 5. Operating and Financial Review and Prospects” for further information on our fleet.

Sale of investments

On April 27, 2016, we sold all of our investment in shares of SapuraKencana resulting in net cash proceeds of approximately $195 million.

Newbuilding Deferrals and Cancellations

As part of the Chapter 11 proceedings, the Debtors negotiated and announced a global settlement with various creditors, including Samsung Heavy Industries Co., Ltd. ("Samsung") and Daewoo Shipbuilding & Marine Engineering Co., Ltd ("DSME"). The amendments to the RSA and Investment Agreement provided for, among other items, an agreement regarding the allowed claim of the newbuild shipyards Samsung and DSME, and an immediate cessation of all litigation and discovery efforts in relation to the plan of reorganization as well as the Debtors’ rejection and recognized termination of the newbuild contracts. The settlement agreement is contingent on confirmation of the Plan. Following the allowed claim agreement in respect of the Samsung and DSME, we have recognized a liability of $1.064 billion at December 31, 2017, and due to the Plan anticipating the rejection and termination of the newbuild contracts we have recognized an impairment of the newbuild assets related to the West Dorado, West Draco, West Aquila and the West Libra, totaling $696 million, in the year ended December 31, 2017.

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On April 18, 2016, we entered into agreements with Dalian to further defer the deliveries of all eight jack-up rigs under construction, which were previously due to be delivered in 2016 and 2017 as per the deferral agreement originally entered in August 2015, Dalian agreed to defer delivery of one jack-up rig until the end of December 2015, five jack-up rigs to 2016 and two jack-up rigs to 2017. On December 28, 2016, the delivery dates for the West Titan, West Proteus, West Rhea and West Tethys were deferred an additional 6 months. Following this latest deferral agreement, four units were scheduled to be tendered for delivery in 2017, and four units in 2018. Dalian has tendered the first three jack-ups under construction for delivery but this has been rejected due to non-completion of the agreed scope by the Dalian shipyard.

On October 17, 2016, we agreed with Cosco to exercise our third six-month option to defer the delivery of the Sevan Developer until April 15, 2017. On April 27, 2017, the delivery of the Sevan Developer was deferred to May 31, 2017 to finalize negotiations. In May 2017, the delivery was deferred to June 30, 2017. During July 2017 it was announced that the delivery deferral period was amended to further defer delivery to June 30, 2020 effective upon receipt of $25.3 million plus interest from Cosco, which was receipted in July 2017. The amendment gave Cosco the option to terminate the deferral period agreements on July 1, 2018 and again on July 1, 2019, which would require Cosco to refund the remaining $1 million investment balance. It was deemed that Sevan lost control of the asset and therefore the newbuild asset held of $526 million and corresponding construction obligation of $620 million and accrued interest and other liabilities of $19 million were derecognized at that date, resulting in a net loss on disposal of $75 million. The rig will remain in China at the Cosco Shipyard during which time Sevan retains the right to market the rig and acquire the rig at the original contracted amount.

On December 2, 2015, as further extended in June 2016, August 2016, October 2016, January 2017, July 2017, and December 2017, NADL entered into a standstill agreement with Jurong, effective until July 6, 2018, regarding the delivery of the West Rigel. During the period until July 6, 2018, NADL could continue to market the unit for an acceptable drilling contract and the unit will remain at the Jurong yard in Singapore. Jurong and NADL could also have considered other commercial opportunities for the unit during this period. In the event no employment was secured and no alternative transaction was completed before the period concludes, NADL and Jurong had agreed to form a joint asset holding company for joint ownership of the unit to be owned 23% by NADL and 77% by Jurong.

On December 26, 2017, Jurong announced that a sale agreement, subject to conditions has been signed for West Rigel. On April 5, 2018, we entered into a settlement and release agreement with Jurong in respect of the West Rigel whereby we agreed that the share of proceeds from the sale of the West Rigel by Jurong would be $126 million. We consider that this agreement provides additional evidence for the value of the asset held for sale at December 31, 2017, and have therefore reflected the agreed share of proceeds in the sales value of the asset held for sale at the balance sheet date.

Rosneft Framework Agreement

On May 26, 2014, we entered into an investment and co-operation agreement, or the Investment and Co-Operation Agreement with NADL and Rosneft, to pursue onshore and offshore growth opportunities in the Russian market. In connection with the Investment and Co-Operation Agreement, we entered into a framework agreement, or the Framework Agreement with NADL and Rosneft, pursuant to which, among other things, Rosneft agreed to sell, and NADL agreed to purchase, 100% of the share capital of Rosneft's Russian land drilling subsidiary, RN Burenie LLC, together with its subsidiaries, in exchange for such number of newly issued common shares of NADL, based on an agreed share price of $9.25 per share, as payment of the agreed purchase price, subject to certain cash adjustments. The Framework Agreement provided for an original closing date of no earlier than November 10, 2014, which was first extended until May 31, 2015, further extended until May 31, 2017 and again extended until May 31, 2019.

The parties have agreed to use their reasonable endeavors to renegotiate, by no later than May 31, 2019, the terms of the transactions contemplated in the Framework Agreement, the characteristics of the transactions contemplated in the Framework Agreement and the terms of the related offshore drilling contracts. During this time, NADL is permitted to market its offshore drilling rigs subject to existing drilling contracts with Rosneft, enter into binding contracts with third parties in respect of those rigs, delay the mobilization of those rigs under the Rosneft contracts in order to comply with the terms of any contracts with third parties, delay the construction or delivery of any of those rigs, and extend the construction period or shipyard stay of any of those rigs.

In June 2015, the parties agreed to cancel any restrictions of business included in the terms of the Framework Agreement and replaced such restrictions with a requirement for us, subject to applicable law, to inform Rosneft of any material developments affecting NADL. We can provide no assurance that we will be able to reach an agreement with Rosneft by May 31, 2019. Even if an agreement is reached, the terms of such agreement may differ materially from the terms contemplated in the original Framework Agreement.

Deconsolidations

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

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Other significant developments

In May 2016, we entered into a privately negotiated exchange agreement with certain holders of our outstanding 5.625% (subsequently increased to 6.125%) Senior Notes due 2017, or the 2017 Notes, pursuant to which we agreed to issue a total of 8,184,340 new shares of our common stock, in exchange for $55.0 million principal amount of the 2017 Notes in accordance with Section 3(a)(9) of the U.S. Securities Act of 1933, as amended, or the Securities Act. Settlement occurred on May 20, 2016.

In June 2016, we entered into a privately negotiated exchange agreement with certain holders of the 2017 Notes, pursuant to which we agreed to issue a total of 7,500,000 new shares of our common stock, in exchange for $50.0 million principal amount of the 2017 Notes in accordance with Section 3(a)(9) of the Securities Act. Settlement occurred on June 13, 2016.

B. BUSINESS OVERVIEW

Our Company

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

Shares of our common stock have traded on the OSE, since November 22, 2005, under the symbol “SDRL” and our common stock commenced trading on the NYSE on April 15, 2010, also under the symbol “SDRL.” As of March 31, 2018 our non-affiliated public float represented 76.4% of total shares outstanding, and our principal shareholder, Hemen held 23.6%. Hemen is indirectly held in trusts established by Mr. John Fredriksen, our President and Chairman, for the benefit of his immediate family.

Restructuring Agreement and Bankruptcy Proceedings under Chapter 11

Over the past two years we have been engaged in extensive discussions with our secured lenders and potential new money investors regarding the terms of a comprehensive restructuring. These discussions have also included an ad hoc committee of bondholders. The objectives of the restructuring are to build a bridge to a recovery and achieve a sustainable capital structure. We have proposed to achieve this by extending bank maturities, reducing fixed amortization, amending financial covenants and raising new capital.

On April 4, 2017 we reached an agreement with our banking group to extend the comprehensive restructuring plan negotiating period until July 31, 2017. Further we agreed to extend the related covenant amendments and waivers expiring on June 30, 2017 to September 30, 2017 and received lender consent to extend the maturity dates of certain facilities falling due within that period. This provided us with additional time to advance ongoing negotiations regarding the terms of a comprehensive restructuring plan.

On April 25, 2017, as part of our restructuring plans, we signed and closed an agreement with Archer and its lenders to extinguish approximately $253 million in financial guarantees provided by us in exchange for a cash payment of approximately $25 million. On June 6, 2017, we signed and closed a further agreement with Archer and its lenders to extinguish the remaining $25 million of financial guarantees in exchange for a cash payment of approximately $3 million.

In July 2017, we reached an agreement with our bank group to further extend the date by which a comprehensive restructuring plan must be agreed until September 12, 2017 providing an additional period for negotiations to continue over a comprehensive restructuring plan. We also extended the maturities of our $400 million credit facility and the $450 million credit facility provided to Seadrill Eminence Ltd to September 14, 2017.

The $440 million facility provided to Seadrill Eminence Ltd was further amended in August 2017 by way of a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda to align the maturity of the facility with that of (i) our $400 million credit facility and (ii) the revolving credit facility provided to NADL.

In August 2017 we completed amendments to three secured credit facilities that relate to rigs purchased by Seadrill Partners from us that insulated Seadrill Partners from events of default related to our likely use of in-court processes, including Chapter 11 proceedings, to implement a restructuring plan. The amendments to the three facilities remove Seadrill Partners and its consolidated entities as a borrower or guarantor and separate the facilities such that each resulting Seadrill Limited facility is secured only by Seadrill Limited's assets without recourse to Seadrill Partners or its assets.

On September 12, 2017, Seadrill entered into a restructuring support and lock-up agreement (the “RSA”) with a group of bank lenders, unsecured bondholders, certain other stakeholders and new-money providers. Seadrill’s consolidated subsidiaries North Atlantic Drilling Ltd. and Sevan Drilling Limited, together with certain other of its consolidated subsidiaries also entered into the RSA together with Seadrill. Ship Finance International Limited and three of its subsidiaries, which charter three drilling units to the Company Parties, also executed the RSA. In connection with the RSA, the Company Parties entered into the Investment Agreement under which Hemen and a consortium of investors, including the bondholder parties to the RSA, committed to provide $1.06 billion in new cash commitments, subject to certain terms and conditions.

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Our non-consolidated affiliates, including Seadrill Partners LLC, SeaMex Ltd., Archer Limited, and their respective subsidiaries, did not commence proceedings under Chapter 11 and are not parties to the RSA or Investment Agreement. We expect their business operations to continue uninterrupted.

On September 12, 2017, to implement the transactions contemplated by the RSA and Investment Agreement, Seadrill and the other Company Parties commenced prearranged reorganization proceedings under Chapter 11 of title XI of the United States Code in the Southern District of Texas [case number 17-60079]. During the course of the bankruptcy proceedings, the Debtors continue to operate their business as a debtor in possession.

On the Petition Date, the Bankruptcy Court issued certain additional customary interim and final orders with respect to the Debtors' first day motions and other operating motions that allow the Debtors to operate their businesses in the ordinary course. The first-day motions provided for, among other things, the payment of certain pre-petition employee and retiree expenses and benefits, the use of the Debtors' existing cash management system, the payment of certain pre-petition amounts to certain critical vendors, the ability to pay certain pre-petition taxes and regulatory fees, the payment of certain pre-petition claims owed on account of insurance policies and programs and authorizing the use of cash collateral.

Plan of Reorganization

Consistent with the RSA, the Debtors filed a proposed plan of reorganization and disclosure statement with the Bankruptcy Court on September 12, 2017, as well as a disclosure statement relating to the proposed plan of reorganization.

Subsequent to September 12, 2017, the Debtors negotiated with its various creditors, including an ad hoc group of holders of unsecured bonds and ship yards with which Debtors had a contractual relationship to build new rigs. On February 26, 2018, the Debtors announced a global settlement with the Ad Hoc Group, the official committee of unsecured creditors and other major creditors in its Chapter 11 cases, including Samsung Heavy Industries Co., Ltd. and Daewoo Shipbuilding & Marine Engineering Co., Ltd., two of the Debtors' newbuild shipyards, and an affiliate of Barclays Bank PLC, another holder of unsecured bonds. In connection with the global settlement, the Debtors entered into an amendment to the RSA and an amendment to the Investment Agreement. The amendments to the RSA and Investment Agreement provided for the inclusion of the Ad Hoc Group and Barclays into the Capital Commitment as Commitment Parties, increased the Capital Commitment to $1.08 billion, increased recoveries for general unsecured creditors of Seadrill, NADL, and Sevan under the plan of reorganization, an agreement regarding the allowed claim of the newbuild shipyards and an immediate cessation of all litigation and discovery efforts in relation to the plan of reorganization as well as the Debtors' rejection and recognized termination of the newbuild contracts.

The Investment Agreement, as amended, provides for certain milestones for the Debtors' restructuring: (1) the Bankruptcy Court must enter an order confirming the Plan by June 9, 2018 and (2) the effective date of the Plan must occur within 90 days of the Confirmation Date and, in any event, no later than August 8, 2018. The Investment Agreement also requires us to use commercially reasonable efforts to relist our common stock on the NYSE and the OSE. Subject to both Plan confirmation and Plan effectiveness, we expect to complete these processes during 2018.

In connection with the global settlement, on February 26, 2018, the Debtors filed a proposed Second Amended Joint Chapter 11 Plan of Reorganization with the Bankruptcy Court. On February 26, 2018, the Bankruptcy Court entered an order approving (i) the adequacy of the Disclosure Statement, (ii) the solicitation and notice procedures with respect to confirmation of the Debtors' proposed Plan, (iii) the rights offering procedures for the rights offerings contemplated by the Plan and (iv) other related matters. By the voting deadline of April 5, 2018 the Plan received approval from every single class of creditors and holders of interests entitled to vote, exceeding the required

thresholds for acceptance of the Plan.

On April 4, 2018, Seadrill entered into a transaction support agreement (the "TSA") with Mermaid International Ventures ("Mermaid"), the minority equity holder in AOD, under which Seadrill and Mermaid have agreed to support the restructuring transactions contemplated by the Plan. Under the terms of the TSA, Mermaid and Seadrill have also agreed the terms of put and call options in respect of Mermaid's shares in AOD, which are available from the fourth quarter of 2019.

The confirmation hearing for the Plan is currently scheduled for April 17, 2018. If the Plan is confirmed by the Bankruptcy Court, once each of the conditions precedent to the Plan's effectiveness have been satisfied or waived, the Plan will become effective and each of the Debtors will emerge from the Chapter 11 proceedings.

The Plan provides for, among other things, that:

- Seadrill Limited will be dissolved under the laws of Bermuda following the confirmation of the Plan;
- the Debtors will enter into amended senior credit facilities with its senior credit facility lenders;
- holders of general unsecured claims will receive 15% of the common stock of Seadrill Limited's successor, "New Seadrill" (such shares, "New Seadrill Common Shares") (prior to dilution by the Primary Structuring Fee and the Employee Incentive Plan as defined below under "-Issuance and Distribution of the New Securities under the Plan and the Investment Agreement");
- the Debtors will conduct the rights offerings described below under "-Rights Offering," with certain non-eligible holders of general unsecured claims entitled to participate pro rata in a $23 million cash recovery pool;
- an additional $17 million in cash will be distributed to holders of general unsecured claims, other than claims held by the Commitment Parties as of September 12, 2017 or January 5, 2018, as applicable;

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- an additional $17 million in cash, less fees and expenses, will be distributed to the shipyards; and
- if the general unsecured claims vote in favor of the Plan, holders of Seadrill's existing equity will receive 2% of the New Seadrill Common Shares (prior to dilution by the Primary Structuring Fee and the Employee Incentive Plan defined below under "-Issuance and Distribution of the New Securities under the Plan and the Investment Agreement").

The RSA may be terminated upon the occurrence of certain events, including the failure to meet specified milestones relating to the filing, confirmation, and consummation of the Plan, among other requirements, and in the event of certain breaches by the parties under the RSA. The Restructuring Support Agreement is subject to termination if the effective date of the Plan has not occurred within 11 months of the Petition Date. As a result, there is no assurance the confirmation and effectiveness of the Plan contemplated by the RSA will occur.

Rights Offerings

Pursuant to the Plan and an order of the Bankruptcy Court approving the rights offering procedures, eligible holders in certain classes of general unsecured claims against the Debtors will be offered the right to participate in (i) a rights offering (the "Notes Rights Offering") of up to $119.1 million in aggregate principal amount of new secured notes ("New Secured Notes") to be issued by a subsidiary of New Seadrill ("NSNCo") and a corresponding pro rata portion of 57.5% of New Seadrill Common Shares issued to holders who participate in the Notes Rights Offering and (ii) a rights offering of up to $48.1 million in value of New Seadrill Common Shares (the "Equity Rights Offering"). The New Secured Notes and the New Seadrill Common Shares to be acquired by the Commitment Parties under the Investment Agreement will be reduced to the extent the rights are exercised in each of the Notes Rights Offering and the Equity Rights Offering. The Commitment Parties will not participate in either the Notes Rights Offering or the Equity Rights Offering in accordance with the terms of the Investment Agreement.

Issuance and Distribution of the New Securities under the Plan and the Investment Agreement

Subject to the terms and conditions of the Plan and the Investment Agreement, as amended on February 26, 2018, on the Effective Date, (i) NSNCo will issue approximately $880 million in principal amount of New Secured Notes; and (ii) New Seadrill expects to issue:

- up to 25% of the New Seadrill Common Shares (prior to dilution by the Primary Structuring Fee and the Employee Incentive Plan), plus any excess New Seadrill Common Shares, in exchange for $200 million paid in cash by the Commitment Parties to the Investment Agreement, which amount paid by the Commitment Parties will be reduced by an amount up to $48.1 million paid by participants in the Equity Rights Offering;
- up to 57.5% of the New Seadrill Common Shares (prior to dilution by the Primary Structuring Fee and the Employee Incentive Plan) to the purchasers of the New Secured Notes, which will include the Commitment Parties and the participants in the Notes Rights Offering, on a pro rata basis in accordance with the amount of New Secured Notes issued to such purchasers;
- (i) 5% of the New Seadrill Common Shares (prior to dilution by the Employee Incentive Plan) to Hemen on account of a primary structuring fee (the "Primary Structuring Fee") and (ii) 0.5% of the New Seadrill Common Shares to certain other Commitment Parties (prior to dilution by the Primary Structuring Fee and the Employee Incentive Plan) on a pro rata basis in accordance with each such Commitment Party's respective equity commitment percentage.

Subject to the conditions of the Investment Agreement, the Commitment Parties agreed to purchase the full principal amount of the New Secured Notes and the associated 57.5% of the New Seadrill Common Shares (prior to dilution by the Primary Structuring Fee and the Employee Incentive Plan) for $880 million in cash, less the principal amount purchased by participants in the Notes Rights Offering.

On the Effective Date, an employee incentive plan will be implemented by New Seadrill (the "Employee Incentive Plan") which will (a) reserve an aggregate of 10% of the New Seadrill Common Shares, on a fully diluted, fully distributed basis, for grants made from time to time to employees of New Seadrill; and (b) otherwise contain terms and conditions (including with respect to participants, allocation, structure, and timing of issuance) generally consistent with those prevailing in the market at the discretion of the board of directors of New Seadrill.

Our Fleet

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

Floaters

Drillships: Drillships are self-propelled ships equipped for drilling offshore in water depths ranging from 1,000 to 12,000ft, and are positioned over the well through a computer-controlled thruster system similar to that used on semi-submersible rigs. Drillships are suitable for drilling in remote locations because of their mobility and large load-carrying capacity. Depending on country of operation, drillships operate with crews of 65 to 100 people.

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

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Semi-submersible rigs can be either moored or dynamically positioned. Moored semi-submersible rigs are positioned over the wellhead location with anchors and typically operate in water depths ranging up to 1,500ft. Dynamically positioned semi-submersible rigs are positioned over the wellhead location by a computer-controlled thruster system and typically operate in water depths ranging from 1,000 to 12,000. Depending on country of operation, semi-submersible rigs generally operate with crews of 65 to 100 people.

Jack-Up Rigs

Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the seabed. A jack-up rig is mobilized to the drill site with a heavy lift vessel or a wet tow. At the drill site, the legs are lowered until they penetrate the sea bed and the hull is elevated to an approximate operational airgap of 50 to 100 feet depending on the expected environmental forces. After completion of the drilling operations, the hull is lowered to floating draft, the legs are raised and the rig can be relocated to another drill site. Jack-ups are generally suitable for water depths of 450 feet or less and operate with crews of 90 to 120 people.

Our Competitive Strengths

We believe that our competitive strengths include:

One of the largest offshore drilling contractors

Since our inception in 2005, we have developed into one of the world’s largest international offshore drilling contractors, employing approximately 4,328 skilled employees. As at December 31, 2017, we owned and operated a fleet of 35 offshore drilling units, which consisted of 7 drillships, 12 semi-submersible rigs and 16 jack-up rigs. In addition, we also have 8 jack-ups currently under construction and an option to acquire 1 semi-submersible rig. While we are one of the largest offshore drilling companies, we also have one of the youngest rig fleets in our industry, with an average fleet age of approximately 8.8 years.

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

Commitment to safety and the environment

We believe that the combination of quality drilling units and experienced and skilled employees allows us to provide our customers with safe and effective operations. Quality assets and operational expertise allow us to establish, develop and maintain a position as a preferred provider of offshore drilling services for our customers.

Technologically advanced and young fleet

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

Strong and diverse customer relationships

We have strong relationships with our customers that we believe are based on our operational track record and quality of our fleet. Our customers are oil and gas exploration and production companies, including integrated oil companies, state-owned national oil companies and independent oil and gas companies. As of March 31, 2018, our five largest customers in terms of revenue were certain subsidiaries of Total, Petrobras, ENI, Saudi Aramco and ExxonMobil.

Our Business Strategy

During the current challenging period for the industry and in order to maintain our position as a leading offshore driller, our strategy includes being able to deliver in the following key areas:

Best Operations

We are a leading offshore deepwater drilling company and our key objective is to deliver the best operations possible - both in terms of utilization and health, safety and environment. To do this, we leverage having one of the most modern fleets in the industry and our combination of experienced and skilled employees across the organization. Using our strong operational record, we intend to maximize opportunities for new drilling contracts and sustain a competitive cost structure, which we have been pursuing through our multi-year savings program, while minimizing chances of contract terminations.

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Right rigs

Our business model includes both jack-ups and floaters and we will continue to maintain our presence in both segments. Having the right rigs in these two segments allows us to offer a range of assets to suit our customer needs, to work in various geographies and water depths, and to position ourselves for future growth in the industry.

Strongest relationships

We have established strong and long-term relationships with key players in the industry and we will seek to deepen and strengthen these relationships as part of our strategy. This involves identifying additional value-adding services for our existing customers and developing long-term partnerships. By providing the best possible service to our customers, we aim to help them unlock energy and be valued partners in their success.

Leading organization

We are proud of our Seadrill culture and we recognize that our business is built on people. As part of our strategy, we aim to recruit, retain, and develop the best people in the industry and to build an organization that adapts to business needs.

In addition to our long-term strategy, our immediate objective during the current industry downturn is to complete a comprehensive restructuring plan in order to provide a bridge to the industry recovery and realize the value of our high specification, modern fleet.

For the duration of our Chapter 11 proceedings, our operations and ability to develop and execute on our business plan are subject to the risks and uncertainties associated with the Chapter 11 process as described in Item 3D. Risk Factors.

Market Overview

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

The global fleet of drilling units

The global fleet of offshore drilling units consists of drillships, semi-submersible rigs, jack-up rigs and tender rigs. Currently, the existing worldwide drilling rig fleet totaled 812 units including 116 drillships, 143 semi-submersible rigs, 526 jack-up rigs and 30 tender rigs. In addition, there are currently 28 drillships, 90 jack-up rigs, 14 semi-submersible rigs and 6 tender rigs on order or under construction.

The water depth capacities for various drilling rig types depend on rig specifications, capabilities and equipment outfitting. Jack-up rigs normally work in water depths up to 450ft while semi-submersible rigs and drillships can work in water depths up to 12,000ft and tender rigs work in water depths up to 410ft for tender barges and up to 6,000ft for semi-tenders. All offshore rigs are capable of working in benign environment but there are certain additional requirements for rigs to operate in harsh environments due to extreme marine and climatic conditions. The number of units outfitted for such operations are limited and the present number of rigs capable of operating in harsh environments total 146 units.

Floaters

The worldwide fleet of semi-submersible rigs and drillships currently totals 259 units. Of the total delivered fleet, 166 units are capable of ultra-deepwater operations above 7500 feet, 31 are classed for deepwater operations up to 7,500 feet and 62 are classed for operations up to 4500 feet. Overall, the average global fleet is 16 years old. The average age of ultra-deepwater units is 8 years, 25 years for units classed for deepwater operations up to 7,500 feet and 29 years for units classed for operations up to 4,500 feet.

Included in the global floater fleet are units classed for operations in harsh environments. The global harsh environment floater fleet is comprised of 69 units and is 19 years old on average.

Whilst oil companies continue to prefer newer and more capable equipment, we are currently seeing a similar level of utilization across each class of drilling unit. Ultra-deepwater units are currently experiencing 46% capacity utilization versus 42% for deepwater and 56% for mid-water floaters. Utilization for harsh environment floaters is currently 51%.

Based on the level of current activity and the aging floater fleet, accelerated stacking and scrapping activity is expected to continue. A total of 103 floaters have been scrapped or retired since the beginning of 2014, equivalent to 32% of the total fleet, and currently there are 28 cold or warm stacked units with no follow-on work identified that are 30 years old or older. In the next 18 months, a further 22 units that are 30 years old or older will be coming off contract with no follow-on work identified which represents additional scrapping candidates. A key rational for scrapping is the 35-year classing expenditures that can cost upwards of $100 million. Many rig owners will choose to retire the unit rather than incur this cost without a visible recovery in demand on the horizon.

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Currently the order book stands at approximately 42 units, comprised of 28 drillships and 14 semi-submersible rigs. 12 are scheduled for delivery in 2018, 17 in 2019 and 13 in 2020 and beyond. Due to the subdued level of contracting activity, it is likely that a significant number of newbuild orders will be delayed or canceled until an improved market justifies taking delivery.

Jack-up rigs

The worldwide fleet of jack-up rigs currently totals 526 units. Of the total delivered fleet, 243 units are termed as high specification or capable of operations in water depth of 350 feet and greater and 283 units are termed as standard jack-ups and can work at water depths up to 350 feet. Overall, the global jack-up fleet is 22 years old on average. The average age of high specification units is 11 years and 31 years for standard units.

Included in the global jack-up fleet are units classed for operations in harsh environments. The global harsh environment jack-up fleet is comprised of 77 units and is 14 years old on average.

Oil companies continue to prefer newer and more capable equipment, demonstrated by the utilization rates of different asset classes.

High specification jack-ups are currently experiencing 58% capacity utilization versus 54% for standard units. Harsh environment jack-ups are currently operating at 53% capacity utilization.

A total of 57 jack-ups have been scrapped since the beginning of 2014, equivalent to 11% of the total fleet, and currently there are 56 cold stacked units that are 30 years old or older, which are prime scrapping candidates. In the next 18 months 91 units that are 30 years old or older will be coming off contract with no follow on work identified which represent additional scrapping candidates, however scrapping activity in the jack-up segment is subdued relative to the floater segment due to the lower cost of stacking and classing these units.

The current newbuilding orderbook stands at approximately 90 units. In 2018, 56 units are scheduled for delivery, with an additional 27 scheduled for 2019 and 7 in 2019 and beyond. Due to the subdued level of contracting activity it is likely that a significant number of newbuild orders will be delayed or cancelled until an improved market justifies taking delivery.

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

Seasonality

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

Customers

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

2017 our largest customers were:

- Total, which accounted for approximately 25% of our revenues;
- Petrobras, which accounted for approximately 19% of our revenues;
- LLOG, which accounted for approximately 15% of our revenues;
- ExxonMobil, which accounted for approximately 7% of our revenues; and
- Statoil, which accounted for approximately 4% of our revenues.

Our contract backlog, as of March 31, 2018, totaled approximately $2.4 billion. Of the total contract backlog, $0.8 billion is attributable to our semi-submersible rigs and drillships and $1.6 billion attributable to our jack-up units. We expect approximately $0.7 billion of our contract backlog to be realized in the remainder of 2018. Contract backlog for our drilling fleet is calculated as the contract dayrate multiplied by the number of days remaining on the contract, assuming full utilization. Contract backlog excludes revenues for mobilization and demobilization, contract preparation, and customer reimbursables. The amount of actual revenues earned and the actual periods during which revenues are earned will be different from the backlog projections due to various factors. Downtime, caused by unscheduled repairs, maintenance, weather and other operating factors, may result in lower applicable dayrates than the full contractual operating dayrate.

In light of the current environment, we are encountering, and may in the future encounter, situations where counterparties request relief to contracted dayrates or seek early contract termination. In the event of early termination for the customer's convenience, an early termination fee is typically payable to us, in accordance with the terms of the drilling agreement. While we are confident that our contract terms are enforceable, we may be willing to engage in discussions to modify such contracts if there is a commercial agreement that is beneficial to both parties. Please refer to "Item 3. Key Information—D. Risk Factors—Our customers may seek to cancel or renegotiate their contracts to include unfavorable

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terms such as unprofitable rates, particularly in the circumstance that operations are suspended or interrupted" and "—Our contract backlog for our fleet of drilling units may not be realized."

Competition

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

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

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

Furthermore, competition for offshore drilling rigs is generally on a global basis, as rigs are highly mobile. However, the cost associated with mobilizing rigs between regions is sometimes substantial, as entering a new region could necessitate upgrades of the unit and its equipment to specific regional requirements. In particular, for rigs to operate in harsh environments, such as offshore Norway and Canada, as opposed to benign environments, such as the Gulf of Mexico, West Africa, Brazil, the Mediterranean and Southeast Asia, more demanding weather conditions would require more costly investment in the outfitting and maintenance of the drilling units.

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

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

Risk of Loss and Insurance

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

a) Physical Damage Insurance

We purchase hull and machinery insurance to cover for physical damage to our drilling rigs. We retain the risk, through self-insurance, for the deductibles relating to physical damage insurance on our drilling unit fleet; currently, a maximum of $5 million per occurrence.

b) Loss of Hire Insurance

We purchase insurance to cover operating deepwater drilling units, harsh environment jack-ups, and one semi tender belonging to Seadrill Partners, for loss of revenue in the event of extensive downtime caused by physical damage, where such damage is covered under our physical damage insurance. Our self-insured retentions under the loss of hire insurance are up to 60 days after the occurrence of the physical damage, plus up to 25% of the daily loss of hire after the 60 day period. Thereafter we are compensated for loss of revenue up to 290 days depending on the rig. We retain the risk that the repair of physical damage takes longer than the total number of days in the loss of hire policy.

c) Protection and Indemnity Insurance

We purchase protection and indemnity insurance and excess liability for personal injury liability for crew claims, non-crew claims and third-party property damage including oil pollution from the drilling rigs to cover claims of up to $750 million depending on the type of drilling rig and area of operation, per event and in the aggregate. We retain the risk for the deductible of up to $25,000 per occurrence relating to protection and indemnity insurance or up to $500,000 for claims made in the United States.

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d) Windstorm Insurance

We have elected to place an insurance policy for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico with a Combined Single Limit of $100 million in the annual aggregate, which includes Loss of Hire. We intend to renew our policy to insure a limited part of this windstorm risk for a further period starting May 1, 2018 through April 30, 2019.

Environmental and Other Regulations in the Offshore Drilling Industry

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

Flag State Requirements

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

The flag state requirements are international maritime requirements and in some cases further interpolated by the flag state itself. These include engineering, safety and other requirements related to the maritime industry. In addition, each of our drilling units must be “classed” by a classification society. The classification society certifies that the drilling rig is “in-class,” signifying that such drilling rig has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the flag state and the international conventions of which that country is a member. Maintenance of class certification requires expenditure of substantial sums, and can require taking a drilling unit out of service from time to time for repairs or modifications to meet class requirements. Our drilling units must generally undergo a class survey once every five years. In addition, for some of the internationally-required class certifications, such as the Code for the Construction and Equipment of Mobile Offshore Drilling Units (the “MODU Code”) certificate, the classification society will act on a flag state’s behalf.

International Maritime Regimes

Applicable international maritime regime requirements include, but are not limited to, the International Convention for the Prevention of Pollution from Ships (“MARPOL”), the International Convention on Civil Liability for Oil Pollution Damage of 1969 (the “CLC”), the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001 (ratified in 2008), or the Bunker Convention, the International Convention for the Safety of Life at Sea of 1974 (“SOLAS”), the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or the ISM Code, MODU Code, and the International Convention for the Control and Management of Ships’ Ballast Water and Sediments in February 2004 (the “BWM Convention”). These various conventions regulate air emissions and other discharges to the environment from our drilling units worldwide, and we may incur costs to comply with these regimes and continue to comply with these regimes as they may be amended in the future. In addition, these conventions impose liability for certain discharges, including strict liability in some cases. See Item 3 “Key Information -- D. Risk Factors - Risks Relating to Our Company and Industry - We are subject to complex environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business.”

Annex VI to MARPOL sets limits on sulfur dioxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances. Annex VI applies to all ships and, among other things, imposes a global cap on the sulfur content of fuel oil and allows for specialized areas to be established internationally with even more stringent controls on sulfur emissions. For vessels 400 gross tons and greater, platforms and drilling rigs, Annex VI imposes various survey and certification requirements. Moreover, recent amendments to Annex VI require the imposition of progressively stricter limitations on sulfur emissions from ships. Since January 1, 2015, these limitations have required that fuels of vessels in covered Emission Control Areas (“ECAs”) contain no more than 0.1% sulfur, including the Baltic Sea, North Sea, North America and United States Sea ECAs. For non-ECA areas, the sulfur limit in marine fuel is currently capped at 3.5%, which will then decrease to 0.5% on January 1, 2020 subject to a feasibility review. The amendments also establish new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. All of our rigs are in compliance with these requirements.

The BWM Convention calls for a phased introduction of mandatory ballast water exchange requirements (beginning in 2009), to be replaced in time with a requirement for mandatory ballast water treatment. The BWM Convention entered into force on September 8, 2017. Under its requirements, for units with ballast water capacity more than 5,000 cubic meters that were constructed in 2011 or before, only ballast water treatment will be accepted by the BWM Convention. All Seadrill units considered in operational status are in full compliance with the staged implementation of the BWM Convention by International Maritime Organization guidelines.

Environmental Laws and Regulations

Applicable environmental laws and regulations include the U.S. Oil Pollution Act of 1990, ("OPA"), the Comprehensive Environmental Response, Compensation and Liability Act, ("CERCLA"), the U.S. Clean Water Act, ("CWA"), the U.S. Clean Air Act, ("CAA"), the U.S. Outer Continental

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Shelf Lands Act ("OCSLA"), the U.S. Maritime Transportation Security Act of 2002, (“MTSA"), European Union regulations, including the EU Directive 2013/30 on the Safety of Offshore Oil and Gas Operations, and Brazil’s National Environmental Policy Law (6938/81), Environmental Crimes Law (9605/98) and Federal Law (9966/2000) relating to pollution in Brazilian waters. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection. In certain circumstances, these laws may impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault on our part. Implementation of new environmental laws or regulations that may apply to ultra-deepwater drilling units may subject us to increased costs or limit the operational capabilities of our drilling units and could materially and adversely affect our operations and financial condition. See Item 3 “Key Information - D. Risk Factors - Risks Relating to Our Company and Industry - We are subject to complex environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business.”

Safety Requirements

Our operations are subject to special safety regulations relating to drilling and to the oil and gas industry in many of the countries where we operate. The United States undertook substantial revision of the safety regulations applicable to our industry following the 2010 Deepwater Horizon incident, in which we were not involved, that led to the Macondo well blow out situation. Other countries are also undertaking a review of their safety regulations related to our industry. These safety regulations may impact our operations and financial results by adding to the costs of exploring for, developing and producing oil and gas in offshore settings. For instance, in April 2016, the U.S. Department of the Interior’s Bureau of Safety and Environmental Enforcement (“BSEE”) published a final rule that sets more stringent design requirements and operational procedures for critical well control equipment used in offshore oil and gas drilling. The rule adds new requirements and amends existing ones to, among other things, set new baseline standards for the design, manufacture, inspection, repair and maintenance of blow-out preventers and the use of double shear rams. The rule contains a number of other requirements, including third-party verification and certifications, real-time monitoring of deepwater and certain other activities, and sets criteria for safe drilling margins. In December 2017, BSEE proposed to revise or eliminate certain of the requirements under the rule. To the extent these requirements remain in effect, they are likely to increase the costs of our operations and may lead our customers to not pursue certain offshore opportunities because of the increased costs, delays and regulatory risks. In July 2016, U.S. Department of the Interior’s Bureau of Ocean Energy Management (“BOEM”) issued a final Notice to Lessees and Operators substantially revising and making more stringent supplemental bonding procedures for the decommissioning of offshore wells, platforms, pipelines, and other facilities. In June 2017, BOEM announced that the implementation timeline would be extended, except in circumstances where there is a substantial risk of nonperformance of such obligations. In addition, in December 2015, BSEE announced that it is launching a pilot risk-based inspection program for offshore facilities. New requirements resulting from the program may cause us to incur costs and may result in additional downtime for our drilling units in the U.S. Gulf of Mexico. Also, if material spill events similar to the Deepwater Horizon incident were to occur in the future, the United States or other countries could elect to again issue directives to temporarily cease drilling activities and, in any event, may from time to time issue additional safety and environmental laws and regulations regarding offshore oil and gas exploration and development. The EU has also undertaken a significant revision of its safety requirements for offshore oil and gas activity through the issuance of the EU Directive 2013/30 on the Safety of Offshore Oil and Gas Operations.

Navigation and Operating Permit Requirements

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

Local Content Requirements

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

Other Laws and Regulations

In addition to the requirements described above, our international operations in the offshore drilling segment are subject to various other international conventions and laws and regulations in countries in which we operate, including laws and regulations relating to the importation of, and operation of, drilling units and equipment, currency conversions and repatriation, oil and gas exploration and development, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of drilling units and other equipment. There is no assurance that compliance with current laws and regulations or amended or newly adopted laws and regulations can be maintained in the future or that future expenditures required to comply with all such laws and regulations in the future will not be material.

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C. ORGANIZATIONAL STRUCTURE

Please see “A. History and Development of the Company” for further information on the Seadrill Limited group of companies.

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

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D. PROPERTY, PLANT AND EQUIPMENT

We own a substantially modern fleet of drilling units. The following table sets forth the units that we own or are under construction as of March 31, 2018. Please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources” for more information on our newbuilding program.

Unit	Year built	Water depth (feet)	Drilling depth (feet)	Area of location	Month of contract expiry
Jack-up rigs					