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

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **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**

OR

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

Commission file number 001-35345

PACIFIC DRILLING S.A.

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

Luxembourg
(Jurisdiction of incorporation or organization)

8-10, Avenue de la Gare
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(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act. None.
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.

Title of each class
Common shares, $0.01 par value per share

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 21,338,602 shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual 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 ☐ 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. 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 (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ 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. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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 ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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FORWARD-LOOKING STATEMENTS

This annual report contains "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally identifiable by their use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "project," "will" and similar terms and phrases, which are not generally historical in nature, including references to assumptions. The assumptions and bases used to make any forward-looking statements, while reasonable and made in good faith, almost always vary from the actual results, and the differences between assumed facts or bases and actual results can be material, depending upon the circumstances.

Any forward-looking statements contained in this annual report should not be relied upon as predictions of future events as no assurance can be given that the expectations expressed in any forward-looking statements will prove to be correct. You should thoroughly read this annual report with the understanding that our actual future results may be materially different from and worse than what we expect. Some important factors that could cause actual results to differ materially from those in the forward-looking statements are, in certain instances, included with such forward-looking statements and Item 3.D., "Risk Factors" in this annual report. Additionally, new risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Readers are cautioned not to place undue reliance on the forward-looking statements contained in this annual report, which represent the best judgment of our management. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

As used in this annual report, unless the context otherwise requires, references to "Pacific Drilling," the "Company," "we," "us," "our" and words of similar import refer to Pacific Drilling S.A. and its subsidiaries. Unless otherwise indicated, all references to "$" in this report are to, and amounts are represented in, United States ("U.S.") dollars.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

On November 12, 2017 (the "Petition Date"), Pacific Drilling S.A. and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions (the "Bankruptcy Petitions") for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). See Note 2 to our consolidated financial statements for additional information.

You should read the following selected consolidated financial data in conjunction with Item 5, "Operating Results" and our historical consolidated financial statements and related notes thereto included elsewhere in this annual report. The financial information included in this annual report may not be indicative of our future financial position, results of operations or cash flows.

Pacific Drilling S.A. was formed on March 11, 2011 as a Luxembourg public limited liability company (*société anonyme)* . The financial information relating to the Company and its subsidiaries has been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and is presented in U.S. dollars.

Set forth below are (i) selected historical consolidated financial data as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015, which have been derived from our audited consolidated financial statements included elsewhere in this annual report, and (ii) selected historical consolidated financial data as of December 31, 2015, 2014 and 2013 and for the years ended December 31, 2014 and 2013, which have been derived from our audited consolidated financial statements not included in this annual report.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share information)				
Statement of operations data:					
Revenues					
Contract drilling	$ 319,716	$ 769,472	$ 1,085,063	$ 1,085,794	$ 745,574
Costs and expenses					
Operating expenses	(244,089)	(290,038)	(431,261)	(459,617)	(337,277)
General and administrative expenses	(87,134)	(63,379)	(55,511)	(57,662)	(48,614)
Depreciation expense	(278,949)	(275,901)	(243,457)	(199,337)	(149,465)
	(610,172)	(629,318)	(730,229)	(716,616)	(535,356)
Loss from construction contract rescission	—	—	(40,155)	—	—
Operating income (loss)	(290,456)	140,154	314,679	369,178	210,218
Other income (expense)					
Interest expense	(178,983)	(189,044)	(156,361)	(130,130)	(132,211)
Write-off of deferred financing costs	(30,846)	—	—	—	—
Gain (loss) on debt extinguishment	—	36,233	—	—	(28,428)
Reorganization items	(6,474)	—	—	—	—
Other expense	(5,544)	(2,393)	(3,217)	(5,171)	(1,554)
Income (loss) before income taxes	(512,303)	(15,050)	155,101	233,877	48,025
Income tax expense	(12,863)	(22,107)	(28,871)	(45,620)	(22,523)
Net income (loss)	$ (525,166)	$ (37,157)	$ 126,230	$ 188,257	$ 25,502
Earnings (loss) per common share, basic [(1)]	$ (24.64)	$ (1.76)	$ 5.97	$ 8.67	$ 1.18
Weighted-average number of common shares, basic [(1)]	21,315	21,167	21,145	21,722	21,696
Earnings (loss) per common share, diluted [(1)]	$ (24.64)	$ (1.76)	$ 5.97	$ 8.66	$ 1.17
Weighted-average number of common shares, diluted [(1)]	21,315	21,167	21,156	21,737	21,742

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Balance sheet data:					
Cash, cash equivalents and restricted cash	$ 317,448	$ 626,168	$ 116,033	$ 167,794	$ 204,123
Property and equipment, net	4,652,001	4,909,873	5,143,556	5,431,823	4,512,154
Total assets [(2)]	5,362,961	5,998,207	5,792,720	6,028,080	5,101,654
Long-term debt [(3)]	3,043,967	3,145,449	2,845,670	3,101,021	2,368,451
Shareholders' equity	2,151,801	2,666,200	2,692,055	2,578,872	2,399,924

(1) Share and per share data for the years ended December 31, 2015, 2014, and 2013 have been restated to reflect a 1-for-10 reverse stock split in May 2016.

(2) Total assets for the years ended December 31, 2014 and 2013 have been adjusted to reflect the retrospective adoption of an accounting standard, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset.

(3) Includes current maturities of long-term debt, net of debt issuance costs. Debt balances as of December 31, 2017 are presented within liabilities subject to compromise on the balance sheet.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

An investment in our common shares or debt securities involves a high degree of risk. You should consider carefully the following risk factors, as well as the other information contained in this annual report, before making an investment in our common shares or debt securities. Any of the risk factors described below could significantly and negatively affect our financial position, results of operations or cash flows. In addition, these risks represent important factors that can cause our actual results to differ materially from those anticipated in our forward-looking statements.

Risks Related to Our Bankruptcy Proceedings

We are subject to the risks and uncertainties associated with our Chapter 11 proceedings.

On the Petition Date, the Debtors filed the Bankruptcy Petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. As a consequence of our filing the Bankruptcy Petitions, our operations and our ability to develop and execute our business plan, and our continuation as a going concern, will be subject to the risks and uncertainties associated with bankruptcy. These risks include the following:

• our ability to confirm and consummate a plan of reorganization with respect to the Chapter 11 proceedings;

• our ability to obtain court approval with respect to motions filed in Chapter 11 proceedings from time to time;

• the high costs of bankruptcy proceedings and related fees;

• our ability to obtain sufficient financing to allow us to emerge from bankruptcy and execute our business plan post-emergence, and our ability to comply with terms and conditions of that financing;

• our ability to maintain our relationships with our vendors, suppliers, service providers, customers, and other third parties, and with our directors, officers and employees;

• our ability to maintain contracts that are critical to our operations on reasonably acceptable terms and conditions;

• our ability to execute our business plan in the current depressed commodity price environment;

• our ability to attract, motivate and retain key employees;

• the ability of third parties to seek and obtain court approval to terminate contracts and other agreements with us;

• the possibility that the Chapter 11 proceedings will disrupt or impede our domestic and international operations;

• the ability of third parties to seek and obtain court approval to terminate or shorten the exclusivity period for us to propose and confirm a Chapter 11 plan, to appoint a Chapter 11 trustee, or to convert the Chapter 11 proceedings to Chapter 7 liquidation proceedings; and

• the actions and decisions of our creditors and other third parties who have interests in our Chapter 11 proceedings that may be inconsistent with our plans.

Any delays in our Chapter 11 proceedings increase the risks of our inability to reorganize our business and emerge from bankruptcy and may increase our costs associated with the bankruptcy process.

These risks and uncertainties could affect our business and operations in various ways. For example, negative publicity associated with the Chapter 11 proceedings could adversely affect our relationships with our vendors, suppliers, service providers, customers, employees and other third parties, which in turn could adversely affect our operations and financial condition. In particular, critical suppliers, providers of letters of credit, surety bonds or similar instruments, vendors and customers may determine not to do business with us due to our Chapter 11 proceedings. Also, during the pendency of the Chapter 11 proceedings, we will need the prior approval of the Bankruptcy Court for transactions outside the ordinary course of business, which may limit our ability to respond timely to certain events or take advantage of certain opportunities. Additionally, losses of key personnel or erosion of employee morale could have a material adverse effect on our ability to meet customer expectations, thereby adversely affecting our business and results of operations. The failure to retain or attract and maintain members of our management team, and other key personnel could impair our ability to execute our strategy and implement operational initiatives, thereby having a material adverse effect on our financial condition and results of operations. Because of the risks and uncertainties associated with a voluntary filing for relief under Chapter 11 of the Bankruptcy Code and the related proceedings, we cannot accurately predict or quantify the ultimate impact that events that occur during our Chapter 11 proceedings may have on our business, financial condition and results of operations, and there is no certainty as to our ability to continue as a going concern.

Additionally, so long as the Chapter 11 proceedings continue, we will be required to incur significant costs for professional fees and other expenses associated with the administration of the Chapter 11 proceedings. The Chapter 11 proceedings may also require us to seek debtor-in-possession financing to fund operations. If we are unable to obtain such financing on favorable terms or at all, our chances of successfully reorganizing our business may be seriously jeopardized, the likelihood that we instead will be required to liquidate our assets may be enhanced, and, as a result, our common shares and debt instruments could become further devalued or become worthless.

Furthermore, we cannot predict the ultimate amount of all settlement terms for the liabilities that will be subject to a plan of reorganization. Even once a plan of reorganization is approved and implemented, our operating results may be adversely affected by the possible reluctance of prospective lenders and other counterparties to do business with a company that recently emerged from Chapter 11 proceedings.

We may not be able to obtain confirmation of a Chapter 11 plan of reorganization.

To emerge successfully from Bankruptcy Court protection as a viable entity, we must meet certain statutory requirements with respect to adequacy of disclosure regarding a plan of reorganization, solicit and obtain the requisite acceptances of such plan, demonstrate the feasibility of such plan to the Bankruptcy Court by a preponderance of the evidence and fulfill other statutory conditions for confirmation of such plan, which have not occurred to date. The confirmation process can be subject to numerous, unanticipated potential delays. There can also be no assurance that a plan of reorganization will be approved by the Bankruptcy Court, so we urge caution with respect to existing and future investments in our securities.

The success of any reorganization will depend on approval by the Bankruptcy Court and the willingness of existing creditors to agree to the exchange or modification of their claims as will be outlined in a plan of reorganization, and there can be no guarantee of success with respect to a plan of reorganization. We may receive objections to confirmation of any plan of reorganization from various stakeholders in the Chapter 11 proceedings. We cannot predict the impact that any objection to or third party motion during the Chapter 11 proceedings may have on a Bankruptcy Court's decision to confirm a plan of reorganization or our ability to complete a plan of reorganization. Any objection may cause us to devote significant resources in response which could materially and adversely affect our business, financial condition and results of operations.

If a plan of reorganization is not confirmed by the Bankruptcy Court, it is unclear whether we would be able to reorganize our business and what, if any, distributions holders of claims against us, including holders of our secured and unsecured debt and equity, would ultimately receive with respect to their claims. There can be no assurance as to whether we will successfully reorganize and emerge from the Chapter 11 proceedings or, if we do successfully reorganize, as to when we would emerge from Chapter 11 proceedings. If no plan of reorganization can be confirmed, or the Bankruptcy Court finds that it would be in the best interest of creditors and/or the Debtors, the Bankruptcy Court may convert our Chapter 11 proceedings to cases under Chapter 7 of the Bankruptcy Code. In such event, a Chapter 7 trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under Chapter 7 would result in significantly

smaller distributions being made to the Debtors' creditors than those provided for in a Chapter 11 plan of reorganization because of (i) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time rather than reorganizing or selling in a controlled manner the Debtors' businesses as a going concern, (ii) additional administrative expenses involved in the appointment of a Chapter 7 trustee, and (iii) additional expenses and claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of operations.

Upon emergence from a filing of voluntary relief under Chapter 11 of the Bankruptcy Code, our historical financial information may not be indicative of our future financial performance.

Our capital structure may be significantly altered under a plan of reorganization. Under fresh-start reporting rules that may apply to us upon the effective date of the plan of reorganization, our assets and liabilities would be adjusted to fair values and our accumulated deficit would be restated to zero. Accordingly, if fresh-start reporting rules apply, our financial condition and results of operations following our emergence from the Chapter 11 proceedings would not be comparable to the financial condition and results of operations reflected in our historical financial statements. Further, a plan of reorganization could materially change the amounts and classifications reported in our consolidated historical financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

The pursuit of the Chapter 11 proceedings have consumed, and will continue to consume, a substantial portion of the time and attention of our management, which may have an adverse effect on our business and results of operations, and we may face increased levels of employee attrition.

It is impossible to predict with certainty the amount of time that we could spend in bankruptcy or to assure parties in interest that a plan of reorganization will be confirmed. The Chapter 11 proceedings may involve additional expense and our management will be required to spend a significant amount of time and effort focusing on the proceedings. This diversion of attention may materially adversely affect the conduct of our business and, as a result, our financial condition and results of operations, particularly if the Chapter 11 proceedings are protracted.

During the pendency of the Chapter 11 proceedings, our employees will face considerable distraction and uncertainty, and we may experience increased levels of employee attrition. A loss of key personnel or material erosion of employee morale could have a material adverse effect on our ability to effectively, efficiently and safely conduct our business, and could impair our ability to execute our strategy and implement operational initiatives, thereby having a material adverse effect on our business and on our financial condition and results of operations.

We have substantial liquidity needs and may not be able to obtain sufficient liquidity to confirm a plan of reorganization and exit bankruptcy.

Although we have lowered our capital budget and reduced the scale of our operations significantly, our business remains capital intensive. In addition to the cash requirements necessary to fund ongoing operations, we have incurred significant professional fees and other costs in connection with the restructuring and expect that we will continue to incur significant professional fees and costs throughout the Chapter 11 proceedings. There are no assurances that our current liquidity is sufficient to allow us to satisfy our obligations related to the Chapter 11 proceedings, to proceed with the confirmation of a Chapter 11 plan of reorganization and to emerge from bankruptcy. We can provide no assurance that we will be able to secure additional interim financing or exit financing sufficient to meet our liquidity needs.

Our liquidity, including our ability to meet our ongoing operational obligations, is dependent upon, among other things: (i) our ability to comply with the terms and conditions of the cash management order entered by the Bankruptcy Court in connection with our Chapter 11 proceedings, (ii) our ability to maintain adequate cash on hand, (iii) our ability to generate cash flow from operations, (iv) our ability to confirm and consummate a Chapter 11 plan of reorganization and (v) the cost, duration and outcome of the Chapter 11 proceedings.

Any Chapter 11 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 be unsuccessful in its execution.

Any plan of reorganization we may implement could affect our capital structure and the ownership, structure and operation of our business 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 change substantially our capital structure, (ii) our ability to obtain adequate liquidity and access financing sources, (iii) our ability to maintain customers' confidence in our viability as a continuing entity and to attract and retain sufficient business from them, (iv) our ability to retain key employees and (v) the overall strength and stability of general economic conditions of the financial and oil and gas industries, both in the U.S. and in global markets. The failure of any of these factors could materially adversely affect the successful reorganization of our business.

In addition, any Chapter 11 plan of reorganization will rely upon financial projections, including with respect to revenues, EBITDA, capital expenditures, 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. 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 business 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.

We may be subject to claims that will not be discharged in our Chapter 11 proceedings, which could have a material adverse effect on our financial condition and results of operations.

The Bankruptcy Code provides that the confirmation of a Chapter 11 plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all claims that arose prior to confirmation of the plan of reorganization: (i) would be subject to compromise and/or treatment under the plan of reorganization and (ii) would be discharged in accordance with the Bankruptcy Code and the terms of the plan of reorganization. Any claims not ultimately discharged through a Chapter 11 plan of reorganization could be asserted against the reorganized entities and may have an adverse effect on our business and our financial condition and results of operations on a post-reorganization basis.

Even if a Chapter 11 plan of reorganization is consummated, we may not be able to achieve our stated goals and continue as a going concern.

Even if a Chapter 11 plan of reorganization is consummated, we will continue to face a number of risks, including further deterioration in commodity prices or other changes in economic conditions, changes in our industry, changes in demand for oil and gas and increasing expenses. Accordingly, we cannot guarantee that a Chapter 11 plan of reorganization will achieve our stated goals.

Furthermore, even if our debts are reduced or discharged through a plan of reorganization, we may need to raise additional funds through public or private debt or equity financing or other various means to fund our business after the completion of our Chapter 11 proceedings. Our access to additional financing is, and for the foreseeable future will likely continue to be, limited, if it is available at all. Therefore, adequate funds may not be available when needed or may not be available on favorable terms, if they are available at all.

Risks Related to Our Business

The demand for our services depends on the level of activity in the offshore oil and gas industry, which is significantly affected by, among other things, volatile oil and gas prices and has been and may continue to be materially and adversely affected by the recent significant decline in the offshore oil and gas industry.

The offshore contract drilling industry is cyclical and volatile and has been in significant decline after the substantial drop in oil prices beginning mid-2014. The demand for our services depends on the level of activity in oil and natural gas exploration, development and production in offshore areas worldwide. Oil and natural gas prices and market expectations of potential changes in these prices also significantly affect the level of offshore activity and demand for drilling units.

Oil and gas prices are extremely volatile and are affected by numerous factors beyond our control, including:

- the worldwide production and demand for oil and natural gas and any geographical dislocations in supply and demand,
- the development of new technologies, alternative fuels and alternative sources of hydrocarbon production, such as increases in onshore shale production in the United States,
- worldwide economic and financial problems and corresponding decline in the demand for oil and gas and consequently for our services, and
- the worldwide social and political environment, including uncertainty or instability resulting from changes in political leadership, an escalation or additional outbreak of armed hostilities, insurrection or other crises in the Middle East, Africa, South America or other geographic areas or acts of terrorism in the United States, or elsewhere.

Declines in oil and gas prices for an extended period of time, and market expectations of continued lower oil prices, have negatively affected and could continue to negatively affect our business in the offshore drilling sector. Sustained periods of low oil prices have resulted in and could continue to result in reduced exploration and drilling. These commodity price declines have an effect on rig demand, and periods of low demand can cause excess rig supply and intensify the competition in the industry which often results in drilling units of all generations and technical specifications being idle for periods of time. As a result of the low commodity prices, exploration and production companies have significantly reduced capital spending over the last few years, leading to a current oversupply of drilling rigs. These developments have exerted negative pricing pressure on our market. We cannot accurately predict the future level of demand for our services or future conditions in the oil and gas industry. The decrease in exploration, development or production expenditures by oil and gas companies, and any further decreases, could lead to further reductions in our revenues and materially harm our business and results of operations.

Failure to secure drilling contracts for our drillships could have a material adverse effect on our financial position, results of operations or cash flows.

We do not currently have drilling contracts for five of our seven drillships, the *Pacific Bora* , the *Pacific Scirocco* , the *Pacific Meltem,* the *Pacific Mistral* or the *Pacific Khamsin* . In addition, the contract for the *Pacific Santa Ana* is of limited duration. Our ability to obtain drilling contracts for these drillships will depend on market conditions and our clients' drilling programs. We may not be able to secure contracts for these drillships on favorable terms, or at all. The new contracts we have recently obtained have been for significantly shorter terms and lower dayrates than the prior contracts. Our failure to secure drilling contracts for our uncontracted drillships or currently operating drillships after the expiration of existing contracts could have a material adverse effect on our financial position, results of operations or cash flows.

An oversupply of rigs competing with our rigs could continue to depress the demand and contract prices for our floating rigs and could adversely affect our financial position, results of operations or cash flows and our ability to confirm a plan of reorganization in our Chapter 11 proceedings.

There are numerous high-specification floating rigs currently available for drilling services in the industry worldwide. We estimate there are approximately 45 to 50 high-specification floating rigs without firm contracts and available for drilling services in 2018. Additionally, we estimate that approximately 13 high-specification floating rigs are scheduled for delivery between January 1, 2018 and the end of 2018, at least seven of which are without firm contracts. The current oversupply of high-specification floating rigs has led to a significant reduction in dayrates and lower utilization and such dayrates may continue to decline. Lower utilization and dayrates could require us to enter into lower dayrate contracts or to idle or stack more of our drillships, which could have a material adverse effect on our business prospects, financial condition, liquidity, and results of operations and our ability to confirm a plan of reorganization in our Chapter 11 proceedings.

We have a small fleet and rely on a limited number of clients. The loss of any client or significant downtime on any drillship attributable to unplanned maintenance, repairs or other factors could adversely affect our financial position, results of operations or cash flows.

As a result of our relatively small fleet of drillships, we anticipate revenues will depend on contracts with a limited number of clients. One of our operating drillships, the *Pacific Sharav,* is working for a subsidiary of Chevron Corporation ("Chevron"). The *Pacific Santa Ana* is working for a subsidiary of Petronas.

The loss of any one of these clients could have a material adverse effect on our financial position, results of operations or cash flows. In addition, our limited number of drillships makes us more susceptible to incremental loss in the event of downtime on any one operating unit. If any one of our drillships becomes inactive for a substantial period of time and is not otherwise earning contractual revenues, it could have a material adverse impact on our financial position, results of operations or cash flows.

Our current backlog of contract drilling revenue may not be fully realized.

As of March 23, 2018, we had a contract backlog on the *Pacific Santa Ana* and the *Pacific Sharav* of approximately $333.0 million. We calculate our contract backlog by multiplying the contractual dayrate by the number of days committed under the contracts (excluding options to extend), assuming full utilization, and also including mobilization fees, upgrade reimbursements and other revenue sources, such as the standby rate during upgrades, as stipulated in the applicable contracts. For a well-by-well contract, we calculate the contract backlog by estimating the expected number of remaining days to drill the firm wells committed. The actual amounts of revenues earned and the actual periods during which revenues are earned may differ from the amounts and periods shown in the tables provided in Item 4, "Business Overview—Contract Backlog" of this annual report due to various factors, including unplanned downtime and maintenance projects and other factors. We may not be able to realize the full amount of our contract backlog due to events beyond our control. In addition, some of our clients may experience liquidity issues, which could worsen if commodity prices remain low or decrease further for an extended period of time. Liquidity issues could lead our clients to seek to repudiate, cancel or renegotiate these agreements for various reasons, as described under "—Our drilling contracts may be terminated early in certain circumstances" below. Our inability to realize the full amount of our contract backlog could have a material adverse effect on our financial position, results of operations or cash flows.

We may enter into drilling contracts with less favorable terms that expose us to greater risks than we normally assume.

The current market conditions and oversupply of drilling rigs has impacted and could continue to impact our existing drilling contracts. Our clients may seek to renegotiate dayrates and other terms under our existing contracts and we may not be able to preserve current dayrates or utilization and we may not be able to extend contracts with our clients on favorable terms, or at all. Additionally, our clients may seek to terminate existing contracts prior to the expiration of their terms, as described in "—Our drilling contracts may be terminated early in certain circumstances."

We may enter into drilling contracts or amendments to drilling contracts that expose us to greater risks than we normally assume, such as exposure to greater environmental or other liabilities and more onerous termination provisions giving the customer a right to terminate without cause or upon little or no notice. Upon termination, these contracts may

not result in a payment to us, or if a termination payment is required, it may not fully compensate us for the loss of a contract. In addition, the early termination of a contract may result in a rig being idle for an extended period of time, which could adversely affect our financial position, results of operations or cash flows. We can provide no assurance that any such increased risk exposure will not have a material negative impact on our future operations and financial results.

We may not realize the cost-savings anticipated on our idle rigs.

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. During periods in which a rig is idle, we may decide to “smart stack” the rig, which means the rig is maintained with a reduced level of crew to be ready to ramp up to operational status for redeployment within a three-month time frame. During periods in which multiple rigs are idle, we may decide to “modified smart stack” the rigs, which means the idle rigs are maintained as a group with one rig providing the power source for the other rigs, which have no crew onboard and require a longer time frame for redeployment. As a result of smart stacking and modified smart stacking, our operating expenses are less than if the rig remained active; however, reductions in costs may not be immediate and we may not be able to realize the costs savings anticipated.

Moreover, as our rigs are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly. In general, labor costs increase primarily due to higher salary levels and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the rig is performing and the age and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are amortized. Should rigs be idle for an extended period, we may seek to “cold stack” the rig so as to further reduce costs, which means the rig is stored in a harbor or designated offshore area and the crew is reassigned or dismissed. However, there can be no assurance that we will be successful in reducing our costs in such cases.

Our drilling contracts may be terminated early in certain circumstances.

Our contracts with clients may be terminated at the option of the client upon payment of an early termination fee, which is typically a significant percentage of the dayrate or the standby rate under the drilling contract for a specified period of time. During periods of depressed market conditions, we are subject to an increased risk that our clients may seek to terminate our contracts. Early termination payments may not fully compensate us for the loss of the contract. Our contracts also provide for termination by the client without the payment of any termination fee, under various circumstances, typically including, but not limited to, our non-performance, as a result of downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events. Many of these events are beyond our control. If our clients terminate some of our contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if payments due under our contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, our financial position, results of operations or cash flows could be materially adversely affected.

The market value of our current drillships may decrease, which could cause us to take accounting charges or to incur losses if we decide to sell them following a decline in their values.

If the offshore contract drilling industry continues to suffer adverse developments, the fair market values of our drillships may decline. The fair market values of the drillships we currently own or may acquire in the future may increase or decrease depending on a number of factors, many of which are beyond our control, including the general economic and market conditions affecting the oil and gas industry and the possible corresponding adverse effect on the level of offshore drilling activity.

Any such deterioration in the market values of our drillships could require us to record an impairment charge in our financial statements, which could adversely affect our results of operations. If we sell any of our drillships when prices for such drillships have fallen, the sale may be at less than such drillship's carrying amount on our financial statements, resulting in a loss.

Our business and the industry in which we operate involve numerous operating hazards which, if they occur, may cause a material adverse effect to our business.

Our operations are subject to the usual hazards inherent in the drilling and operation of oil and natural gas wells, such as blowouts, reservoir damage, loss of production, loss of well control, cratering, fires, explosions, spills and pollution. The occurrence of any of these events could result in the suspension of our drilling or production operations, claims by the operator, severe damage to, or destruction of, the property and equipment involved, injury or death to drilling unit personnel and environmental and natural resources damage. Our operations could be suspended as a result of these hazards whether the fault is ours or that of a third party. In certain circumstances, governmental authorities may suspend drilling operations as a result of these hazards, and our clients may cancel or terminate their contracts. We may also be subject to personal injury and other claims of drilling unit personnel as a result of our drilling operations.

We may experience downtime as a result of repairs or maintenance, human error, defective or failed equipment or delays waiting for replacement parts.

Our operations may be suspended because of machinery breakdowns, human error, abnormal operating conditions, failure of subcontractors to perform or supply goods or services, delays on replacement parts or personnel shortages, which may cause us to experience operational downtime and could have an adverse effect on our results of operations.

In addition, we rely on certain third parties to provide supplies and services necessary for our offshore drilling operations, including, but not limited to, drilling equipment, catering and machinery suppliers. Mergers in our industry have reduced the number of available suppliers, resulting in fewer alternatives for sourcing key supplies. Such consolidation, combined with a high volume of drilling units under construction, may result in a shortage of supplies and services potentially inhibiting the ability of suppliers to deliver on time, or at all. These delays may have a material adverse effect on our results of operations and result in downtime, and delays in the repair and maintenance of our drillships.

Our business is subject to numerous governmental laws and regulations, including environmental requirements that may impose significant costs and liabilities on us.

Our operations are subject to federal, state, local and foreign or international laws and regulations that may require us to obtain and maintain specific permits or other governmental approvals to control the discharge of oil and other contaminants into the environment or otherwise relating to environmental protection. Countries where we operate have environmental laws and regulations governing our discharge of oil and other contaminants and imposing stringent standards on our activities that are protective of the environment. Any operations and activities that we conduct in the United States and its territorial waters are subject to numerous environmental laws, including the Oil Pollution Act of 1990 ("OPA"), the Outer Continental Shelf Lands Act ("OCSLA"), the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") and the International Convention for the Prevention of Pollution from Ships ("MARPOL"), as each has been amended from time to time, and analogous state laws. Failure to comply with these laws, regulations and treaties may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, the denial or revocation of permits or other authorizations and the issuance of injunctions that may limit or prohibit some or all of our operations. Laws and regulations protecting the environment have become more stringent in recent years and may in certain circumstances impose strict liability, rendering us liable for environmental and natural resource damages caused by others or for acts that were in compliance with all applicable laws at the time the acts were performed. The application of these laws and regulations, the modification of existing laws or regulations or the adoption of new laws or regulations that curtail exploratory or developmental drilling for oil and natural gas could materially limit future contract drilling opportunities or materially increase our costs, including our capital expenditures.

The imposition of stringent restrictions or prohibitions on offshore drilling by a governing body may have a material adverse effect on our business.

Catastrophic events resulting in the release of oil or other contaminants offshore have heightened environmental and regulatory concerns about the oil and natural gas industry. In the past, the federal government, acting through the U.S. Department of the Interior ("DOI") and its implementing agencies that have since evolved into the present day Bureau of Ocean Energy Management ("BOEM") and Bureau of Safety and Environmental Enforcement ("BSEE"), have issued various rules, Notices to Lessees and Operators ("NTLs") and temporary drilling moratoria that impose or result in added environmental and safety regulations or requirements upon oil and natural gas exploration, development and production operators in the U.S. Gulf of Mexico, some of whom are our clients. Any such regulatory initiatives may serve to effectively slow down the pace of drilling and production operations in the U.S. Gulf of Mexico due to adjustments in operating procedures and certification requirements as well as increased lead times to obtain exploration and production plan reviews. Also, our clients may require changes to our operations or procedures in order for our clients to meet their own additional compliance requirements, which may increase our costs.

Our business could be affected adversely by union disputes and strikes or work stoppages by our employees. In addition, our labor costs and the operating restrictions under which we operate could increase as a result of collective bargaining negotiations and changes in labor laws and regulations.

Some of our international employees are represented by unions and are working under agreements that are subject to annual salary negotiations. We cannot guarantee the results of any such collective bargaining negotiations or whether any such negotiations will result in a work stoppage. In addition, employees may strike for reasons unrelated to our union arrangements. Any future work stoppage could, depending on the affected operations and the length of the work stoppage, have a material adverse effect on our financial position, results of operations or cash flows. In addition, we could enter new markets where the workforce is represented by unions, which could result in higher operating costs that we are unable to pass along to our clients.

Our global operations may be adversely affected by political and economic circumstances in the countries in which we operate, including as a result of violations of the U.S. Foreign Corrupt Practices Act and similar foreign anti-bribery laws. A significant portion of our business has been and may in the future be conducted in West Africa, which exposes us to risks of war, local economic instabilities, corruption, political disruption and civil disturbance in that region.

We operate in oil and natural gas producing areas worldwide. We are subject to a number of risks inherent in any business that operates globally, including: political, social and economic instability, war, piracy and acts of terrorism; corruption; potential seizure, expropriation or nationalization of assets; increased operating costs; wage and price controls; imposition or changes in interpretation and enforcement of local content laws; and other forms of government regulation and economic conditions that are beyond our control.

The United States Foreign Corrupt Practices Act (the "FCPA"), the UK Bribery Act 2010, the Nigerian Corrupt Practices and Other Related Offenses Act of 2000, Brazil's Anti Corruption Law of 2014 and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making, offering or authorizing improper payments to government officials for the purpose of obtaining or retaining business. We may operate in countries where strict compliance with anti-bribery laws conflicts with local customs and practices. Violations of or any non-compliance with current and future anti-bribery laws (either due to acts or inadvertence by us or our agents) may result in criminal and civil sanctions and could subject us to other liabilities in the U.S. and elsewhere.

In order to effectively compete in some foreign jurisdictions, we utilize local agents and/or establish joint ventures with local operators or strategic partners. Our agents often interact with government officials on our behalf. Even though some of our agents and partners may not themselves be subject to the FCPA or other anti-bribery laws to which we may be subject, if our agents or partners make improper payments to government officials in connection with engagements or partnerships with us, we could be investigated and potentially found liable for violation of such anti-bribery laws and could incur civil and criminal penalties and other sanctions, which could have a material adverse effect on our financial position, results of operations or cash flows.

These risks may be higher in developing countries such as Nigeria and Mauritania. Countries in West Africa have experienced political and economic instability in the past and such instability may continue in the future. Disruptions in our operations may occur in the future, and losses caused by these disruptions may not be covered by insurance.

We may be required to make significant capital expenditures to maintain our competitiveness and to comply with laws and the applicable regulations and standards of governmental authorities and organizations.

Changes in offshore drilling technology, client requirements for new or upgraded equipment and competition within our industry may require us to make significant capital expenditures in order to maintain our competitiveness. Our competitors may have greater financial and other resources than we have, which may enable them to make technological improvements to existing equipment or replace equipment that becomes obsolete. In addition, changes in governmental regulations, safety or other equipment standards may require us to make additional unforeseen capital expenditures.

If we are unable to fund these capital expenditures with cash flow from operations, we may either incur additional borrowings or raise capital through the sale of debt or equity securities. Our ability to access the capital markets for future offerings may be limited by our Chapter 11 proceedings, our financial position at the time, by changes in laws and regulations and by adverse market conditions. Our failure to obtain the funds for necessary future capital expenditures could limit our ability to continue to operate some of our vessels and could have a material adverse effect on our business and on our financial position, results of operations or cash flows.

There may be limits on our ability to mobilize drillships between geographic areas and the time and costs of such mobilizations may be material to our business.

The offshore contract drilling market is generally a global market as drilling units may be mobilized from one area to another. However, the ability to mobilize drilling units can be impacted by several factors including governmental regulation and customs practices, the significant costs to move a drilling unit, weather, political instability, civil unrest, military actions and the technical capability of the drilling units to operate in various environments. Additionally, while a drillship is being mobilized from one geographic market to another, we may not be paid by the client for the time that the drillship is out of service. Also, we may mobilize a drillship to another geographic market without a client contract, which may result in costs that are not reimbursed by future clients.

The loss of some of our key executive officers and employees could negatively impact our business.

Our future operational performance depends to a significant degree upon the continued service of key members of our management as well as marketing, sales and operations personnel. The loss of one or more of our key personnel could have a material adverse effect on our business. We believe our future success will also depend in large part upon our ability to attract, retain and further motivate highly skilled management, marketing, sales and operations personnel. We may experience intense competition for personnel, and we may not be able to retain key employees or be successful in attracting, assimilating and retaining personnel in the future.

Any significant cyber-attack or interruption in network security could materially disrupt our operations and adversely affect our business.

We have become increasingly dependent upon digital technologies to conduct and support our offshore operations, and we rely on our operational and financial computer systems to conduct almost all aspects of our business. Threats to our information technology systems associated with cybersecurity risks and incidents or attacks continue to grow. Any failure of our computer systems, or those of our customers, vendors or others with whom we do business, could materially disrupt our operations and could result in the corruption of data or unauthorized release of proprietary or confidential data concerning our company, business operations and activities, clients or employees. Computers and other digital technologies could become impaired or unavailable due to a variety of causes, including, among others, theft, design defects, terrorist attacks, utility outages, human error or complications encountered as existing systems are maintained, repaired, replaced or upgraded. Any cyber-attack or interruption could have a material adverse effect on our financial position, results of operations or cash flows, and our reputation.

Our insurance may not be adequate in the event of a catastrophic loss.

Damage to the environment could result from our operations, particularly through oil spillage or extensive uncontrolled fires. We may also be subject to property, environmental, natural resource and other damage claims by oil and natural gas companies, other businesses operating offshore and in coastal areas, environmental conservation groups, governmental entities and other third parties. Insurance policies and contractual rights to indemnity may not adequately cover losses, and we may not have insurance coverage or rights to indemnity for all risks. Moreover, pollution and environmental risks generally are not fully insurable.

Losses caused by the occurrence of a significant event against which we are not fully insured, or caused by a number of lesser events against which we are insured but are subject to substantial deductibles, aggregate limits and/or self-insured amounts, could materially increase our costs and impair our profitability and financial position. Our policy limits for property, casualty, liability and business interruption insurance, including coverage for severe weather, terrorist acts, war, civil disturbances, pollution or environmental damage, may not be adequate should a catastrophic event occur related to our property, plant or equipment, or our insurers may not have adequate financial resources to sufficiently or fully pay related claims or damages. When any of our coverage expires, adequate replacement coverage may not be available, offered at reasonable prices or offered by insurers with sufficient financial resources.

Our clients may be unable or unwilling to indemnify us.

Consistent with standard industry practice, our clients generally assume, and indemnify us against, well control and subsurface risks under our dayrate contracts. These risks are associated with the loss of control of a well, such as blowout or cratering, the cost to regain control or redrill the well and associated pollution. However, the indemnification provisions in our contracts may not cover all damages, claims or losses to us or third parties, and our client may not have sufficient resources to cover their indemnification obligations or the client may contest their obligation to indemnify us. Also, in the interest of maintaining good relations with our key clients, we may choose not to assert certain indemnification claims. In addition, in certain market conditions, we may be unable to negotiate contracts containing indemnity provisions that obligate our clients to indemnify us for such damages and risks.

We may suffer losses as a result of foreign currency fluctuations.

A significant portion of the contract revenues of our foreign operations will be paid in U.S. dollars; however, some payments are made in foreign currencies. As a result, we are exposed to currency fluctuations and exchange rate risks as a result of our foreign operations. To minimize the financial impact of these risks when we are paid in foreign currency, we attempt to match the currency of operating costs with the currency of contract revenue. If we are unable to substantially match the timing and amounts of these payments, any increase in the value of the U.S. dollar in relation to the value of applicable foreign currencies could adversely affect our operating results when translated into U.S. dollars.

Public health threats could have a material adverse effect on our financial position, results of operations or cash flows.

Public health threats, such as Ebola, the H1N1 flu virus, the Zika virus, Severe Acute Respiratory Syndrome, and other highly communicable diseases, outbreaks of which have already occurred in various parts of the world in which we operate, could adversely impact our operations, the operations of our customers and the global economy, including the worldwide demand for oil and natural gas and the level of demand for our services. Any quarantine of personnel or inability to access our offices or rigs could adversely affect our operations. Travel restrictions or operational problems in any part of the world in which we operate, or any reduction in the demand for drilling services caused by public health threats in the future, may adversely affect our financial position, results of operations or cash flows.

We may be adversely affected by national, state and foreign or international laws or regulatory initiatives focusing on greenhouse gas (GHG) reduction.

Due to concern over the risk of climate change, there has been a broad range of proposed or promulgated initiatives regarding GHG reduction. Regulatory frameworks adopted, or being considered for adoption, to reduce GHG emissions include cap and trade regimes, carbon taxes, restrictive permitting, increased efficiency standards, and incentives or mandates for renewable energy. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions in the United States would impact our business, any such

future laws and regulations that require reporting of GHGs or otherwise limit emissions of GHGs from oil and gas exploration and production operators, some of whom are our clients, could require such operators to incur increased costs, lengthen project implementation times, and adversely affect demand for the oil and natural gas that they produce, which could decrease demand for our services. We are currently unable to predict the manner or extent of any such effect.

Risks Related to Our Common Shares

The New York Stock Exchange has delisted our common shares, which are currently traded in the over-the-counter market. This has negatively affected our share price and liquidity. Trading in our securities during the pendency of our Chapter 11 proceedings poses substantial risks.

The New York Stock Exchange ("NYSE") has delisted our common shares, and our common shares currently trade in the "Pink Sheets" of OTC Pink, under the symbol "PACDQ." The OTC Pink is a significantly more limited market than the NYSE, and quotation on the OTC Pink may result in a less liquid market available for existing and potential shareholders to trade the common shares and could further depress the trading price of the common shares. The delisting of our common shares from the NYSE could also result in other adverse consequences, including lower demand for our shares, adverse publicity and a reduced interest in our Company from investors, analysts and other market participants. In addition, the delisting could impair our ability to raise additional capital through equity or debt financing and our ability to attract and retain employees by means of equity compensation. There can be no assurance that our common shares will continue to trade on OTC Pink or that any public market for the common shares will exist in the future, whether broker-dealers will continue to provide public quotes of the common shares on this market, whether the trading volume of the common shares will be sufficient to provide for an efficient trading market, whether quotes for the common shares may be blocked in the future, or that we will be able to relist the common shares on a national securities exchange. Due to these and other risks described in this annual report, trading in our securities during the pendency of our Chapter 11 proceedings poses substantial risks.

The rights and responsibilities of our shareholders are governed by Luxembourg law and differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including the United States, and shareholder rights under Luxembourg law may not be as clearly established as shareholder rights under the laws of other jurisdictions.

Our corporate affairs are governed by our articles of association, as amended from time to time (our "Articles"), and by the laws governing companies incorporated in Luxembourg. The rights of our shareholders and the responsibilities of our Board of Directors under Luxembourg law may not be as clearly established as shareholder rights under the laws of other jurisdictions. We anticipate that all of our shareholder meetings will take place in Luxembourg.

In addition, the rights of shareholders as they relate to, for example, the exercise of shareholder rights are governed by Luxembourg law and our Articles and differ from the rights of shareholders under other jurisdictions, including the United States. The holders of our common shares may have more difficulty in protecting their interests in the face of actions by the Board of Directors than if we were incorporated in the United States.

Because we are incorporated under the laws of Luxembourg, shareholders may face difficulty protecting their interests, and their ability to protect their rights through other international courts, including courts in the United States, may be limited.

We are a public limited liability company incorporated under the laws of Luxembourg, and as a result, it may be difficult for investors to effect service of process within the United States upon us or to enforce both in the United States and outside the United States judgments against us obtained in U.S. courts in any action, including actions predicated upon the civil liability provisions of the federal securities laws of the United States. In addition, a majority of our directors are residents of jurisdictions other than the United States, and all or a substantial portion of the assets of those persons are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States on certain of our directors or to enforce against them judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

There is uncertainty as to whether the courts of Luxembourg would (i) enforce judgments of U.S. courts obtained against us predicated upon the civil liability provisions of the federal securities laws of the United States or (ii) entertain

original actions brought in Luxembourg courts against us predicated upon the federal securities laws of the United States.

We are controlled by Quantum Pacific (Gibraltar) Limited, which could result in potential conflicts of interest with our public shareholders.

Quantum Pacific (Gibraltar) Limited, an entity controlled by an investment holdings group (the "Quantum Pacific Group") was the beneficial owner of approximately 70.3% of our outstanding common shares as of March 23, 2018 and is in a position to control actions that require the consent of our shareholders, including the election of directors, amendment of our Articles and any merger or sale of substantially all of our assets. In addition, three of our eight Board of Directors members are also employees of affiliates of the Quantum Pacific Group.

There are no restrictions on the ability of the Quantum Pacific Group to compete with us. In addition, potential conflicts of interest exist or could arise in the future for our directors who are also employees of Quantum Pacific Group affiliates with respect to a number of areas relating to the past and ongoing relationships of the Quantum Pacific Group and us. Although the affected directors may abstain from voting on matters in which our interests and those of the Quantum Pacific Group are in conflict, the presence of potential or actual conflicts could affect the process or outcome of the deliberations of our Board of Directors and may have an adverse effect on our public shareholders.

Our controlling shareholder may pledge a portion of its shares in our Company to secure its own debt facilities.

Our controlling shareholder, Quantum Pacific (Gibraltar) Limited, has from time to time pledged a significant portion of its shares in our Company to secure its own debt facilities. Although Quantum Pacific (Gibraltar) Limited does not currently have any of its shares in our Company pledged, Quantum Pacific (Gibraltar) Limited may, in the future, obtain loans that are secured by a pledge of equity interests in our Company. A default under a loan facility with our Company shares pledged could result in another person acquiring a significant voting interest in our Company and could adversely affect the market price of our common shares.

Additionally, a decline in the market value of our common shares could trigger margin calls under any such loan facilities. Failure or delay by Quantum Pacific (Gibraltar) Limited to promptly meet any margin call or other events of default under these financing arrangements could result in the sale or other disposition of some or all of the pledged shares, which could result in one or more persons other than Quantum Pacific (Gibraltar) Limited acquiring the pledged shares and thereby acquiring a significant voting interest in our Company. Furthermore, due to Quantum Pacific (Gibraltar) Limited's significant interest in our Company, the disposition of a portion or all of its pledged shares by the lender under the loan facility or a subsequent holder of the pledged shares may adversely affect prevailing market prices of our shares.

Because our common shares have been delisted from the NYSE, we are no longer required to comply with the NYSE's corporate governance standards or the corporate governance standards of any other U.S. national securities exchange, and investors may not have the same protections afforded to stockholders of companies that are subject to the corporate governance requirements of a U.S. national securities exchange.

Because our common shares have been delisted from the NYSE and do not trade on any U.S. national securities exchange, we are not required to comply with the corporate governance requirements of the NYSE or any other U.S. national securities exchange, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that all independent directors meet in executive session at least once a year, (3) the requirement that the nominating/corporate governance committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities, (4) the requirement that the compensation committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities, (5) the requirement that the audit committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities and (6) the requirement to adopt and disclose corporate governance guidelines. As permitted by our Articles and the laws of Luxembourg, we currently have a compensation committee and a nominating committee with one or more non-independent directors serving as committee members. As a result, non-independent directors, may, among other things, fix the compensation of our management, make common share and option awards and resolve governance issues regarding our Company. Accordingly, investors may not have the same protections afforded to stockholders of

companies that are subject to the corporate governance requirements of the NYSE or another U.S. national securities exchange.

As a "foreign private issuer," we are exempt from a number of rules under the U.S. securities laws and are permitted to file less information with the Securities and Exchange Commission ("SEC") than U.S. public companies. This may limit the information available to holders of our common shares.

As a "foreign private issuer," we are not subject to all of the disclosure requirements applicable to companies organized within the United States. For example, we are exempt from certain rules under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that regulate disclosure obligations and procedural requirements related to the solicitation of proxies, consents or authorizations applicable to a security registered under the Exchange Act. In addition, our officers and directors are exempt from the reporting and "short-swing" profit recovery provisions of Section 16 of the Exchange Act and related rules with respect to their purchases and sales of our securities. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. public companies. Accordingly, there may be less information concerning our Company publicly available than there is for U.S. public companies.

Tax Risks

Changes in tax laws, treaties or regulations or adverse outcomes resulting from examination of our tax returns could adversely affect our financial results.

Our future effective tax rates could be adversely affected by changes in tax laws, treaties and regulations, both in the United States and internationally. Tax laws, treaties and regulations are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, treaties and regulations in and between countries in which we operate or are resident. Our income tax expense is based upon the interpretation of the tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings. If any country successfully challenges our income tax filings based on our structure, or if we otherwise lose a material tax dispute, our effective tax rate on worldwide earnings could increase substantially and our financial results could be materially adversely affected.

We may not be able to make distributions without subjecting our shareholders to Luxembourg withholding tax.

If we are not successful in our efforts to make distributions, if any, through a withholding tax free reduction of share capital or share premium (the absence of withholding on such distributions is subject to certain requirements), then any dividends paid by us will generally be subject to a Luxembourg withholding tax at a rate of 15% (17.65% if the dividend tax is not withheld from the shareholder) (subject to the reductions/exceptions discussed under Item 10 "Taxation—Material Luxembourg Tax Considerations for U.S. Holders of Common Shares—Exemption from Luxembourg Withholding Tax"). The withholding tax must be withheld from the gross distribution and paid to the Luxembourg tax authorities. Under current Luxembourg tax law, a reduction of share capital or share premium is not subject to Luxembourg withholding tax provided that certain conditions are met, including, for example, the condition that we do not have distributable reserves or profits. However, there can be no assurance that our shareholders will approve such a reduction in share capital or share premium, that we will be able to meet the other legal requirements for a reduction in share capital or share premium, or that Luxembourg tax withholding rules will not be changed in the future. In addition, over the long term, the amount of share capital and share premium available for us to use for capital reductions will be limited. If we are unable to make a distribution through a withholding tax free reduction in share capital or share premium, we may not be able to make distributions without subjecting our shareholders to Luxembourg withholding taxes.

U.S. tax authorities could treat us as a "passive foreign investment company," which could have adverse U.S. federal income tax consequences to U.S. holders.

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 for any taxable year 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 certain rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business, but does not include income derived from the performance of services. 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 interests in the PFIC.

We believe that we are not a PFIC for the current taxable year and will not be a PFIC during any future taxable year. Based on our operations described herein, all or a substantial portion of our income from offshore contract drilling services should be treated as services income and not as passive income, and thus all or a substantial portion of the assets that we own and operate in connection with the production of that income should not constitute passive assets, for purposes of determining whether we are a PFIC. However, this involves a facts and circumstances analysis and it is possible that the IRS would not agree with this conclusion. See Item 10, “Taxation—Material U.S. Federal Income Tax Considerations for Holders of Common Shares—U.S. Holders—Passive Foreign Investment Company Rules.”

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company

Pacific Drilling S.A. was formed on March 11, 2011, as a Luxembourg public limited liability company (*société anonyme)* under the Luxembourg law of 10 August 1915 on commercial companies, as amended, to act as an indirect holding company for our predecessor company, Pacific Drilling Limited (our “Predecessor”). Our common shares were listed on the Norwegian OTC List from April 2011 to October 2016 and on the NYSE from November 2011 to September 2017. Our principal executive offices are located at 8-10, Avenue de la Gare, L-1610 Luxembourg and our telephone number is +352 27 85 81 35. Our registered agent in Luxembourg is Centralis S.A, which is located at 8-10, Avenue de la Gare, L-1610 Luxembourg.

On the Petition Date, the Debtors filed the Bankruptcy Petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. See Note 2 to our consolidated financial statements for additional information.

History and Business Development

Our Predecessor was formed in Liberia in 2006 as an independent operating subsidiary of a predecessor to the Quantum Pacific Group. The principals of the Quantum Pacific Group have significant holdings in various global industries such as energy, oil refining, transportation and commodities.

Our initial investment in the high-specification offshore drilling contractor industry was through the purchase in 2006 of a drillship under construction by Samsung Heavy Industries Co., Ltd. (“SHI”) and the later exercise of an option for a second drillship.

In 2007, we formed a joint venture, Transocean Pacific Drilling, Inc. (“TPDI”) with Transocean Ltd., and the two drillships then under construction were transferred into TPDI. We formed a construction management team to oversee activities in the SHI shipyard that was then seconded to Transocean Ltd., who assumed responsibility for management of construction and operation of the two TPDI drillships through a contract with TPDI.

In 2007, we entered into additional construction contracts with SHI to construct two high-specification drillships, the *Pacific Bora* and the *Pacific Mistral* , which were not included in TDPI, and in 2008, management decided to expand our activities in the high-specification offshore floating rig segment to include operation and marketing of drilling services for the two drillships. As part of this strategy, we then entered into additional contracts with SHI to construct two more high-specification drillships, the *Pacific Scirocco* and the *Pacific Santa Ana* .

In 2011, we reincorporated in Luxembourg, completed a restructuring pursuant to which our Predecessor was contributed to a wholly-owned subsidiary of Pacific Drilling, S.A., and determined that it was in our best interest to focus on the operation and marketing of our wholly-owned fleet. On March 30, 2011, we completed a transfer of all of our equity interest in TPDI to a wholly-owned subsidiary of the Quantum Pacific Group for no consideration. As a result, neither we nor any of our subsidiaries currently own any interest in TPDI.

We currently have seven drillships in our fleet. For more information on our fleet and drilling contracts, see Item 4, "Business Overview—Contract Backlog" and "Property, Plant and Equipment—Our Fleet."

Debt and Equity Financings

In April 2011, we completed the 2011 Private Placement of 60.0 million common shares for net proceeds of approximately $575.5 million.

In November 2011, we completed an initial public offering of 6.0 million common shares. In December 2011, the underwriters purchased an additional 0.9 million common shares pursuant to the full exercise of an over-allotment option. The initial public offering resulted in net proceeds of approximately $50.3 million. As a result of this offering, our common shares began trading on the NYSE on November 11, 2011 under the ticker symbol "PACD." As of September 13, 2017, our common shares have been delisted from the NYSE and have commenced trading in the "Pink Sheets" of OTC Pink, currently under the ticker symbol "PACDQ."

In November 2012, we completed a private placement of $500.0 million in aggregate principal amount of 7.25% senior secured notes due 2017 (the "2017 Senior Secured Notes") to fund the final construction costs related to the *Pacific Khamsin* . In connection with this private placement, we listed the 2017 Senior Secured Notes on the Global Exchange Market of the Irish Stock Exchange. On May 26, 2017, we delisted the 2017 Senior Secured Notes from the Irish Stock Exchange.

In February 2013, we entered into a $1.0 billion senior secured credit facility agreement (as amended and restated, the "SSCF") with a group of lenders to finance the construction, operation and expenses associated with the *Pacific Sharav* and the *Pacific Meltem* . In 2015, we completed the final drawdown under the SSCF. As of March 23, 2018, we had borrowings of $661.5 million outstanding under the SSCF and no undrawn capacity.

In June 2013, we completed three financing transactions totaling $2.0 billion, consisting of (i) the $750.0 million private placement of 5.375% senior secured notes due 2020 (the "2020 Senior Secured Notes"), (ii) the $750.0 million senior secured institutional term loan maturing 2018 (the "Senior Secured Term Loan B") and (iii) the $500.0 million senior secured revolving credit facility maturing 2018 (as amended, the "2013 Revolving Credit Facility"). A portion of the net proceeds from the 2020 Senior Secured Notes and the Senior Secured Term Loan B was used to fully repay the outstanding borrowings under a credit facility used to finance construction of the *Pacific Bora* , the *Pacific Mistral* , the *Pacific Scirocco* and the *Pacific Santa Ana* . As amended, the 2013 Revolving Credit Facility permitted loans to be extended up to a maximum limit of $475.0 million and permitted letters of credit to be issued up to a maximum sublimit of $300.0 million, subject to a $475.0 million overall facility limit. As of March 23, 2018, we had borrowings of $475.0 million outstanding under the 2013 Revolving Credit Facility, and no undrawn capacity.

In October 2014, we entered into a $500.0 million revolving credit facility for pre-delivery, delivery and post-delivery financing of an eighth drillship, the *Pacific Zonda,* and for other general corporate purposes (the "2014 Revolving Credit Facility"). On October 26, 2015, we repaid all amounts outstanding under the 2014 Revolving Credit Facility, and in connection with our rescission of the construction contract for the *Pacific Zonda* , the 2014 Revolving Credit Facility was terminated as of October 30, 2015.

Capital Expenditures

During the three most recent fiscal years, our Company's capital expenditures were $270.7 million. For more information on our capital expenditures and requirements, see Item 5.B., "Liquidity and Capital Resources."

B. BUSINESS OVERVIE W

Our primary business is to contract our fleet of rigs to drill wells for our clients. We are focused on the high-specification segment of the floating rig market. The term "high-specification," as used in the floating rig drilling industry to denote a particular segment of the market, can vary and continues to evolve with technological improvements. We generally consider high-specification requirements to include floating rigs capable of drilling in water depths of more than 7,500 feet or projects requiring advanced operating capabilities, such as high hook-loads (>1,000 tons), large accommodations (200+ beds), increased mud storage and pumping capacity, and high deck-load and space capabilities.

Our drillships are highly mobile and our fleet operates in a global market segment for the offshore exploration and production industry. Currently, our contracted drillships are operating in the deepwater regions of the U.S. Gulf of Mexico and West Africa.

Our Fleet

The status of our fleet as of March 23, 2018 and certain historical fleet information follows:

- The *Pacific Bora* entered service in Nigeria on August 26, 2011 under a contract with a subsidiary of Chevron Corporation ("Chevron"), which was completed on September 27, 2016. From February 9, 2017 to May 16, 2017, the *Pacific Bora* operated under a contract with Folawiyo AJE Services Limited ("FASL") in Nigeria. From August 1, 2017 to October 3, 2017, and from November 30, 2017 to February 5, 2018, the *Pacific Bora* operated under a contract with Erin Energy Corporation ("Erin") in Nigeria. The rig is currently on standby status in Ivory Coast and has been awarded a letter of intent for drilling services in Nigeria, subject to local government approval.

- The *Pacific Scirocco* entered service in Nigeria on December 31, 2011 under a contract with a subsidiary of Total S.A. ("Total"). On December 17, 2016, the *Pacific Scirocco* completed all contractual obligations for Total. From May 21, 2017 to September 15, 2017, the *Pacific Scirocco* operated under a contract with Hyperdynamics Corporation ("Hyperdynamics") in the Republic of Guinea. The rig is currently idle in Las Palmas while actively seeking a contract.

- The *Pacific Sharav* entered service in the U.S. Gulf of Mexico on August 27, 2014 and is operating under a five-year contract with a subsidiary of Chevron through September 2019.

- The *Pacific Santa Ana* entered service in the U.S. Gulf of Mexico on May 4, 2012 and completed its contract with a subsidiary of Chevron on January 31, 2017. Since December 20, 2017, the rig has been operating in Mauritania under a contract with Petronas to perform integrated services for a plug and abandonment project, estimated at 159 days with an option to extend.

- The *Pacific Mistral* is currently idle in Las Palmas while actively seeking a contract.

- The *Pacific Khamsin* is currently idle in Las Palmas while actively seeking a contract.

- The *Pacific Meltem* is currently idle in Las Palmas while actively seeking a contract.

In January 2013, we entered into a contract with SHI for the construction of an eighth drillship, the *Pacific Zonda* , with a purchase price of approximately $517.5 million and original delivery date of March 31, 2015 (the "Construction Contract"). On October 29, 2015, we exercised our right to rescind the Construction Contract due to SHI's failure to timely deliver the vessel in accordance with the specifications of the Construction Contract. See Note 14 to our consolidated financial statements for a discussion of a related arbitration proceeding.

During the years ended December 31, 2017, 2016 and 2015, the percentage of revenues earned by geographic area, based on drilling location, is as follows:

	Years Ended December 31,		
	2017	2016	2015
Gulf of Mexico	81.6 %	56.9 %	38.1 %
Nigeria	11.2 %	43.1 %	60.3 %
Other	7.2 %	— %	1.6 %

Our Business Strategies and Company Strengths

Our principal business objective is to be the preferred provider of high-specification, floating rig drilling services to the oil and natural gas industry. To achieve this objective we focus on safety, operational excellence, cost management and developing strategic relationships with high-quality clients.

- *Enhanced focus on safety and operational excellence* . In the current market with decreased demand for offshore drilling services, excelling in safety and operational ability is a key factor for success. Our management team is focused on providing quality drilling services for our clients by minimizing downtime and maximizing rig operational efficiency. We believe that we have developed a competitive advantage through our exceptional operating performance.
- *Efficiently manage costs while maintaining optionality and marketability* . We have implemented company-wide cost-savings initiatives to reduce our rig operating expenses while effectively maintaining our ability to restart idle rigs within a time frame of three months for a smart stacked rig and six months for a modified smart stacked rig.
- *Continued development of strategic relationships with high-quality clients* . Our future revenue is dependent upon major international and national oil companies as well as independent exploration and production companies increasing their exploration and development programs. Our existing and potential clients tend to take long-term approaches to the development of their projects, and we believe that our strong operational performance and efficient cost management will make us a preferred long-term partner.

We have a number of strengths that help us achieve our business strategies, including our high-specification, technologically advanced drillship fleet, which represents a uniformity of assets that supports a competitive cost structure and optimal revenue capture. Our fleet is comprised of some of the newest and most technologically advanced drillships in the world. Each of our high-specification drillships is designed to operate in water depths of up to 12,000 feet. Furthermore, our high-specification drillships are self-propelled, dynamically positioned and suitable for drilling in remote locations. Our drillships are expected to achieve faster drilling and shorter transportation times between locations relative to older units in the market. The uniformity of our assets enables efficient and streamlined labor, maintenance, supply chain and operating support systems, which we believe will allow us to develop and maintain a competitive cost structure and maximize our revenue capture. Additionally, our drillships' consistent technical specifications and equipment make spare parts and maintenance processes interchangeable, which reduces the capital requirements associated with keeping spare parts in stock, lowering maintenance and supply chain costs.

Risks

We face a number of risks associated with our business and industry in implementing our business strategies. These risks relate to, among others, changes in the offshore contract drilling industry, including supply and demand, utilization rates, dayrates, client drilling programs and commodity prices; a downturn in the global economy; hazards inherent in our industry and operations resulting in liability for personal injury or loss of life, damage to or destruction of property and equipment, pollution or environmental damage; inability to finance capital projects; and inability to successfully enter into drilling contracts and employ our drillships.

Readers should carefully consider the following risks, those other risks described in Item 3.D., "Risk Factors" and the other information in this annual report:

- We are subject to the risks and uncertainties associated with our Chapter 11 proceedings.

- We may not be able to obtain confirmation of a Chapter 11 plan of reorganization.
- Even if a Chapter 11 plan of reorganization is consummated, we may not be able to achieve our stated goals and continue as a going concern.
- The demand for our services depends on the level of activity in the offshore oil and natural gas industry, which is significantly affected by oil and natural gas prices and other factors beyond our control.
- An oversupply of rigs competing with our rigs has depressed the demand and contract prices for high-specification rigs, which could adversely affect our financial position, results of operations or cash flows.
- We have a limited asset base and currently rely on two client contracts. The loss of any client or significant downtime on any drillship could adversely affect our financial position, results of operations or cash flows.

Clients

A significant number of the most active participants in the high-specification floating rig segment of the offshore exploration and production industry are either national oil companies, major oil and gas companies or well-capitalized large independent oil and gas companies.

During the years ended December 31, 2017, 2016 and 2015, the percentage of revenues earned from our clients was as follows:

	Years Ended December 31,		
	2017	2016	2015
Chevron	81.6 %	77.1 %	81.2 %
Total	— %	22.9 %	17.2 %
Other	18.4 %	— %	1.6 %

Contract Backlog

Our contract backlog includes firm commitments only, which are represented by signed drilling contracts. As of March 23, 2018, our contract backlog was approximately $333.0 million and was attributable to revenues we expect to generate on (i) the *Pacific Sharav* under the drilling contract with Chevron and (ii) the *Pacific Santa Ana* under the drilling contract with Petronas. We calculate our contract backlog by multiplying the contractual dayrate by the number of days committed under the contracts (excluding options to extend), assuming full utilization, and also including mobilization fees, upgrade reimbursements and other revenue sources, such as the standby rate during upgrades, as stipulated in the applicable contracts. For a well-by-well contract, we calculate the contract backlog by estimating the expected number of remaining days to drill the firm wells committed.

The actual amounts of revenues earned and the actual periods during which revenues are earned may differ from the amounts and periods shown in the table below due to various factors. Our contracts generally provide for termination at the election of the client with an "early termination payment" to be paid to us if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig or sustained unacceptable performance by us, an early termination payment is not required to be paid. Accordingly, the actual amount of revenues earned may be substantially lower than the backlog reported.

The firm commitments that comprise our $333.0 million contract backlog as of March 23, 2018, are as follows:

Rig	Contracted Location	Client	Contract Backlog [a]	Contractual Dayrate [a][b]	Contract Commencement	Expected Contract Duration
Pacific Sharav	U.S. Gulf of Mexico	Chevron	$ 314,587	$ 550	August 27, 2014	5 years
Pacific Santa Ana	Mauritania	Petronas	$ 18,397	$ 265	December 20, 2017	(c)

(a) In thousands. Based on signed drilling contracts and signed commitments as further described above.
(b) Based on current contractual dayrate amounts, subject to any applicable escalation provisions.
(c) Contract to perform integrated services for a plug and abandonment project, estimated at 159 days with an option to extend.

Drilling Contracts

We typically provide drilling services on a "dayrate" contract basis. Under dayrate contracts, the drilling contractor provides a drilling rig and rig crews and charges the client a fixed amount per day regardless of the number of days needed to drill the well. The client bears substantially all of the ancillary costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well. In addition, dayrate contracts sometimes provide for a lump sum amount for mobilizing the rig to the well location and a reduced dayrate when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other conditions beyond the contractor's control. A dayrate drilling contract generally covers either the drilling of a single well or group of wells or has a stated term. These contracts may generally be terminated by the client in the event the drilling unit is damaged, destroyed or lost or if drilling operations are suspended for an extended period of time as a result of a breakdown of equipment, "force majeure" events beyond the control of either party or upon the occurrence of other specified conditions. In addition, drilling contracts with certain clients may be cancelable, without cause, with little or no prior notice. Some longer term contracts are subject to early termination payments. In some instances, the dayrate contract term may be extended by the client exercising options for the drilling of additional wells or for an additional length of time at fixed or mutually agreed terms, including dayrates.

Competition

The contract drilling industry is highly competitive. Demand for contract drilling and related services is influenced by a number of factors, including the current and expected prices of oil and natural gas and the capital expenditure plans of oil and natural gas companies for exploration and development of oil and natural gas. In addition, demand for drilling services remains dependent on a variety of political and economic factors beyond our control, including worldwide demand for oil and natural gas, the ability of OPEC to set and maintain production levels and pricing, the level of production of non-OPEC countries, local infrastructure and human resources constraints, and the policies of the various governments regarding exploration and development of their oil and natural gas reserves.

We are primarily focused on the ultra-deepwater market, but may also compete to provide services at shallower depths than ultra-deepwater. Our competition ranges from large international companies offering a wide range of drilling and other oilfield services to smaller, locally owned companies.

Drilling contracts are generally awarded on a competitive bid or negotiated basis. Pricing is often the primary factor in determining which qualified contractor is awarded a job; however, rig availability, capabilities, age and each contractor's safety performance record and reputation for quality also can be key factors in the determination. Operators also may consider crew experience, technical and engineering support, rig location and efficiency, as well as long-term relationships with major international oil companies and national oil companies.

We believe that the market for drilling contracts will continue to be highly competitive for the foreseeable future. We believe that our fleet of high-specification drillships provides us with a competitive advantage over competitors with older fleets, as high-specification drilling units are generally better suited to meet the requirements of clients for drilling in deepwater, complex geological formations with challenging well profiles. However, certain competitors may have greater financial resources than we do, which may enable them to better withstand periods of low utilization and compete more effectively on the basis of price.

Seasonality

In general, seasonal factors do not have a significant direct effect on our business.

Insurance

The contract drilling industry is subject to hazards inherent in the drilling of oil and natural 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 operations are also subject to hazards particular to marine operations including capsizing, grounding, collision and loss or damage from severe weather. While we maintain insurance to protect our drillships in the areas in which we operate, certain political risks and other environmental risks are not fully insurable. We maintain insurance coverage that includes coverage for hull and machinery, marine liabilities, third party liability, workers' compensation and employer's liability, general liability, vessel pollution and other coverages.

Our insurance is subject to exclusions and limitations, and our insurance coverage may not adequately protect us against liability from all potential consequences and damages. We believe that our insurance coverage is customary for the industry and adequate for our business. However, there are risks that such insurance will not adequately protect us against or may not be available to cover all of the liability from all of the consequences and hazards we may encounter in our operations.

Governmental Regulation/Environmental Issues

Our operations are subject to stringent and comprehensive federal, state, local and foreign or international laws and regulations including those governing the discharge of oil and other contaminants into the environment or otherwise relating to environmental protection.

Applicable laws in the United States with which we must comply include the OPA, OCSLA, CERCLA, Federal Water Pollution Control Act (commonly referred to as the Clean Water Act, "CWA") and MARPOL, as each has been amended from time to time. Numerous governmental agencies, which in the United States include, among others, the DOI, BOEM, BSEE, U.S. Coast Guard and U.S. Environmental Protection Agency ("EPA"), issue regulations to implement and enforce environmental laws, which often require difficult and costly compliance measures that carry substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. Moreover, it is possible that changes in these environmental laws and regulations or any enforcement policies that impose additional or more restrictive requirements or claims for damages to persons, property, natural resources or the environment could result in substantial costs and liabilities to us. We believe that we are in substantial compliance with currently applicable environmental laws and regulations.

We, as an independent drilling contractor operating in Nigeria, are subject to Petroleum (Drilling and Production) Amendment Regulations 1988 (the "Regulations") which require us to be accredited with the Department of Petroleum Resources (the "DPR"). The Guidelines and Application Form for Oil & Gas Industry Service Permit issued by the DPR (the "DPR Guidelines") require that we are accredited and issued with a permit by the DPR (the "DPR Permit") in order to carry out the services in the industry. We have received and must annually renew the DPR permit in accordance with the DPR Guidelines. In addition to the DPR permit, under the Local Content Act (as defined below), we are required to be registered with the Joint Qualification System ("JQS"). The Nigerian Petroleum Exchange ("NIPEX") administers the JQS. NIPEX is required to pre-qualify companies and categorize them into its database as a prerequisite for any company intending to offer services in the industry and forms the basis for an invitation to tender for contracts. Under the Regulations we are also required to obtain a valid license prior to operating a drilling rig (a "Drilling Rig Permit"). A Drilling Rig Permit is granted by the Minister of Petroleum Resources ("Minister") or any other public officer in the Ministry authorized by the Minister in writing in that regard.

Our operations are also subject to the provisions of the Environmental Guidelines and Standards for the Petroleum Industry of Nigeria ("EGASPIN" or the "Guidelines") which establish a uniform monitoring and control program in relation to discharges arising from oil exploration and development in Nigeria.

The Nigerian Oil and Gas Industry Content Development Act, 2010 (the "Local Content Act") was enacted to provide for the development, implementation and monitoring of Nigerian content in the oil and gas industry and places emphasis on the promotion of Nigerian content among companies bidding for contracts in the oil and gas industry. It

also provides for majority Nigerian equity distribution of the relevant companies. The Local Content Act requires contractors within the oil and gas industry to comply with the minimum Nigerian Content specified for each particular project item, service or product specification as set out in Schedule A of the Local Content Act (the "Schedule"). The Schedule provides the parameters and minimum level/percentages to be utilized in determining and measuring Nigerian Content in the composite human, material resources and services applied by operators and contractors in any project in the industry. The most relevant categories under the Schedule for us fall under the headings of "Well and Drilling Services/Petroleum Technology" and "Exploration, Subsurface, Petroleum Engineering and Seismic." The activities listed therein include: "Producing Drilling Services" and "Drilling Rigs Semi-submersibles/Jack ups/others" which both apply to us. For offshore drilling services within the above referenced categories the minimum required Nigerian Content for the provision of such services provided in the Schedule is stated in terms of "Manhours" (i.e. human resources) and is 85% and 55%, respectively. In the event there is insufficient Nigerian capacity to satisfy the minimum percentages prescribed in the Schedule, the Minister may authorize the continued importation of the relevant item or personnel for a maximum period of three years from the commencement of the Local Content Act. This implies that the Minister may grant a waiver for up to a maximum of three years from the commencement of the Local Content Act (i.e. by 2013). Subject to any amendments to the Local Content Act, and/or guidelines issued by the Nigerian Content Monitoring Board ("NCMB") clarifying certain provisions of the Local Content Act, all entities must comply with the provisions of the Local Content Act.

We are required to submit a proposed Nigerian Content Execution Plan and will provide a Monthly Nigerian Content Report, a document that details the amount of Nigerian content utilized in the performance of the contract.

In addition to the above Nigerian Content requirements, Nigerian subsidiaries of international companies are required to demonstrate that a minimum of 50% of the equipment deployed for execution of works is owned by the Nigerian subsidiary.

The Local Content Act also requires that our Nigerian subsidiary place 100% of its insurance policies with local Nigerian insurers and that local capacity must have been exhausted before any insurance risk is placed with foreign insurers and any offshore placement of insurance must be with prior approval of the National Insurance Commission.

C. ORGANIZATIONAL STRUCTUR E

For a full listing of our subsidiaries, see Exhibit 8.1 to this annual report. All subsidiaries are, indirectly or directly, wholly-owned by us, except for Pacific International Drilling West Africa Limited ("PIDWAL"), Pacific Drillship Nigeria Limited ("PDNL"), Pacific Bora Ltd. and Pacific Scirocco Ltd. See "Joint Venture, Agency and Sponsorship Relationships" below for additional information.

As of March 23, 2018, Quantum Pacific Group owned 15.0 million shares, or approximately 70.3% of our total outstanding common shares. The common shares owned by the Quantum Pacific Group are held by Quantum Pacific (Gibraltar) Limited, a wholly-owned subsidiary of Quantum Pacific International Limited, the indirect ultimate owner of which is a discretionary trust in which Mr. Idan Ofer is the primary beneficiary.

Joint Venture, Agency and Sponsorship Relationships

In some areas of the world, local customs and practice or governmental requirements necessitate the formation of joint ventures with local participation. Local laws or customs in some areas of the world also effectively mandate establishment of a relationship with a local agent or sponsor. When appropriate in these areas, we will enter into agency or sponsorship agreements.

We are party to a Nigerian joint venture, PIDWAL, with Derotech Offshore Services Limited ("Derotech"), a privately-held Nigerian registered limited liability company. Derotech owns 51% of PIDWAL and PIDWAL has a 50.1% ownership interest in two of our rig holding subsidiaries, Pacific Bora Ltd. and Pacific Scirocco Ltd. PIDWAL's interest in the rig holding subsidiaries is held through a holding company of PIDWAL, PDNL. Derotech will not accrue the economic benefits of its interest in PIDWAL unless and until it satisfies certain outstanding obligations to us and a certain pledge is cancelled by us. Likewise, PIDWAL will not accrue the economic benefits of its interest in PDNL unless and until it satisfies certain outstanding obligations to us and a certain pledge is cancelled by us. Derotech also performs marketing services for PIDWAL and an affiliate of Derotech acts as one of PIDWAL's logistics agents.

D. PROPERTY, PLANT AND EQUIPMEN T

Our Fleet

The following table sets forth certain information regarding our fleet as of March 23, 2018:

Rig Name	Delivered	Water Depth (in feet)	Drilling Depth (in feet)	Customer
Pacific Bora [(a)]	2010	10,000	37,500	(b)
Pacific Scirocco	2011	12,000	40,000	Available
Pacific Mistral	2011	12,000	37,500	Available
Pacific Santa Ana	2011	12,000	40,000	Petronas
Pacific Khamsin	2013	12,000	40,000	Available
Pacific Sharav	2014	12,000	40,000	Chevron
Pacific Meltem	2014	12,000	40,000	Available

(a) Maximum water depth could be extended to up to 12,000 feet with drillship modifications.
(b) The *Pacific Bora* has been awarded a letter of intent for drilling services in Nigeria, subject to local government approval.

The indebtedness under our 2020 Senior Secured Notes, the Senior Secured Term Loan B, the 2013 Revolving Credit Facility and certain future obligations are collateralized by a priority security interest (subject to exceptions) over the *Pacific Bora* , the *Pacific Scirocco* , the *Pacific Mistral* and the *Pacific Santa Ana* . The indebtedness under our 2017 Senior Secured Notes is secured by a first-priority security interest (subject to exceptions) in the *Pacific Khamsin* . The indebtedness under our SSCF is secured by a first-priority security interest (subject to exceptions) in the *Pacific Sharav* and the *Pacific Meltem* . See Item 5, “Liquidity and Capital Resources—Description of Indebtedness” and Note 6 to our consolidated financial statements in this annual report for a more detailed description of the terms of our debt financings.

Properties

We lease our principal executive office and our registered office in Luxembourg and our operational headquarters in Houston, Texas. We also provide technical, operational and administrative support from leased offices in Brazil and Nigeria.

ITEM 4A. UNRESOLVED STAF F COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIA L REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with Item 3.A., “Selected Financial Data” and the accompanying financial statements and related notes included elsewhere in this annual report. In addition, the following discussion and analysis should be read in conjunction with the financial statements in Item 18, “Financial Statements”.

A. OPERATING RESULT S

Overview

On the Petition Date, the Debtors filed the Bankruptcy Petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. See Note 2 to our consolidated financial statements for additional information.

Brent crude prices declined from highs above $100 per barrel in mid-2014 to lows below $40 per barrel in late 2015 and early 2016, before generally rising during the remainder of 2016 and 2017 to approximately $65 per barrel at the end of 2017. Despite the improving oil price trend in 2017, offshore capital expenditure budgets have not yet increased for many exploration and production companies, which has resulted in a continuing slow pace of new drilling contracts.

Due to these market conditions in the offshore drilling industry, our revenues for the year ended December 31, 2017 were lower than the year ended December 31, 2016, primarily because the *Pacific Bora* and the *Pacific Scirocco* were idle for a portion of the year in addition to earning lower dayrates compared to their previous contracts in the prior year. In addition, the *Pacific Santa Ana* completed its contract with Chevron in January 2017 and started its contract with Petronas at a lower dayrate in December 2017. Our direct rig related operating expenses for the year ended December 31, 2017 were lower than for the year ended December 31, 2016, resulting primarily from reduced costs of our drillships while offhire.

Operationally, our fleet of drillships achieved an average revenue efficiency of 98.3% for the year ended December 31, 2017, compared to 98.2% during the year ended December 31, 2016. Revenue efficiency is defined as actual contractual dayrate revenue (excluding mobilization fees, upgrade reimbursements and other revenue sources) divided by the maximum amount of contractual dayrate revenue that could have been earned during such period.

Factors Affecting our Results of Operations

The primary factors that have affected our historical operating results and are expected to impact our future operating results include:

- market conditions, including the volatility of oil prices;
- our clients' reduced capital expenditure budgets;
- the number of drillships in our fleet;
- dayrates earned by our drillships;
- utilization rates of drillships industry-wide;
- operating expenses of our drillships;
- administrative expenses;
- interest and other financial items; and
- tax expenses.

Our revenues are derived primarily from the operation of our drillships at fixed daily rates, which depend principally upon the number and availability of our drillships, the dayrates received and the number of days utilized. We recognize revenues from drilling contracts as services are performed upon contract commencement.

Additionally, we may receive revenues for preparation and mobilization of equipment and personnel or for capital improvements to rigs. Revenues earned and incremental costs incurred directly related to contract preparation and mobilization are deferred and recognized over the primary term of the drilling contract. We may also receive fees upon completion of a drilling contract that are conditional based on the occurrence of an event, such as demobilization of a rig.

Our expenses consist primarily of operating expenses, depreciation, administrative expenses, interest and other financial expenses and tax expenses. Operating expenses include the remuneration of offshore crews and onshore supervision staff, as well as expenses for onshore support offices, repairs and maintenance.

Depreciation expense is based on the historical cost of our drillships and other property and equipment and recorded on a straight-line basis over the estimated useful lives of each class of assets. The estimated useful lives of our drillships and their related equipment ranges from 15 to 35 years. We begin recording depreciation expense once all activities necessary to prepare the asset for its intended use are complete, which is either the date of contract commencement or the date the drillship is placed into service.

General and administrative expenses include the costs of management and administration of our Company, such as the labor costs of our corporate employees, remuneration of our directors and legal and advisory expenses.

Prior to the Petition Date, interest expense primarily depended on our overall level of indebtedness and interest rates. Interest was capitalized based on the costs of new borrowings attributable to qualifying new construction or at the weighted-average cost of debt outstanding during the period of construction. We capitalized interest costs for qualifying new construction from the point borrowing costs were incurred for the qualifying new construction and ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use were complete, which was either the date of contract commencement or the date the drillship was placed into service.

Our tax expenses reflect current and deferred tax expenses. In general, our income tax expense results primarily from the taxable income on our drillship operations.

Results of Operations

Year ended December 31, 2017 compared to Year ended December 31, 2016

The following table provides a comparison of our consolidated results of operations for the years ended December 31, 2017 and 2016:

	Years Ended December 31,			
	2017	2016	Change	% Change
	(in thousands, except percentages)			
Revenues				
Contract drilling	$ 319,716	$ 769,472	$ (449,756)	58%
Costs and expenses				
Operating expenses	(244,089)	(290,038)	45,949	16%
General and administrative expenses	(87,134)	(63,379)	(23,755)	37%
Depreciation expense	(278,949)	(275,901)	(3,048)	1%
Operating income (loss)	(290,456)	140,154	(430,610)	307%
Other income (expense)				
Interest expense	(178,983)	(189,044)	10,061	5%
Write-off of deferred financing costs	(30,846)	—	(30,846)	100%
Gain on debt extinguishment	—	36,233	(36,233)	100%
Reorganization items	(6,474)	—	(6,474)	100%
Other expense	(5,544)	(2,393)	(3,151)	132%
Loss before income taxes	(512,303)	(15,050)	(497,253)	3304%
Income tax expense	(12,863)	(22,107)	9,244	42%
Net loss	$ (525,166)	$ (37,157)	$ (488,009)	1313%

Revenues. The decrease in revenues for the year ended December 31, 2017, as compared to the year ended December 31, 2016, resulted primarily from the *Pacific Bora* and the *Pacific Scirocco* being idle for a portion of the year in addition to earning lower dayrates in their current contracts compared to their previous contracts in the prior year, and the *Pacific Santa Ana* completing its contract with Chevron in January 2017 and starting its contract with Petronas at a lower dayrate in December 2017.

During the year ended December 31, 2017, our operating fleet of drillships achieved an average revenue efficiency of 98.3%, as compared to 98.2% during the year ended December 31, 2016.

Contract drilling revenue for the years ended December 31, 2017 and 2016 also included amortization of deferred revenue of $46.8 million and $67.1 million and reimbursable revenues of $6.0 million and $19.0 million, respectively. The decrease in the amortization of deferred revenue was primarily due to lower amortization resulting from the *Pacific Santa Ana* completing its contract with Chevron in January 2017 and the *Pacific Bora* completing its contract with Chevron in September 2016. The decrease in reimbursable revenues resulted from lower reimbursable costs incurred with fewer of our drillships operating under drilling contracts.

Operating expenses. The following table summarizes operating expenses:

	Years Ended December 31,	
	2017	**2016**
	(in thousands)	
Direct rig related operating expenses, net	$ 196,588	$ 228,934
Reimbursable costs	4,197	18,362
Shore-based and other support costs	31,615	28,797
Amortization of deferred costs	11,689	13,945
Total	$ 244,089	$ 290,038

The decrease in direct rig related operating expenses for the year ended December 31, 2017, as compared to the year ended December 31, 2016, resulted primarily from lower costs on the *Pacific Bora* , the *Pacific Scirocco* and the *Pacific Santa Ana* while offhire and the continued benefits of our cost saving measures.

Reimbursable costs are not included under the scope of the drilling contract's initial dayrate, but are subject to reimbursement from our clients. Reimbursable costs can be highly variable between quarters. Because the reimbursement of these costs by our clients is recorded as additional revenue, they do not generally negatively affect our margins.

Direct rig related operating expenses and shore-based and other support costs divided by the number of operating and offhire rig days were as follows:

	Years Ended December 31,	
	2017	**2016**
	(in thousands, amounts per rig per day)	
Direct rig related operating expenses, net	$ 74.3	$ 89.7
Shore-based and other support costs	12.4	11.2
Total	$ 86.7	$ 100.9

The decrease in direct rig related operating expenses per day for the year ended December 31, 2017, as compared to the year ended December 31, 2016, was attributable to lower costs from the higher number of idle drillships and the continued benefits of our cost saving measures.

General and administrative expenses . The increase in general and administrative expenses for the year ended December 31, 2017, as compared to the year ended December 31, 2016, was primarily due to higher legal costs associated with the patent litigation and arbitration proceeding, and legal and advisory expenses related to our debt restructuring efforts incurred prior to the Petition Date. Such legal and advisory expenses were $30.7 million for the year ended December 31, 2017, as compared to $16.9 million for the same period in 2016. Additionally, the increase was a result of severance related costs and timing of expense recognition of incentive awards, including certain performance-based awards.

Depreciation expense . Depreciation expense for the year ended December 31, 2017 was comparable to the same period in 2016.

Interest expense . The decrease in interest expense for the year ended December 31, 2017, as compared to the year ended December 31, 2016, was primarily due to interest expense not accrued subsequent to the Petition Date of $12.0 million for the 2017 Senior Secured Notes, the 2020 Senior Secured Notes and the Senior Secured Term Loan B, that we believe are not probable of being treated as an allowed claim in the Chapter 11 proceedings, partially offset by higher amortization of deferred financing costs prior to the Petition Date.

Write-off of deferred financing costs . During the year ended December 31, 2017, we expensed $30.8 million of deferred financing costs previously recorded within our consolidated balance sheets as a result of the filing of the Bankruptcy Petitions . See Note 6 to our consolidated financial statements.

Gain on debt extinguishment . During the year ended December 31, 2016, we repurchased $60.6 million of our 2017 Senior Secured Notes for a purchase price of $23.6 million plus accrued interest. We recorded the resulting gain,

net of the corresponding unamortized deferred financing costs and debt discount, of $36.2 million as a gain on debt extinguishment on our statements of operations.

Reorganization items . During the year ended December 31, 2017, we classified all income, expenses, gains or losses that were incurred or realized subsequent to the Petition Date and as a result of the Chapter 11 proceedings as reorganization items, which primarily consisted of professional fees. See Note 2 to our consolidated financial statements.

Other expense . During the year ended December 31, 2017, we recognized an other-than-temporary impairment in our Hyperdynamics available-for-sale securities of $6.8 million. See Note 11 to our consolidated financial statements. This increase in other expense was partially offset by higher interest income from cash equivalents. The remaining change was due to currency exchange fluctuations.

Income taxes . The decrease in income tax expense was primarily due to a decrease in operating activity in 2017 and lower dayrates on recently secured contracts. The decrease was partially offset by the reduction of deferred tax assets as the result of U.S. tax legislation enacted in December 2017 and the write-off of deferred tax assets related to deferred compensation benefits that expired unused. We do not expect the newly enacted U.S. tax legislation to have a material impact on our income tax expense in future years.

The relationship between our provision for or benefit from income taxes and our pre-tax book income can vary significantly from period to period considering, among other factors, (a) the overall level of pre-tax book income, (b) changes in the blend of income that is taxed based on gross revenues or at high effective tax rates versus pre-tax book income or at low effective tax rates and (c) our rig operating structures. Consequently, our income tax expense does not necessarily change proportionally with our pre-tax book income. Significant decreases in our pre-tax book income typically result in higher effective tax rates, while significant increases in pre-tax book income can lead to lower effective tax rates, subject to the other factors impacting income tax expense noted above. Additionally, pre-tax book losses typically result in negative effective tax rates. During the years ended December 31, 2017 and 2016, our effective tax rate was (2.5)% and (146.9)%, respectively.

The change in our effective tax rate for the year ended December 31, 2017, as compared to the year ended December 31, 2016 was the result of our idle drillships and lower dayrates, which are generating larger losses in 2017 as compared to 2016 for which no tax benefit is expected.

Year ended December 31, 2016 compared to Year ended December 31, 2015

The following table provides a comparison of our consolidated results of operations for the years ended December 31, 2016 and 2015:

	Years Ended December 31,			
	2016	2015	Change	% Change
	(in thousands, except percentages)			
Revenues				
Contract drilling	$ 769,472	$ 1,085,063	$ (315,591)	29%
Costs and expenses				
Operating expenses	(290,038)	(431,261)	141,223	33%
General and administrative expenses	(63,379)	(55,511)	(7,868)	14%
Depreciation expense	(275,901)	(243,457)	(32,444)	13%
Loss from construction contract rescission	—	(40,155)	40,155	100%
Operating income	140,154	314,679	(174,525)	55%
Other income (expense)				
Interest expense	(189,044)	(156,361)	(32,683)	21%
Gain on debt extinguishment	36,233	—	36,233	100%
Other expense	(2,393)	(3,217)	824	26%
Income (loss) before income taxes	(15,050)	155,101	(170,151)	110%
Income tax expense	(22,107)	(28,871)	6,764	23%
Net income (loss)	$ (37,157)	$ 126,230	$ (163,387)	129%

Revenues. The decrease in revenues for the year ended December 31, 2016, as compared to the year ended December 31, 2015, resulted primarily from the *Pacific Mistral* and the *Pacific Khamsin* completing their contracts in February and December 2015, respectively, without any follow-on work, the *Pacific Bora* completing its contract in September 2016, and the *Pacific Scirocco* being on an 80% standby rate from May 2016 to October 2016. The decrease was partially offset by higher revenue efficiency for our operating rigs. On December 17, 2016, the *Pacific Scirocco* completed all contractual obligations for Total, which resulted in recognizing revenue at 80% of its operating dayrate of $489,000 for the remaining contractual days through January 19, 2017 in addition to the $3.0 million demobilization fee provided under the contract.

During the year ended December 31, 2016, our operating fleet of drillships increased average revenue efficiency to 98.2%, as compared to 94.7% during the year ended December 31, 2015.

Contract drilling revenue for the years ended December 31, 2016 and 2015 also included amortization of deferred revenue of $67.1 million and $86.3 million and reimbursable revenues of $19.0 million and $28.8 million, respectively. The decrease in the amortization of deferred revenue was primarily due to completion of the primary contract terms for the *Pacific Mistral* in February 2015 and the *Pacific Khamsin* in December 2015. On December 9, 2016, we entered into a contract amendment with Chevron to change the contract end date for the *Pacific Santa Ana* from April 28, 2017 to January 31, 2017 in exchange for a fee of $35.2 million. This fee was recognized ratably over the remaining term of the amended contract from December 9, 2016 to January 31, 2017 and partially offset the overall decrease in the amortization of deferred revenue.

Operating expenses. The following table summarizes operating expenses:

	Years Ended December 31,	
	2016	2015
	(in thousands)	
Direct rig related operating expenses, net	$ 228,934	$ 345,504
Reimbursable costs	18,362	27,286
Shore-based and other support costs	28,797	32,520
Amortization of deferred costs	13,945	25,951
Total	$ 290,038	$ 431,261

The decrease in direct rig related operating expenses for the year ended December 31, 2016, as compared to the year ended December 31, 2015, resulted from lower operating costs for the *Pacific Mistral* , the *Pacific Khamsin* and the *Pacific Bora* subsequent to completion of their respective contracts and cost saving measures implemented for both operating and idle drillships.

Reimbursable costs are not included under the scope of the drilling contract's initial dayrate, but are subject to reimbursement from our clients. Reimbursable costs can be highly variable between quarters. Because the reimbursement of these costs by our clients is recorded as additional revenue, they do not generally negatively affect our margins.

The decrease in amortization of deferred costs was primarily due to completion of the primary contract term for the *Pacific Mistral* in February 2015 and for the *Pacific Khamsin* in December 2015.

Direct rig related operating expenses and shore-based and other support costs divided by the number of operating and offhire rig days were as follows:

	Years Ended December 31,	
	2016	2015
	(in thousands, amounts per rig per day)	
Direct rig related operating expenses, net	$ 89.7	$ 149.1
Shore-based and other support costs	11.2	14.0
Total	$ 100.9	$ 163.1

The decrease in direct rig related operating expenses per day for the year ended December 31, 2016, as compared to the same period in 2015, was attributable to lower costs on idle drillships and fleet wide cost saving measures implemented.

The decrease in shore-based and other support costs per day for the year ended December 31, 2016, as compared to the same period in 2015, was due to reductions in Brazil and Nigeria office costs, and the implementation of cost saving measures.

General and administrative expenses . The increase in general and administrative expenses for the year ended December 31, 2016, as compared to the year ended December 31, 2015, resulted from legal costs associated with the arbitration proceeding and patent litigation, and legal and advisory fees related to our debt restructuring efforts. Such expenses were $16.9 million for the year ended December 31, 2016, as compared to $2.4 million for the same period in 2015. This increase in general and administrative expenses was partially offset by our cost saving measures.

Depreciation expense . The increase in depreciation expense for the year ended December 31, 2016, as compared to the same period in 2015, related to depreciation expense incurred on the *Pacific Meltem* , after being placed into service on August 25, 2015.

Loss on construction contract rescission . We recognized a $40.2 million loss in 2015 in connection with the rescission of the Construction Contract for the *Pacific Zonda* . See Note 5 to our consolidated financial statements in this annual report for additional information.

Interest expense . The following table summarizes interest expense:

	Years Ended December 31,	
	2016	**2015**
	(in thousands)	
Interest	$ (181,041)	$ (183,800)
Realized losses on interest rate swaps	(8,003)	(9,643)
Capitalized interest	—	37,082
Interest expense	$ (189,044)	$ (156,361)

The increase in interest expense for the year ended December 31, 2016, as compared to the same period in 2015, was primarily due to a reduction in capitalized interest on the *Pacific Meltem* and the *Pacific Zonda* .

Gain on debt extinguishment . During the year ended December 31, 2016, we repurchased $60.6 million of our 2017 Senior Secured Notes for a purchase price of $23.6 million plus accrued interest. We recorded the resulting gain, net of the corresponding unamortized deferred financing costs and debt discount, of $36.2 million, as a gain on debt extinguishment in our statements of operations.

Other expense . The change in other expense primarily related to currency exchange fluctuations.

Income taxes . The decrease in income tax expense was primarily due to expiration of the contract for the *Pacific Khamsin* in December 2015 and the contract for the *Pacific Bora* in September 2016. The decrease was partially offset by a decrease in uncertain tax positions in 2015.

The relationship between our provision for or benefit from income taxes and our pre-tax book income can vary significantly from period to period considering, among other factors, (a) the overall level of pre-tax book income, (b) changes in the blend of income that is taxed based on gross revenues or at high effective tax rates versus pre-tax book income or at low effective tax rates and (c) our rig operating structures. Consequently, our income tax expense does not necessarily change proportionally with our pre-tax book income. Significant decreases in our pre-tax book income typically result in higher effective tax rates, while significant increases in pre-tax book income can lead to lower effective tax rates, subject to the other factors impacting income tax expense noted above. Additionally, pre-tax book losses typically result in negative effective tax rates. During the years ended December 31, 2016 and 2015, our effective tax rate was (146.9)% and 18.6%, respectively.

The decrease in our effective tax rate for the year ended December 31, 2016 to negative levels, as compared to the year ended December 31, 2015 was the result of our idle drillships, which are generating losses for which no tax benefit is expected.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions impact the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those related to allowance for doubtful accounts, financial instruments, depreciation of property and equipment, impairment of long-lived assets, long-term receivable, liabilities subject to compromise, reorganization items, income taxes, share-based compensation and contingencies. We base our estimates and assumptions on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from such estimates.

Our critical accounting estimates are important to the portrayal of both our financial position and results of operations and require us to make difficult, subjective or complex assumptions or estimates about matters that are uncertain. We would report different amounts in our consolidated financial statements, which could be material, if we used different assumptions or estimates. We have discussed the development and selection of our critical accounting estimates with our Board of Directors and the Board of Directors has reviewed the disclosure presented below. During the past three fiscal years, we have not made any material changes in accounting methodology.

We believe that the following is a summary of the critical accounting polices used in the preparation of our consolidated financial statements.

Bankruptcy Accounting . Our consolidated financial statements have been prepared as if we are a going concern and reflect the application of Accounting Standards Codification ("ASC") 852, Reorganizations, issued by the Financial Accounting Standards Board ("FASB"). ASC 852 requires that financial statements for periods subsequent to the Petition Date distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, we classify liabilities and obligations whose treatment and satisfaction are dependent on the outcome of the reorganization under the Chapter 11 proceedings as liabilities subject to compromise on our consolidated balance sheets at December 31, 2017. In addition, we classify all income, expenses, gains or losses that were incurred or realized as a result of the Chapter 11 proceedings as reorganization items in our consolidated statements of operations.

Revenues and operating expenses . Contract drilling revenues are recognized as earned, based on contractual dayrates. In connection with drilling contracts, we may receive fees for preparation and mobilization of equipment and personnel or for capital improvements to rigs. Fees and incremental costs incurred directly related to contract preparation and mobilization along with reimbursements received for capital expenditures are deferred and amortized to revenue over the primary term of the drilling contract. The cost incurred for reimbursed capital expenditures are depreciated over the estimated useful life of the asset. We may also receive fees upon completion of a drilling contract that are conditional based on the occurrence of an event, such as demobilization of a rig. These conditional fees and related expenses are reported in income upon completion of the drilling contract. If receipt of such fees is not conditional, they are recognized as revenue over the primary term of the drilling contract. Amortization of deferred revenue and deferred mobilization costs are recorded on a straight-line basis over the primary drilling contract term, which is consistent with the general pace of activity, level of services being provided and dayrates being earned over the life of the contract.

Property and equipment . As of December 31, 2017, property and equipment was $4.7 billion, which represented 86.7 % of our total assets. The carrying value of our property and equipment consists primarily of our high-specification drillships that are recorded at cost less accumulated depreciation.

We estimate useful lives and salvage values by applying judgments and assumptions that reflect both historical experience and expectations regarding future operations and asset performance. We depreciate the cost value assigned to the hull of the drillship to its salvage value on a straight-line basis over the estimated useful life of 35 years. Drilling equipment is primarily depreciated on a straight-line basis over an estimated useful life of 15 years with generally no

assigned salvage value. Applying different judgments and assumptions to useful lives and salvage values would likely result in materially different net carrying amounts and depreciation expense for our drillships.

We review property and equipment for impairment when events or changes in circumstances indicate that the carrying amounts of our assets held and used may not be recoverable. Potential impairment indicators include steep declines in commodity prices and related market conditions, actual or expected declines in rig utilization, increases in idle time or significant damage to the property and equipment that adversely affects the extent and manner of its use. We assess impairment using estimated undiscounted cash flows for the property and equipment being evaluated by applying assumptions regarding future operations, market conditions, dayrates, utilization and idle time. An impairment loss is recorded in the period if the carrying amount of the asset is not recoverable.

As a result of the Bankruptcy Petitions, we tested each of our drillships for impairment in the fourth quarter of 2017. We performed a recoverability test and determined that the estimated undiscounted cash flows of our high-specification drillships significantly exceeded their carrying amount. As a result, no impairment loss was recorded.

Contingencies . We record liabilities for estimated loss contingencies when we believe a loss is probable and the amount of the probable loss can be reasonably estimated. Once established, we adjust the estimated contingency loss accrual for changes in facts and circumstances that alter our previous assumptions with respect to the likelihood or amount of loss.

Income taxes . Income taxes are provided based upon our interpretation of the tax laws and rates in the countries in which our subsidiaries are registered and where their operations are conducted and income and expenses are earned and incurred, respectively. This requires significant judgment and the use of estimates and assumptions regarding future events, such as the amount, timing and character of income, deductions and tax credits. Our tax liability in any given year could be affected by changes in tax laws, regulations, agreements, and treaties or our level of operations or profitability in each jurisdiction. Although our annual tax provision is based on the best information available at the time, a number of years may elapse before the ultimate tax liabilities in the various jurisdictions are determined.

We recognize deferred tax assets and liabilities for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of our assets and liabilities using the applicable enacted tax rates in effect in the year in which the asset is realized or the liability is settled. Estimates, judgments and assumptions are required in determining whether deferred tax assets will be fully or partially realized. When it is estimated to be more likely than not that all or some portion of certain deferred tax assets, such as net operating loss carryforwards, will not be realized, we establish a valuation allowance for the amount of the deferred tax assets that is considered to be unrealizable.

We recognize tax benefits from an uncertain tax position only if it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the position. The amount recognized is the largest benefit that we believe has greater than a 50% likelihood of being realized upon settlement. In determining if a tax position is likely to be sustained upon examination, we analyze relevant tax laws and regulations, case law, and administrative practices. Actual income taxes paid may vary from estimates depending upon various factors, including changes in income tax laws, settlement of audits with taxing authorities, or expiration of statutes of limitations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 3 to our consolidated financial statements in this annual report for a discussion of recent accounting pronouncements and their anticipated impact.

VOLUNTARY REORGANIZATION UNDER CHAPTER 11

On the Petition Date, the Debtors filed the Bankruptcy Petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Bankruptcy Court granted the Debtors' motion for joint administration of their Chapter 11 cases.

We are currently operating our business as debtors-in-possession in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. After we filed our Bankruptcy Petitions, we sought and obtained approval from the Bankruptcy Court for a variety of "first day" motions, including authority to maintain bank

accounts and other customary relief. The relief granted in these motions allows us to continue to operate our business in the normal course .

Subject to certain exceptions, under the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically enjoined, or stayed, the commencement or continuation of most judicial or administrative proceedings or filing of other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the Petition Date. Accordingly, although the filing of the Bankruptcy Petitions triggered defaults under the Debtors' funded debt obligations, creditors are stayed from taking any actions against the Debtors as a result of such defaults, subject to certain limited exceptions permitted by the Bankruptcy Code. Absent an order of the Bankruptcy Court, substantially all of the Debtors' pre-petition liabilities are subject to settlement under the Bankruptcy Code.

For the duration of the Chapter 11 proceedings, our operations and ability to develop and execute our business plan are subject to the risks and uncertainties associated with the Chapter 11 process as described in Item 3.D., "Risk Factors." As a result of these risks and uncertainties, the amount and composition of our assets and liabilities, and the number and identity of individuals constituting our officers and directors could be significantly different following the outcome of the Chapter 11 proceedings, and the description of the our operations, properties and liquidity and capital resources included in this annual report may not accurately reflect our operations, properties and liquidity and capital resources following our emergence from the Chapter 11 proceedings.

In particular, subject to certain exceptions, under the Bankruptcy Code, the Debtors may assume, assume and assign or reject executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. Generally, the rejection of an executory contract or unexpired lease is treated as a pre-petition breach of such executory contract or unexpired lease and, subject to certain exceptions, relieves the Debtors of performing their future obligations under such executory contract or unexpired lease but entitles the contract counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach subject, in the case of the rejection of unexpired leases of real property, to certain caps on damages. Counterparties to such rejected contracts or leases may assert unsecured claims in the Bankruptcy Court against the applicable Debtors' estate for such damages. Generally, the assumption or assumption and assignment of an executory contract or unexpired lease requires the Debtors to cure existing monetary defaults under such executory contract or unexpired lease and provide adequate assurance of future performance thereunder. Accordingly, any description of an executory contract or unexpired lease with the Debtors in this annual report, including where applicable a quantification of the Company's obligations under any such executory contract or unexpired lease with the Debtors, is qualified by any overriding rejection rights the Debtors have under the Bankruptcy Code. Further, nothing herein is or shall be deemed an admission with respect to any claim amounts or calculations arising from the rejection of any executory contract or unexpired lease and the Debtors expressly preserve all of their rights with respect thereto.

Exclusivity; Plan of Reorganization

Under the Bankruptcy Code, we had the exclusive right to file a plan of reorganization under Chapter 11 (the "Exclusive Filing Period") through and including 120 days after the Petition Date (or March 12, 2018), and to solicit acceptances of such plan (the "Exclusive Solicitation Period" and, collectively with the Exclusive Filing Period, the "Exclusive Periods") through and including 180 days after the Petition Date.

On March 22, 2018, the Bankruptcy Court approved our request for an order under which we, our secured creditor groups and our majority shareholder will take part in mediation (the "Mediation") before the Honorable James R. Peck, retired Bankruptcy Court Judge for the Southern District of New York. The scope of the Mediation will be to facilitate discussions among us and our stakeholders for the purpose of agreeing to the terms of a binding term sheet or restructuring support agreement describing a Chapter 11 plan of reorganization.

In addition, conditioned on our participation in the Mediation, the Bankruptcy Court ordered the extension of the Exclusive Filing Period to the earlier of (i) two weeks following the termination of the Mediation or (ii) May 21, 2018 (60 days from the date of the hearing), and the extension of the Exclusive Solicitation Period through and including 60 days from the end of the Exclusive Filing Period, without prejudice for us to seek further extensions of the Exclusive Periods.

We plan to emerge from our Chapter 11 proceedings after we obtain approval from the Bankruptcy Court for a Chapter 11 plan of reorganization. Among other things, a Chapter 11 plan of reorganization will determine the rights and satisfy the claims of our creditors and security holders. The terms and conditions of a Chapter 11 plan of reorganization will be determined through negotiations with our stakeholders and, possibly, decisions by the Bankruptcy Court.

Under the absolute priority scheme established by the Bankruptcy Code, unless our creditors agree otherwise, all of our pre-petition liabilities and post-petition liabilities must be satisfied in full before the holders of our existing common shares can receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation and implementation of a plan or plans of reorganization. We can give no assurance that any recovery or distribution of any amount will be made to any of our creditors or shareholders. Our plan of reorganization could result in any of the holders of our liabilities and/or securities, including our common shares, receiving no distribution on account of their interests and cancellation of their holdings. Moreover, a plan of reorganization can be confirmed, under the Bankruptcy Code, even if the holders of our common shares vote against the plan of reorganization and even if the plan of reorganization provides that the holders of our common shares receive no distribution on account of their equity interests.

B. LIQUIDITY AND CAPITA L RESOURCES

We centrally manage our funding and treasury activities in accordance with corporate policies to ensure appropriate levels of liquidity, maintain adequate levels of insurance and balance exposures to market risks. Cash and cash equivalents are held mainly in United States dollars and Nigerian Naira. Most of our contract drilling revenues are received monthly in arrears and most of our operating costs are paid on a monthly basis.

Liquidity

Our liquidity fluctuates depending on a number of factors, including, among others, our contract backlog, our revenue efficiency and the timing of accounts receivable collection as well as payments for operating costs and other obligations. Market conditions in the offshore drilling industry in recent years have led to materially lower levels of spending for offshore exploration and development by our current and potential customers on a global basis, which in turn has negatively affected our revenue, profitability and cash flows.

Primary sources of funds for our short-term liquidity needs are expected to be our cash flow generated from operating activities and existing cash, cash equivalents and restricted cash balances. As of December 31, 2017, we had $308.9 million of cash and cash equivalents and $8.5 million of restricted cash. As part of our “first day” relief in our Chapter 11 proceedings, the Bankruptcy Court granted us authority to use property that may be deemed to be “cash collateral” of our pre-petition lenders within the meaning of Section 363(a) of the Bankruptcy Code, which may include a portion of our cash flow generated from operating activities. We do not have additional borrowing capacity under any of our outstanding credit facilities, though we may seek “debtor in possession” financing with the approval of the Bankruptcy Court in the future if required.

The filing of our Bankruptcy Petitions constituted an event of default with respect to all of our existing debt obligations. However, subject to certain exceptions under the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically enjoined, or stayed, the commencement or continuation of any judicial or administrative proceedings or other actions against the Debtors and their property to recover, collect or secure a claim arising prior to the filing of the Bankruptcy Petitions. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the Debtors’ property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay.

We received Bankruptcy Court approval for the payment of certain pre-petition obligations, including payments for certain ordinary course expenditures. Despite the liquidity provided by our cash and cash equivalents, our ability to maintain normal credit terms with our suppliers has been impaired. We are required to pay cash in advance to certain vendors and have experienced restrictions on the availability of trade credit, which reduces our liquidity. If liquidity problems persist, our suppliers could refuse to provide key products and services in the future. In addition, due to the

public perception of our financial condition and results of operations, in particular with regard to the filing of our Bankruptcy Petitions, some vendors could be reluctant to enter into long-term agreements with us.

In addition to the cash requirements necessary to fund ongoing operations, we have incurred significant professional fees and other costs in connection with our Chapter 11 proceedings and expect that we will continue to incur significant professional fees and costs throughout our Chapter 11 proceedings.

There are no assurances that our current liquidity will be sufficient to allow us to satisfy our obligations related to the Chapter 11 proceedings, proceed with the confirmation of a Chapter 11 plan of reorganization and emerge from bankruptcy. Our ability to maintain adequate liquidity through the reorganization process and beyond depends on successful operation of our business, and appropriate management of operating expenses and capital spending. Our anticipated liquidity needs are highly sensitive to changes in each of these and other factors.

Ability to Continue as a Going Concern

We have significant indebtedness. Our level of indebtedness has adversely impacted and is continuing to adversely impact our financial condition. Our financial condition, the defaults under our debt agreements, and the risks and uncertainties surrounding our Chapter 11 proceedings raise substantial doubt about our ability to continue as a going concern. However, the consolidated financial statements included in this annual report have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments that might result from the outcome of our Chapter 11 proceedings. If we cannot continue as a going concern, adjustments to the carrying values and classification of our assets and liabilities and the reported amounts of income and expenses could be required and could be material.

For additional information, see Item 3.D., “Risk Factors” and Note 2 to our consolidated financial statements.

Capital Expenditures

We have no material commitments for capital expenditures related to the construction of a newbuild drillship. We do, however, expect to incur capital expenditures for purchases in the ordinary course of business. Such capital expenditure commitments are included in purchase obligations presented in Item 5.F., “Tabular Disclosure of Contractual Obligations.”

Sources and Uses of Cash

Year ended December 31, 2017 compared to Year ended December 31, 2016

The following table provides a comparison of our net cash provided by (used in) operating activities for the years ended December 31, 2017 and 2016:

	Years Ended December 31, 2017	Years Ended December 31, 2016	Change
	(in thousands)		
Cash flow from operating activities:			
Net loss	$ (525,166)	$ (37,157)	$ (488,009)
Depreciation expense	278,949	275,901	3,048
Amortization of deferred revenue	(46,829)	(67,053)	20,224
Amortization of deferred costs	11,689	13,945	(2,256)
Amortization of deferred financing costs	24,889	18,786	6,103
Amortization of debt discount	940	1,279	(339)
Write-off of deferred financing costs	30,846	—	30,846
Deferred income taxes	7,409	15,494	(8,085)
Share-based compensation expense	6,819	7,094	(275)
Gain on debt extinguishment	—	(36,233)	36,233
Other-than-temporary impairment of available-for-sale securities	6,829	—	6,829
Reorganization items	5,315	—	5,315
Changes in operating assets and liabilities, net	83,437	57,048	26,389
Net cash provided by (used in) operating activities	$ (114,873)	$ 249,104	$ (363,977)

The decrease in net cash from operating activities resulted primarily from reduced revenue from our fleet and higher legal and advisory costs related to our debt restructuring efforts and Chapter 11 proceedings, partially offset by lower operating expenses for the year ended December 31, 2017.

The following table provides a comparison of our net cash used in investing activities for the years ended December 31, 2017 and 2016:

	Years Ended December 31, 2017	Years Ended December 31, 2016	Change
	(in thousands)		
Cash flow from investing activities:			
Capital expenditures	$ (36,645)	$ (52,625)	$ 15,980
Purchase of available-for-sale securities	(6,000)	—	(6,000)
Net cash used in investing activities	$ (42,645)	$ (52,625)	$ 9,980

The decrease in capital expenditures resulted primarily from fleet-wide cost control measures implemented. Capital expenditures for the year ended December 31, 2017 primarily consisted of purchases of equipment committed to in prior years, including a final milestone payment of $16.3 million for a fleet spare blowout preventer. Purchase of available-for-sale securities for the year ended December 31, 2017 consisted of $6.0 million in purchases of Hyperdynamics shares. See Note 11 to our consolidated financial statements.

The following table provides a comparison of our net cash provided by (used in) financing activities for the years ended December 31, 2017 and 2016:

	Years Ended December 31, 2017	2016	Change
	(in thousands)		
Cash flow from financing activities:			
Payments for shares issued under share-based compensation plan	$ (199)	$ (89)	$ (110)
Proceeds from long-term debt	—	450,000	(450,000)
Payments on long-term debt	(146,473)	(110,832)	(35,641)
Payments for financing costs	(4,530)	(25,423)	20,893
Net cash provided by (used in) financing activities	$ (151,202)	$ 313,656	$ (464,858)

The decrease in cash from financing activities for the year ended December 31, 2017, as compared to the same period in 2016, resulted from no debt drawdown and higher debt payments in 2017. During the year ended December 31, 2016, we drew an aggregate of $450.0 million under our 2013 Revolving Credit Facility. During the year ended December 31, 2017, we made a $76.0 million prepayment of the SSCF in accordance with our obligation to maintain the loan to rig value covenant in the SSCF at the required level as at December 31, 2016, we applied the cash collateral of $31.7 million to the principal installments due in May 2017 under the SSCF, and we permanently repaid $25.0 million under the 2013 Revolving Credit Facility. During the year ended December 31, 2016, we made $79.8 million of amortization payments under the SSCF, and repurchased $60.6 million of the 2017 Senior Secured Notes for a purchase price of $23.6 million plus accrued interest.

Year ended December 31, 2016 compared to Year ended December 31, 2015

The following table provides a comparison of our net cash provided by operating activities for the years ended December 31, 2016 and 2015:

	Years Ended December 31, 2016	2015	Change
	(in thousands)		
Cash flow from operating activities:			
Net income (loss)	$ (37,157)	$ 126,230	$ (163,387)
Depreciation expense	275,901	243,457	32,444
Amortization of deferred revenue	(67,053)	(86,276)	19,223
Amortization of deferred costs	13,945	25,951	(12,006)
Amortization of deferred financing costs	18,786	11,278	7,508
Amortization of debt discount	1,279	1,015	264
Write-off of deferred financing costs	—	5,965	(5,965)
Loss from construction contract rescission	—	38,084	(38,084)
Deferred income taxes	15,494	9,840	5,654
Share-based compensation expense	7,094	12,534	(5,440)
Gain on debt extinguishment	(36,233)	—	(36,233)
Changes in operating assets and liabilities, net	57,048	34,068	22,980
Net cash provided by operating activities	$ 249,104	$ 422,146	$ (173,042)

The decrease in net cash provided by operating activities resulted primarily from reduced revenue from our fleet, partially offset by cost saving measures and a $35.2 million fee received from Chevron for the contract amendment of the *Pacific Santa Ana* for the year ended December 31, 2016.

The following table provides a comparison of our net cash used in investing activities for the years ended December 31, 2016 and 2015:

	Years Ended December 31,		
	2016	2015	Change
	(in thousands)		
Cash flow from investing activities:			
Capital expenditures	$ (52,625)	$ (181,458)	$ 128,833
Net cash used in investing activities	$ (52,625)	$ (181,458)	$ 128,833

The decrease in capital expenditures resulted primarily from no newbuild drillship construction activities in 2016 and fleet wide cost control measures implemented. Capital expenditures for the year ended December 31, 2016 primarily consisted of the purchases of fleet spare equipment committed to in prior years to support our operations.

The following table provides a comparison of our net cash provided by (used in) financing activities for the years ended December 31, 2016 and 2015:

	Years Ended December 31,		
	2016	2015	Change
	(in thousands)		
Cash flow from financing activities:			
Payments for shares issued under share-based compensation plan	$ (89)	$ (536)	$ 447
Proceeds from long-term debt	450,000	315,000	135,000
Payments on long-term debt	(110,832)	(581,083)	470,251
Payments for financing costs	(25,423)	(4,070)	(21,353)
Purchases of treasury shares	—	(21,760)	21,760
Net cash provided by (used in) financing activities	$ 313,656	$ (292,449)	$ 606,105

The increase in cash from financing activities for the year ended December 31, 2016, as compared to the same period in 2015, resulted from higher drawdowns, lower scheduled debt payments and no share repurchases, partially offset by financing costs to amend the indenture governing the 2017 Senior Secured Notes in October 2016 and repurchases of our 2017 Senior Secured Notes. During the year ended December 31, 2016, we drew an aggregate of $450.0 million under the 2013 Revolving Credit Facility. During the year ended December 31, 2015, we drew $50.0 million under the 2013 Revolving Credit Facility, and completed the final drawdowns in the amount of $85.0 million under the SSCF.

Description of Indebtedness

See Note 6 to our consolidated financial statements for additional information.

Customs bonds

As of December 31, 2017, we were contingently liable under certain customs bonds totaling approximately $43.0 million issued as security in the normal course of our business. See Note 14 to our consolidated financial statements.

Derivative Instruments and Hedging Activities

We may enter into derivative instruments from time to time to manage our exposure to fluctuations in interest rates and foreign exchange rates. We do not enter into derivative transactions for speculative purposes; however, for accounting purposes, certain transactions may not meet the criteria for hedge accounting. See Note 12 to our consolidated financial statements.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We do not undertake any significant expenditure on research and development. Additionally, we have no significant interests in patents or licenses.

D. TREND INFORMATION

Historically, operating results in the offshore contract drilling industry have been cyclical and directly related to the demand for and the available supply of drilling rigs, which are influenced by various factors. Brent crude prices declined from highs above $100 per barrel in mid-2014 to lows below $40 per barrel in late 2015 and early 2016, before generally rising during the remainder of 2016 and 2017 to approximately $65 per barrel at the end of 2017. Although dayrates and utilization for modern drillships have in the past been less sensitive to short-term oil price movements than those of older or less capable drilling rigs, the sustained decline in oil prices from 2014 levels has rendered many deepwater projects less attractive to our customers and significantly impacted the number of projects available for modern drillships.

Drilling Rig Supply

Across the industry, there have been no orders placed since April 2014 to build additional semi-submersibles or drillships, and within the last year, there have been several delays in delivery dates and canceled orders for new drillships. We estimate there are approximately 13 high-specification floating rigs delivered or scheduled for delivery from January 1, 2018 until the end of 2018, at least seven of which have not yet been announced as being under contract for clients. Additionally, as a result of significantly reduced contracting activity, 55 to 60 rigs in the high-specification floating rig industry sector have been removed from the actively marketed fleet through cold stacking or scrapping since early 2014. This trend, along with additional delays in delivery dates and cancellations of existing orders for floating rigs, could continue as the offshore drilling market remains weak. The supply of high-specification floating rigs through the end of 2018 can be estimated as a range between 100 and 115. Although we have visibility of the maximum number of high-specification floating rigs that could be available, we cannot accurately predict how many of those rigs will be actively marketed or how many of those rigs may be temporarily or permanently removed from the market.

Drilling Rig Demand

Demand for our drillships is a function of the worldwide levels of offshore exploration and development spending by oil and gas companies, which has decreased or been delayed significantly as a result of the sustained weakness in oil prices. The type of projects that modern drillships undertake are generally located in deeper water, in more remote locations, and are more capital intensive and longer lasting than those of older or less capable drilling rigs. The drilling programs of oil and gas companies are also affected by the global economic and political climate, access to quality drilling prospects, exploration success, perceived future availability and lead time requirements for drilling equipment, advances in drilling technology, and emphasis on deepwater and high-specification exploration and production versus other areas.

Overall, 2017 saw an improving pace for high-specification floating rig contracting activity with about 34 rig years contracted. Approximately 12 rig years were contracted for the high-specification floating rig fleet industry-wide in 2016, compared to 30 rig years in 2015 and an average of 117 rig years per year from 2012 to 2014. Additionally, seven drilling contracts for high-specification floating rigs were canceled in 2017, with all receiving early termination payments of varying amounts. We expect contracting activity to continue to improve; however, no assurances can be given as to the scope, pace or duration of any recovery.

Supply and Demand Balance

Since the start of the market downturn in 2014, capital expenditure budgets have significantly declined for many exploration and production companies. We estimate that through the end of 2018, approximately 45 to 50 high-specification floating rigs without currently confirmed client contracts will be available to commence operations. Additionally, multiple older, lower-specification drillships and mid-water semisubmersibles have recently completed contracts without follow-on contracts. The imbalance of supply and demand has resulted in significantly lower dayrates. While recent scrapping and cold stacking of older assets have lowered the total rig supply, supply of drilling rigs continues to exceed demand. We believe that, if the recent improvement in oil prices is sustained and reduction in rig supply continues, the industry will be able to rebalance its global fleet. Based on the current trend, we expect the utilization of high-specification floating rigs to improve over the next few years.

For more information on this and other risks to our business and our industry, please read Item 3.D., “Risk Factors” of this annual report.

E. OFF-BALANCE SHEET ARRANGEMENTS

Currently, we do not have any off-balance sheet arrangements.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The table below sets forth our contractual obligations as of December 31, 2017:

Contractual Obligations	2018	2018-2019	2020-2021	Thereafter	Total
			(in thousands)		
Long-term debt [a]	$ 3,043,967	$ —	$ —	$ —	$ 3,043,967
Interest on long-term debt [b]	43,623	13,871	—	—	57,494
Operating leases	2,221	4,293	4,387	3,961	14,862
Purchase obligations [c]	12,110	—	—	—	12,110
Total contractual obligations [d]	$ 3,101,921	$ 18,164	$ 4,387	$ 3,961	$ 3,128,433

(a) Amounts are based on principal balances of the 2013 Revolving Credit Facility, the SSCF, the 2017 Senior Secured Notes, the 2020 Senior Secured Notes and the Senior Secured Term Loan B. As a result of our filing of the Bankruptcy Petitions on November 12, 2017, the full amounts of our long-term debt were automatically accelerated and are currently due and payable, but have been stayed subject to settlement under the Bankruptcy Code.

(b) Interest payments are based solely on our outstanding borrowings under the 2013 Revolving Credit Facility and the SSCF as of December 31, 2017. Interest payments calculated exclude outstanding borrowings from the 2017 Senior Secured Notes, the 2020 Senior Secured Notes and the Senior Secured Term Loan B, as the interest payments ceased to accrue subsequent to the Petition Date and are not expected to be an allowed claim in the Chapter 11 proceedings. For variable rate LIBOR based debt, interest has been calculated using LIBOR as of December 31, 2017.

(c) Purchase obligations are agreements to purchase goods and services that are enforceable and legally binding, that specify all significant terms, including the quantities to be purchased, price provisions and the approximate timing of the transactions, which includes our purchase orders for goods and services entered into in the normal course of business.

(d) Contractual obligations do not include approximately $ 38.9 million of liabilities from unrecognized tax benefits related to uncertain tax positions, inclusive of interest and penalties, included on our consolidated balance sheets as of December 31, 2017. We are unable to specify with certainty the future periods in which we may be obligated to settle such amounts.

Some of the figures included in the table above are based on estimates and assumptions about these obligations, including their duration and other factors. The contractual obligations we will actually pay in future periods may vary from those reflected in the tables.

G. SAFE HARBOR

See “Forward-Looking Statements” in this annual report for additional information.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Senior Management

We rely on the senior management of our principal operating subsidiaries to manage our business. Our senior management team is responsible for the day-to-day management of our operations. Members of our senior management

are appointed from time to time by vote of the Board of Directors and hold office until a successor is elected and qualified. The current members of our senior management are:

Name	Age	Position
Paul T. Reese	48	Chief Executive Officer
Cees van Diemen	64	Executive Vice President, Chief Operating Officer
Johannes P. Boots	55	Senior Vice President, Chief Financial Officer
Michael D. Acuff	47	Senior Vice President, Commercial
Lisa Manget Buchanan	57	Senior Vice President, General Counsel and Secretary
Richard E. Tatum	40	Senior Vice President, Chief Accounting Officer

Paul T. Reese . Mr. Reese joined Pacific Drilling in October 2008 and was appointed our Chief Executive Officer in August 2017. From February 2014 until August 2017 he served as our Chief Financial Officer, and previously served as Vice President and Controller. Mr. Reese has been a finance professional in the oilfield services and exploration and production sectors for over 20 years. Prior to joining Pacific Drilling, he was Controller for the Global Exploration and Development divisions at BHP Billiton Petroleum. From 1995 to 2007, Mr. Reese served in various financial management roles at Transocean Ltd., including Finance Director for the North and South America Business Unit, Assistant Vice-President for Audit and Advisory Services and Finance Manager for the Asia and Australia and South America Regions, with international posts in Asia and Central and South America. Prior to joining Transocean, Mr. Reese was an auditor in the Houston offices of Arthur Andersen LLP.

Mr. Reese holds a Bachelor of Arts in Economics and Managerial Studies and a Masters of Accounting from Rice University.

Cees van Diemen . Mr. van Diemen joined Pacific Drilling in 2009. He was appointed our Executive Vice President in February 2015, and has served as our Chief Operating Officer since August 2013. Prior to that, Mr. van Diemen was our Vice President of Operations. Mr. van Diemen has over 40 years of experience in the mobile offshore drilling industry and began his career offshore with Sedneth (now Transocean Ltd.) in 1977. His extensive industry experience includes 25 years at Noble Drilling Corporation, and its predecessor Neddrill, where he held various management positions of increasing responsibility working with jack-ups, semi-submersibles and drillships, with international posts in Europe, North and South America and West Africa.

Mr. van Diemen concluded his national service duty as a first lieutenant in the army, and holds a Bachelor of Science in Automotive Engineering from the University of Apeldoorn in the Netherlands.

Johannes P. Boots. Mr. Boots joined the company in December 2009 as our Vice President and Treasurer, and was appointed Senior Vice President and Chief Financial Officer in August 2017. Mr. Boots is responsible for the Company’s global treasury, financing, risk, audit, tax and investor relations activities. From June 2016 to August 2017, Mr. Boots served as our Senior Vice President of Finance and Treasurer. Mr. Boots has over 25 years of experience in public and private U.S. and European companies in the international oil service sector. Before joining Pacific Drilling, Mr. Boots served as corporate treasurer at Global Industries for four years, and spent 14 years at Noble Corp. and its predecessor Neddrill in various financial management roles, including treasury, corporate planning, accounting and internal audit. Prior to Noble Corp., he worked in the shipping and transportation industry for several years in various operational management roles.

Mr. Boots holds a Bachelor of Science degree in Business Economics from the University of Alkmaar, the Netherlands, and completed the Executive Advanced Management Program at the INSEAD Business School.

Michael D. Acuff. Mr. Acuff joined Pacific Drilling in June 2014 as our Senior Vice President of Sales and Business Development and was appointed Senior Vice President Commercial in November 2016. Mr. Acuff is responsible for management and administration of our sales and contract acquisition, strategic planning activities and procurement and supply chain. Mr. Acuff has more than 15 years of industry experience and prior to joining Pacific Drilling, was Senior Vice President of Contracts and Marketing at Diamond Offshore Drilling, Inc., where he worked from 2010 to 2013. From 1999 to 2010 Mr. Acuff held various management positions of increasing responsibility in Marketing, Corporate Planning, Operations and Human Resources with Transocean Ltd. Prior to joining Transocean Ltd., Mr. Acuff served in the U.S. Army from 1993 to 1997 as Battery Executive Officer, Battalion Personnel Officer and Platoon Leader.

Mr. Acuff holds a Bachelor of Science in Civil Engineering from the University of Tennessee and an MBA in Finance from Rice University.

Lisa Manget Buchanan. Ms. Buchanan joined Pacific Drilling in August 2015 as our Senior Vice President, General Counsel and Secretary. Ms. Buchanan has over 30 years of legal experience, most recently serving as Executive Vice President, General Counsel and Secretary and Chief Administrative Officer at Cal Dive International, Inc. from June 2006 to July 2015. Prior to Cal Dive, Ms. Buchanan was a partner at the law firm of Jones Walker LLP, which she joined as an associate in 1987 and became a partner in January 1994.

Ms. Buchanan holds a Bachelor of Science degree in commerce from the University of Virginia and a Juris Doctorate from Louisiana State University Law Center.

Richard E. Tatum. Mr. Tatum joined Pacific Drilling in October 2010 as our Director of Financial Reporting and was appointed Senior Vice President and Chief Accounting Officer in August 2017. Prior to that, Mr. Tatum served as our Vice President Controller from March 2014 until August 2017. Mr. Tatum has over 15 years of experience in offshore drilling and public accounting. Prior to joining Pacific Drilling in October 2010, Mr. Tatum served at Frontier Drilling from 2009 until its merger with Noble Drilling Corporation in 2010. Mr. Tatum began his career as an auditor with Grant Thornton LLP where he held a variety of roles with increasing responsibilities, his most recent position being a Manager in Grant Thornton's National Professional Standards Group.

Mr. Tatum received his Bachelor of Business Administration and Master in Professional Accounting degrees from the University of Texas at Austin and is a CPA.

Board of Directors

In accordance with Luxembourg law, our Board of Directors is responsible for administering our affairs and for ensuring that our operations are organized in a satisfactory manner.

Our Articles and Luxembourg law provide that our Board of Directors shall have no fewer than three members. Pursuant to our Articles, the directors are elected at a general meeting of the shareholders. Resolutions adopted at a general meeting of shareholders determine the number of directors comprising our Board of Directors, the remuneration of the members of our Board of Directors and the term of each director's mandate. Directors may not be appointed for a term of more than six years but are eligible for re-election at the end of their term; however, our Directors are generally appointed annually for one-year terms. Directors may be removed at any time, with or without cause, by a resolution adopted at a general meeting of shareholders. If the office of a director becomes vacant, the other members of our Board of Directors, acting by a simple majority, may fill the vacancy on a provisional basis until a new director is appointed at the next general meeting of shareholders.

The current members of our Board of Directors are as follows:

Name	Age	Position
Cyril Ducau	39	Chairman
N. Scott Fine	61	Vice Chairman
Jeremy Asher	59	Director
Antoine Bonnier	34	Director
Laurence N. Charney	70	Director
Sami Iskander	52	Director
Matthew Samuels	41	Director
Robert Schwed	69	Director

Cyril Ducau . Mr. Ducau was appointed as a director of the Company in April 2011 and serves as the Chairman of the Board and as Chairman of our Nominating Committee. He is currently Chief Executive Officer of Ansonia Holdings Singapore B.V. and a Managing Director of Quantum Pacific Ventures Limited and also serves as Chairman of the Board of Kenon Holdings Ltd., and as a director of Ansonia Holdings Singapore B.V., Quantum Pacific Shipping Services Pte. Ltd., and other private companies, each of which may be associated with the same ultimate beneficiary, Mr. Idan Ofer. He was previously Head of Business Development of Quantum Pacific Advisory Limited from 2008 to 2012. Prior to joining Quantum Pacific Advisory Limited, Mr. Ducau was Vice President in the investment banking division of Morgan Stanley & Co. International Ltd. in London and during his tenure there from 2000 to 2008, he held various positions in the Capital Markets, Leveraged Finance and Mergers and Acquisitions teams. Prior to that, Mr. Ducau gained experience in consultancy working for Arthur D. Little in Munich and investment management with Credit Agricole UI Private Equity in Paris.

Mr. Ducau graduated from ESCP Europe Business School (Paris, Oxford, Berlin) and holds a Master of Science in business administration and a Diplom Kaufmann.

N. Scott Fine. Mr. Fine was appointed as a director of the Company in December 2016 and serves as our Vice Chairman of the Board and as Chairman of our Restructuring Committee. He is currently the Chairman and CEO of CTD Holdings Inc., a Biotechnology/Healthcare Company. He also serves as a director of Better Place, Inc., where he is sole Director; Kenon Holdings Ltd.; Global Virus Network; and Forward Industries, where he serves as Chairman of the Audit Committee. Both Better Place, Inc. and Kenon Holding Ltd. may be associated with the same ultimate beneficiary, Mr. Idan Ofer. Mr. Fine has been an investment banker and involved in corporate finance for over 35 years, and formerly served as the Vice Chairman and Lead Director of Central European Distribution Corporation ("CEDC"), a multi-billion dollar alcohol and beverage company.

Mr. Fine attended New Hampshire College where he studied Business Administration.

Jeremy Asher . Mr. Asher was appointed as a director of the Company in April 2011, and serves as Chairman of our Compensation Committee and a member of our Audit Committee, Nominating Committee and Restructuring Committee. Mr. Asher is currently Chairman of Agile Energy Limited, a privately held energy investment company, and Chairman of Tower Resources plc, an oil & gas exploration company. During the past five years, he has served as a director of Gulf Keystone Petroleum Ltd, an oil & gas exploration and production company, and a director of Oil Refineries Limited, an independent refiner and petrochemicals producer. Until 2008 he served as a director of Process Systems Enterprise Limited, a developer of process simulation software. Since 2001, Mr. Asher has also served as a director and financial investor in various other enterprises.

From 1998 until 2001, Mr. Asher served as the Chief Executive Officer of PA Consulting Group, where he oversaw PA's globalization and growth from 2,500 to nearly 4,000 employees, and negotiated and managed the integration of PA's acquisition of Hagler Bailly, Inc. Between 1990 and 1997 he acquired, developed and sold the 275,000 bbl/d Beta oil refinery at Wilhelmshaven in Germany. Prior to that, in the late 1980's, Mr. Asher ran the global oil products trading business of what is now Glencore AG and, prior to that, spent several years as a consultant at what is now Oliver Wyman.

Mr. Asher is a graduate of the London School of Economics and holds a Master of Business Administration from Harvard Business School.

Antoine Bonnier. Mr. Bonnier was appointed as a director of the Company in October 2016 and serves as a member of our Restructuring Committee. He is currently the Managing Director of Quantum Pacific (UK) LLP and serves as a member of the board of directors of Kenon Holdings Ltd. and of Primus Green Energy, Inc., each of which may be associated with the same ultimate beneficiary, Mr. Idan Ofer. Mr. Bonnier was previously a member of the investment team of Quantum Pacific Advisory Limited from 2011 to 2012. Prior to joining Quantum Pacific Advisory Limited in 2011, Mr. Bonnier was an Associate in the Investment Banking Division of Morgan Stanley & Co. During his tenure there, from 2005 to 2011, he held various positions in the Capital Markets and Mergers and Acquisitions teams in London, Paris and Dubai.

Mr. Bonnier graduated from ESCP Europe Business School and holds a Master of Science in Management.

Laurence N. Charney . Mr. Charney was appointed as a director of the Company in April 2011, and serves as Chairman of our Audit Committee and a member of our Compensation Committee and Restructuring Committee. Mr. Charney retired from Ernst & Young LLP ("Ernst & Young") in June 2007, where, over the course of his more than 35-year career, he served as Partner, Practice Leader and Senior Advisor. Since his retirement from Ernst & Young, Mr. Charney has served as a business strategist and financial advisor to boards, senior management and investors of early stage ventures, private businesses and small to mid-cap public corporations across the consumer products, energy, real estate, high-tech/software, media/entertainment, and non-profit sectors. His most recent affiliations have included board tenures with Marvel Entertainment, Inc. and Iconix Brand Group Inc. He has served on the board of TG Therapeutics, Inc. since April 2012, Kenon Holdings Ltd. since May 2014 and IC Power Ltd. (a subsidiary of Kenon Holdings Ltd.) since July 2015. Both Kenon Holdings Ltd. and IC Power Ltd. may be associated with the same ultimate beneficiary, Mr. Idan Ofer. He also serves as an audit quality executive with Frankel, Loughran, Starr and Vallone LLP.

Mr. Charney, a CPA, is a graduate of Hofstra University with a Bachelors Degree in Business Administration (Accounting), and he also completed an Executive Masters program at Columbia University. Mr. Charney maintains active membership with the American Institute of Certified Public Accountants and New York State Society of Certified Public Accountants.

Sami Iskander . Mr. Iskander was appointed as a director of the Company in September 2013 and serves as a member of our Nominating Committee. Since February 2016, Mr. Iskander has served as Executive Vice President Upstream Joint Ventures for Shell Upstream International. Prior to that, Mr. Iskander was the Chief Operating Officer at BG Group plc, and served as a board member of BG Energy Holdings Limited and BG International Limited from September 2009 until February 2016. He was appointed to the BG Group Executive Committee in July 2009, having previously served BG Group in the role of Executive Vice President, Operations and Senior Vice President, Operations and Developments for BG Advance. Prior to joining BG Group in 2008, Mr. Iskander spent his career with Schlumberger Limited serving in a number of key leadership roles.

Mr. Iskander holds a BS in Mechanical Engineering from American University in Cairo, Egypt.

Matthew Samuels. Mr. Samuels was appointed as a director of the Company in December 2016 and serves as a member of our Compensation Committee. He is currently the General Counsel of Quantum Pacific (UK) LLP. From November 2008 until December 2012, Mr. Samuels served as General Counsel of Quantum Pacific Advisory Limited. Both Quantum Pacific (UK) LLP and the former Quantum Pacific Advisory Limited may be associated with the same ultimate beneficiary, Mr. Idan Ofer. Prior to joining Quantum Pacific Advisory Limited, Mr. Samuels was an associate in the corporate and capital markets group at Herbert Smith LLP in London from 2007 to 2008. From 2002 to 2007, he was an associate in the corporate department at Gibson, Dunn and Crutcher LLP in San Francisco.

Mr. Samuels holds a Bachelor of Arts degree in Economics from University of Virginia and a Juris Doctorate from the University of Chicago Law School.

Robert Schwed . Mr. Schwed was appointed as a director of the Company in May 2013 and serves as a member of our Audit Committee, Compensation Committee and Restructuring Committee. From 2002 until his retirement in December 2015, Mr. Schwed was a partner in the Corporate Practice Group of the international law firm Wilmer Cutler Pickering Hale and Dorr LLP. He has over 40 years of experience working with private equity firms and their portfolio companies in corporate finance transactions. From 1982 until 2002, Mr. Schwed was a partner of Reboul MacMurray, a New York law firm specializing in private equity and venture capital matters. From 2009 until 2017, Mr. Schwed served

as an Adjunct Professor at the George Washington University School of Law and since 2017 has been an adjunct instructor for the Winter Study Program at Williams College.

Mr. Schwed holds a Bachelor of Arts in Economics from Williams College and a Juris Doctorate from Harvard Law School.

B. COMPENSATION

Senior Management

Members of our senior management receive compensation for the services they provide. Currently, the cash compensation for each member of senior management is comprised of base salary, an annual performance bonus, cash-settled restricted share units and long term incentive cash awards (“LTIC awards”). The cash-settled restricted share units and LTIC awards may be paid in the future if certain performance targets of the Company are met prior to the vesting dates. During the year ended December 31, 2017, the aggregate cash compensation paid to all current members of senior management as a group was approximately $6.8 million.

The compensation that we pay to our senior management is evaluated on an annual basis considering the following primary factors: individual performance during the prior year, market rates and movements and the individual’s anticipated contribution to us and our growth. Members of our senior management team are also eligible to participate in our retirement savings plans, described below under “—Benefit Plans and Programs.” In addition, members of our senior management are eligible to participate in welfare benefit programs made available to our U.S. workforce generally, including medical, dental, life insurance and disability benefits. We believe that the compensation awarded to our senior management is consistent with that of our peers and similarly situated companies in the industry in which we operate.

Directors

During the year ended December 31, 2017, we paid an aggregate of approximately $2.3 million in directors’ fees to the independent members of the Board of Directors, excluding those members of the Board of Directors affiliated with the Quantum Pacific Group. We also paid an aggregate of approximately $0.8 million in directors’ fees to the non-independent members of the Board of Directors affiliated with the Quantum Pacific Group, which we pay directly to the Quantum Pacific Group. We did not make any awards under our 2011 Stock Plan to the members of the Board of Directors in 2017. Members of our Board of Directors who are also our employees or employees of our subsidiaries do not receive any additional compensation for their service on our Board of Directors. There are currently no members of our Board of Directors who are our employees or employees of our subsidiaries. We believe that our director fee structure is customary and reasonable for companies of our kind and consistent with that of our peers and similarly situated companies in the industry in which we operate. These fees may be increased from time to time by a resolution of the general meeting of shareholders.

Equity and Long-Term Incentive Compensation Plans

The Pacific Drilling S.A. 2011 Omnibus Stock Incentive Plan (as amended and restated on March 4, 2014, the “2011 Stock Plan”) provides for the grant of stock options, stock appreciation rights, restricted shares, restricted share units and other equity-based or equity-related awards to directors, officers, employees and consultants. Subject to adjustment and terms as provided in the 2011 Stock Plan, 1.6 million common shares of Pacific Drilling S.A. were reserved and authorized for issuance, of which 1.2 million shares remain available for issuance as of March 23, 2018. The Compensation Committee of our Board of Directors determines the terms and conditions of equity awards made to participants under the 2011 Stock Plan and LTIC awards.

Under the 2011 Stock Plan, as of December 31, 2017, a total of 0.3 million options and 0.1 million equity-settled restricted share units were outstanding, of which 0.2 million options and 29,000 restricted share units were granted to members of senior management. The exercise prices of the stock options range from $21.70 to $108.00 per share. The option expiration dates range from March 31, 2021 to August 31, 2025. The restricted share units were granted at grant date values ranging from $36.40 to $108.00 per share. Until they vest, restricted share units do not have voting rights or participate in the earnings of the Company. We also have outstanding awards of 8,154 options under the 2011 Stock Plan

to certain independent members of our Board of Directors. The exercise prices of these stock options range from $101.20 to $108.80 per share, and the option expiration dates range from March 31, 2022 to March 31, 2024.

During the year ended December 31, 2016, we granted $6.7 million of LTIC awards, of which $2.2 million were granted to members of senior management. On January 1, 2017, a total of $7.3 million LTIC awards were granted, of which $2.6 million were granted to members of senior management. Also on January 1, 2017, we granted 0.6 million cash-settled restricted share units, of which 0.3 million units were granted to members of senior management. The value of cash-settled restricted share units is determined based on our common share price on the vesting date and are paid in cash with no actual shares issued. In the second quarter of 2017, we converted all 0.3 million of unvested restricted share units granted in 2016, of which 0.1 million were granted to members of senior management, into cash-settled restricted share units. See Note 9 to our consolidated financial statements for additional information. No LTIC awards or awards under the 2011 Stock Plan have been made since the Petition Date.

The options and restricted share units granted prior to 2016 generally vest 25% annually over four years. For members of senior management, 66.7% of the share-based awards and LTIC awards granted in 2016 vested during 2017. In addition, 33.3% of the share-based awards and LTIC awards granted in 2017 vested during 2017. The remaining unvested portion of the 2016 grants and the 2017 grants vest in the future if certain performance targets of the Company are met prior to the vesting dates. For other employees, the share-based awards and LTIC awards granted in 2016 and 2017 generally vest 33.3% annually over three years. As of December 31, 2017, a total of 0.5 million cash-settled restricted share units were outstanding, of which 0.2 million were granted to members of senior management.

Benefit Plans and Programs

Pacific Drilling sponsors a defined contribution retirement plan covering substantially all U.S. employees (the "U.S. Savings Plan") and an international savings plan covering certain of our international employees (the "International Savings Plan"). Under the U.S. Savings Plan, we match 100% of employee contributions up to 3% and 50% of the next 2% of eligible compensation per participant. Under the International Savings Plan, we match up to 3% of base compensation (limited to a contribution of $15,000 per participant). During the years ended December 31, 2017, 2016 and 2015, our total employer contributions to both plans amounted to $2.8 million, $4.1 million and $7.0 million, respectively.

We have established an annual bonus plan for key employees whose decisions, activities and performance have a significant impact on business results. Target bonus levels are determined on an individual basis and take into account individual performance, competitive pay practices and external market conditions. Achievement of bonus payment is based largely on the achievement of our Company's targets for the annual period.

Severance Agreements

We have severance and change of control agreements with each of the Company's senior management listed in Item 6, "Directors and Senior Management" (the "Severance Agreements"). Under the terms of the Severance Agreements, if at any time prior to a change of control of the Company (as defined in the Severance Agreements), the Company terminates the officer's employment other than for cause (as defined in the Severance Agreements) or the officer terminates his or her employment for good reason (as defined in the Severance Agreements), the officer will be entitled to the following:

- a lump sum payment equal to the sum of: (i) an amount equal to one year or two years (depending on the officer's position) of the officer's annual base salary in effect for the year of the date of termination, (ii) an amount equal to a pro-rated portion of the target bonus established for the officer for the year in which the termination occurs calculated through the date of termination, and (iii) an amount equal to the Company contributions that would be made for 12 months of benefits; and

- automatic acceleration of the vesting of any stock options, restricted stock, restricted share units or LTIC awards that were granted to the officer that are scheduled to vest within one year following the date of termination.

If a change of control of the Company occurs and the Company terminates the officer's employment other than for cause, or the officer terminates his or her employment for good reason, during the eighteen-month period following the date of the change of control, the officer will be entitled to the following:

- a lump sum payment of (i) an amount equal to two or 2.75 times (depending on the officer's position) the sum of: (A) the officer's base salary in effect for the year of the date of termination, and (B) the target bonus established for the officer for the year in which the termination occurs, and (ii) an amount equal to the contributions that would be made for 24 months of benefits; and

- automatic acceleration of the vesting of all unvested stock options, restricted stock, restricted share units or LTIC awards that were granted to the officer.

The Severance Agreements also include standard non-competition and non-solicitation language for a period of six months or one year (depending on the officer's position) following termination of employment, as well as customary confidentiality and non-disparagement covenants. The current term of the Severance Agreements will end on December 31, 2019 subject to automatic two-year renewal terms unless either party gives notice to terminate the agreement ninety days prior to the end of the applicable term.

Indemnity Agreements

We also have indemnity agreements with each of the Company's directors and senior management. The indemnity agreements supplement the indemnification rights for the directors and officers under the Company's Articles, and provide, among other things, for mandatory indemnification against liabilities as well as mandatory advancement and reimbursement of all reasonable expenses that may be incurred by the indemnitees in various legal proceedings arising out of their service as directors and officers to the fullest extent authorized by the General Corporation Law of the State of Delaware and as permitted by Luxembourg law, including any amendments thereto. The indemnity agreements also set out the process for determining entitlement to indemnification, the conditions to advancement of expenses, the procedures for enforcement of indemnification rights, the limitations on indemnification and requirements relating to the notice and defense of claims for which indemnification is sought.

C. BOARD PRACTICE S

See Item 10, "Memorandum and Articles of Association—Voting Rights—Appointment and Removal of Directors" for a detailed description regarding the appointment and removal of our Board of Directors.

On May 23, 2017, at our annual general meeting of shareholders ("2017 AGM"), each of our then current directors (Messrs. Asher, Beckett, Bonnier, Charney, Ducau, Fine, Iskander, Moskovitz, Samuels, Schwed and Wolff) was re-appointed for an additional one-year term until our annual general meeting on May 22, 2018 (the "2018 AGM"). Effective June 2, 2017, August 1, 2017, and August 31, 2017, respectively, Messrs. Moskovitz, Beckett, and Wolff resigned from our Board.

There are no service contracts between us and any of our current directors providing for benefits upon termination of their service.

Committees of the Board of Directors

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating Committee, and may create such other committees as the Board of Directors shall determine from time to time. Each of the standing committees of our Board of Directors has the composition and responsibilities described below.

Audit Committee

The members of our Audit Committee are Messrs. Charney (as Chairman), Asher and Schwed, each of whom our Board of Directors has determined is financially literate. Our Board of Directors has determined that each of the members of our Audit Committee is "independent" under the standards of the NYSE and SEC rules. In addition, our Board of Directors has determined that Mr. Charney is an Audit Committee financial expert.

The Audit Committee's primary responsibilities are to assist the Board of Directors' oversight of: our accounting practices; the integrity of our financial statements; our compliance with legal and regulatory requirements; the qualifications, selection, independence and performance of our independent registered public accounting firm; and the internal audit function. The Audit Committee has adopted a charter defining the committee's primary duties in a manner consistent with the rules of the SEC and the NYSE.

Compensation Committee

The members of our Compensation Committee are Messrs. Asher (as Chairman), Charney, Schwed and Samuels. The purpose of this committee is to oversee the discharge of the responsibilities of our Board of Directors relating to compensation of our executive officers. Our Compensation Committee also administers our incentive compensation and benefit plans. The Compensation Committee has adopted a charter defining the committee's primary duties in a manner consistent with the rules of the SEC and the NYSE.

No member of our Compensation Committee has been at any time an employee of ours. None of our executive officers serves on the board of directors or compensation committee of a company that has an executive officer that serves on our Board of Directors or Compensation Committee. No member of our Board of Directors is an executive officer of a company in which one of our executive officers serves as a member of the board of directors or compensation committee of that company.

Nominating Committee

Our Board of Directors has established a Nominating Committee, members of which are Messrs. Ducau (as Chairman), Asher and Iskander.

The purpose of the Nominating Committee is to assist the Board of Directors in identifying individuals qualified to become members of the Board of Directors and to provide advice to the Board of Directors regarding its composition and committees. The Committee has adopted a charter defining the committee's primary duties in a manner consistent with the rules of the SEC and the NYSE.

Corporate Governance

Our Board of Directors is empowered to take any action necessary or desirable in view of carrying out our corporate objective, except for the powers specifically allocated to the shareholders by law or by our Articles.

Our Articles provide that the day-to-day management of our Company and the power to represent us in such matters may be delegated to one or more directors, officers or other agents. The day-to-day management has been delegated to Paul T. Reese, Chief Executive Officer, Johannes P. Boots, Chief Financial Officer, and Cees van Diemen, Chief Operating Officer, each of whom is authorized to represent us individually in this regard. However, certain matters may not be delegated by our Board of Directors, including approval of our accounts, approval of our annual budget, approval of our policies and approval of recommendations made by any committee of our Board of Directors.

Our Articles further provide that we are bound towards third parties in all matters by the joint signature of a majority of our Board of Directors. In addition, we are also bound towards third parties by the joint or single signature of any person to whom special signatory powers have been delegated pursuant to our Articles.

All decisions to be taken by our Board of Directors are subject to a quorum and vote of a majority of the directors. A Chairman of the Board is elected from the members of the Board. The Chairman has a casting vote in the event of a tie vote. Our Chairman of the Board is Cyril Ducau, who was re-elected at our 2017 AGM for a one-year term expiring at the 2018 AGM.

The Board must make all decisions in our best interests and each director must notify the Board of any possible conflicts between his/her personal interests and ours. A director must refrain from participating in any deliberation or decision involving such a conflict. A special report on any conflict of interest transaction must be submitted to the shareholders at the next general meeting before any shareholder vote on the matter.

D. EMPLOYEES

Employees

As of December 31, 2017, we and our subsidiaries had a total of 768 employees and 5 subcontractors. These employees consisted of:

- 631 employees and subcontractors in engineering and operations; and
- 142 employees and subcontractors in finance, strategy and business development, sales and marketing and other administrative functions.

As of December 31, 2017, approximately 321 of our employees and our subcontractors were located in the United States and 181 were located in Nigeria. The remainder of our employees were in various other locations around the world.

As of December 31, 2016, we and our subsidiaries had a total of 843 employees and 5 subcontractors. These employees consisted of:

- 705 employees and subcontractors in engineering and operations; and
- 143 employees and subcontractors in finance, strategy and business development, sales and marketing and other administrative functions.

As of December 31, 2016, approximately 553 of our employees and our subcontractors were located in the United States and 207 were located in Nigeria. The remainder of our employees were in various other locations around the world.

As of December 31, 2015, we and our subsidiaries had a total of 947 employees and 241 subcontractors. These employees consisted of:

- 972 employees and subcontractors in engineering and operations; and
- 216 employees and subcontractors in finance, strategy and business development, sales and marketing and other administrative functions.

As of December 31, 2015, approximately 549 of our employees and our subcontractors were located in the United States and 512 were located in Nigeria. The remainder of our employees were in various other locations around the world.

We believe that our relations with employees and their labor unions are good. Some of our employees in Nigeria are currently represented by unions and covered by collective bargaining agreements.

E. SHARE OWNERSHIP

The table below shows the number and percentage of our outstanding common shares beneficially owned by each of our directors and members of senior management and all of our directors and officers as a group as of March 23, 2018, including stock options and restricted share units awarded to them under the 2011 Stock Plan that are exercisable or vest within 60 days. See Item 6, "Compensation—Equity Compensation Plans" for a description of the 2011 Stock Plan.

	Beneficial Interest in Common Shares	
Officer or Director	**Number of shares (in thousands)**	**Percentage [a]**
Paul T. Reese	*	* %
Cees van Diemen	*	*
Johannes P. Boots	*	*
Michael D. Acuff	*	*
Lisa Manget Buchanan	*	*
Richard E. Tatum	*	*
Cyril Ducau	—	—
N. Scott Fine	—	—
Laurence N. Charney	*	*
Jeremy Asher	*	*
Sami Iskander	*	*
Robert Schwed	*	*
Antoine Bonnier	—	—
Matthew Samuels	—	—
All officers and directors as a group [b]	272	1.3 %

* Less than 1%.

(a) Based on issued and outstanding shares of 21,338,602 as of March 23, 2018.

(b) Includes an aggregate 0.1 million of common shares issuable upon exercise of options that are exercisable within 60 days and restricted share units that vest within 60 days held by our senior management and directors as of March 23, 2018. The exercise prices of the stock options range from $21.70 to $108.80 per share.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth information as of March 23, 2018 for each shareholder whom we know to beneficially own more than five percent of our outstanding common shares:

	Common Shares Held	
Identity of Person or Group	Number of Shares (in thousands)	Percentage
Quantum Pacific (Gibraltar) Limited (1)	15,000	70.3 % (2)

(1) Quantum Pacific (Gibraltar) Limited is a Gibraltar company and wholly-owned subsidiary of Quantum Pacific International Limited, the indirect ultimate owner of which is a discretionary trust in which Mr. Idan Ofer is the primary beneficiary. The address of Quantum Pacific (Gibraltar) Limited is 57/63 Line Wall Road, Gibraltar.

(2) Based on issued and outstanding shares of 21,338,602 as of March 23, 2018.

As of March 23, 2018, we had only one shareholder of record in the United States, Cede & Co. (nominee of The Depository Trust Company), in whose name all shareholdings in the United States are recorded. This single shareholder of record in the United States represented approximately 29.7% of the total outstanding common shares. The number of beneficial owners of our common shares in the United States is significantly larger than the number of record holders of our common shares in the United States.

Our major shareholder has no different voting rights from those of the rest of our shareholders.

There are no arrangements, known to the Company, the operation of which may at a subsequent date result in a change in control of the Company, except as may result in connection with our emergence from our Chapter 11 proceedings.

B. RELATED PARTY TRANSACTIONS

See Note 20 to our consolidated financial statements.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18, “Financial Statements” within this annual report.

Legal Proceedings

See Note 14 to our consolidated financial statements.

Distribution Policy

We will not be permitted to pay dividends or make distributions with respect to our common shares during our Chapter 11 proceedings, and after emerging from the proceedings, our ability to do so may be limited by the plan of reorganization and terms of our equity or debt financing.

B. SIGNIFICANT CHANGES

Not applicable.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our common shares commenced trading on the NYSE on November 11, 2011 under the symbol “PACD.” As of September 13, 2017, our common shares have been delisted from the NYSE and have commenced trading in the “Pink Sheets” of OTC Pink, currently under the ticker symbol “PACDQ.” On March 23, 2018, the closing price of our common shares on the OTC Pink was $0.65 per share.

The following table sets forth, for each full financial year, high and low intraday sale prices of our common shares after adjusting all periods for the 1-for-10 reverse stock split in May 2016:

	Price Per Common Share			
	OTC Pink		NYSE	
	High (US$)	Low (US$)	High (US$)	Low (US$)
Fiscal Year Ended December 31,				
2017	0.94	0.15	4.88	0.38
2016	n/a	n/a	11.56	2.80
2015	n/a	n/a	56.10	8.40
2014	n/a	n/a	115.10	42.30
2013	n/a	n/a	122.50	88.90

The following table sets forth, for each full financial quarter for the two most recent fiscal years, high and low intraday sale prices of our common shares after adjusting all periods for the 1-for-10 reverse stock split in May 2016:

	Price Per Common Share OTC Pink		Price Per Common Share NYSE	
	High (US$)	Low (US$)	High (US$)	Low (US$)
Fiscal Year Ended December 31, 2017				
Fourth quarter	0.94	0.16	n/a	n/a
Third quarter	0.38	0.15	1.72	0.38
Second quarter	n/a	n/a	2.22	1.60
First quarter	n/a	n/a	4.88	1.98
Fiscal Year Ended December 31, 2016				
Fourth quarter	n/a	n/a	6.89	2.80
Third quarter	n/a	n/a	7.38	3.01
Second quarter	n/a	n/a	11.56	3.80
First quarter	n/a	n/a	9.30	3.00

The following table sets forth, for each of the six most recent months, high and low intraday sale prices of our common shares:

	Price Per Common Share OTC Pink	
	High (US$)	Low (US$)
March 2018 [(a)]	0.72	0.52
February 2018	0.97	0.58
January 2018	1.05	0.51
December 2017	0.78	0.40
November 2017	0.91	0.30
October 2017	0.94	0.16

(a) March 1, 2018 through March 23, 2018.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our common shares currently trade on the OTC Pink under the symbol "PACDQ."

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Our Coordinated Articles of Association, dated as of June 24, 2016, are filed as Exhibit 1.1 to this Annual Report on Form 20-F.

General

We are a Luxembourg public limited liability company (*société anonyme*). Our legal name is "Pacific Drilling S.A." We were incorporated on March 11, 2011.

Pacific Drilling S.A. is registered with the Luxembourg Registry of Trade and Companies under the number B159658. Our registered office is located at 8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg.

Our corporate object, as stated in Article 3 (Corporate object) of our Articles, is the acquisition of participations, in Luxembourg or abroad, in any company or enterprise in any form whatsoever, and the management of those participations. The Company may in particular acquire, by subscription, purchase and exchange or in any other manner, any stock, shares and other participation securities, bonds, debentures, certificates of deposit and other debt instruments and, more generally, any securities and financial instruments issued by any public or private entity. It may participate in the creation, development, management and control of any company or enterprise. Further, it may invest in the acquisition and management of a portfolio of patents or other intellectual property rights of any nature or origin.

Under our Articles, we may borrow in any form. We may issue notes, bonds and any kind of debt and equity securities. We may lend funds, including, without limitation, the proceeds of any borrowings, to our subsidiaries, affiliated companies and any other companies. We may also give guarantees and pledge, transfer, encumber or otherwise create and grant security over some or all of our assets to guarantee our own obligations and those of any other company, and, generally, for our own benefit and that of any other company or person. We may not, however, carry out any regulated financial sector activities without having obtained the requisite authorization.

We may use techniques, legal means and instruments to manage our investment efficiently and to protect ourselves against credit risks, currency exchange exposure, interest rate risks and other risks.

We may carry out any commercial, financial or industrial operation and any transaction with respect to real estate or movable property, which directly or indirectly, favors or relates to our corporate object.

Description of Share Capital

The following is a summary of our share capital and the rights of the holders of our common shares that are material to an investment in our common shares. These rights are set forth in our Articles or are provided by applicable Luxembourg law, and these rights may differ from those typically provided to shareholders of U.S. companies under the corporation laws of the various states of the United States. This summary does not contain all information that may be important to readers.

We are authorized to issue up to 5.0 billion common shares, par value of $0.01 per share. As of March 23, 2018, an aggregate of 22.5 million common shares were issued, of which 21.3 million shares are outstanding and 1.2 million shares are reserved for issuance under the 2011 Stock Plan. Each of our outstanding common shares entitles its holder to one vote at any general meeting of shareholders.

To our knowledge, as of March 23, 2018, there were no shareholders' arrangements or agreements the implementation or performance of which could, at a later date, result in a change in the control of us in favor of a third person other than the current controlling shareholder, an entity controlled by the Quantum Pacific Group, except as may result in connection with our emergence from our Chapter 11 proceedings.

Our common shares are governed by Luxembourg law and our Articles. More information concerning shareholders' rights can be found in the Luxembourg law on commercial companies dated August 10, 1915, as amended from time to time, and our Articles.

Form and Transfer of Shares

Our shares are issued in registered form only and are freely transferable, subject to any restrictions that may be provided for in our Articles or in any agreement entered into between shareholders. Luxembourg law does not impose any limitations on the rights of Luxembourg or non-Luxembourg residents to hold or vote our shares.

Issuance of Shares

Pursuant to Luxembourg law, the issuance of our common shares requires the approval by our shareholders at a general meeting. The shareholders may approve an authorized unissued share capital and authorize the Board of Directors to issue shares up to the maximum amount of such authorized unissued share capital for a maximum period of five years from the date of publication in the Luxembourg official gazette of the minutes of the relevant general meeting. The shareholders may amend, renew or extend such authorized share capital and authorization to the Board of Directors to issue shares.

Pursuant to Article 5.3 of our Articles, our Board of Directors is authorized, for a period of five years from the publication of the minutes of our 2016 AGM, to issue additional shares one or more times up to 5.0 billion, having the same rights as the existing shares and to limit or withdraw the shareholders' preferential subscription rights on such increase.

Our Articles provide that no fractional shares may be issued. Our common shares have no conversion rights, and there are no redemption or sinking fund provisions applicable to our common shares. We cannot subscribe for our own shares.

Capital Reduction

Our Articles provide that the issued share capital may be reduced, subject to the approval by the shareholders at a general meeting.

General Meeting of Shareholders

In accordance with Luxembourg law and our Articles, any regularly constituted general meeting of shareholders represents the entire body of shareholders of the Company. At a general meeting, the shareholders have full power to adopt and ratify all acts and operations that are consistent with our corporate object.

The annual general meeting of shareholders is currently set in our Articles to be held at 10:00 a.m. (Luxembourg time) on the fourth Tuesday of May of each year in Luxembourg. If that day is a legal or banking holiday or the day following a public holiday in the United States, the meeting will be held on Tuesday of the following week. Other general meetings of shareholders may be convened at any time.

Each of our common shares entitles the holder of record thereof to attend our general meeting of shareholders, either in person or by proxy, to address the general meeting of shareholders, and to exercise voting rights, subject to the provisions of our Articles. Each share entitles the holder to one vote at a general meeting of shareholders. There is no minimum shareholding required to be able to attend or vote at a general meeting of shareholders.

Luxembourg law provides that our Board of Directors is obligated to convene a general meeting of shareholders if shareholders representing, in the aggregate, 10% of the issued share capital so request in writing with an indication of the agenda. In such case, the general meeting of shareholders must be held within one month of the request. If the requested general meeting of shareholders is not held within one month, shareholders representing, in the aggregate, 10% of the issued share capital may petition the competent president of the district court in Luxembourg to have a court appointee convene the meeting. Luxembourg law provides that shareholders representing, in the aggregate, 10% of the issued share capital may request that additional items be added to the agenda of a general meeting of shareholders. That request must be made by registered mail sent to our registered office at least five days before the holding of the general meeting of shareholders.

Voting Rights

Each common share entitles the holder thereof to one vote at a general meeting of shareholders.

Luxembourg law distinguishes between “ordinary” general meetings of shareholders and “extraordinary” general meetings of shareholders.

Ordinary General Meetings of Shareholders. At an ordinary general meeting of shareholders there is no quorum requirement, and resolutions are adopted by a simple majority of the votes validly cast, irrespective of the number of shares present or represented. Abstentions are not considered “votes.”

Extraordinary General Meetings of Shareholders. Extraordinary general meetings of shareholders are convened to resolve in particular upon an amendment to our Articles and certain other limited matters. An extraordinary general meeting of shareholders convened for the purpose of (a) an increase or decrease of the issued share capital, (b) a limitation or exclusion of preemptive rights, (c) approving a legal merger or de-merger of the Company, (d) dissolution of the Company or (e) an amendment of our Articles must have a quorum of at least 50% of our issued share capital, and such actions require approval of at least two-thirds of the votes validly cast at such extraordinary general meeting of shareholders. If such quorum is not reached, the extraordinary general meeting of shareholders may be reconvened, pursuant to appropriate notification procedures, at a later date with no minimum quorum requirement applying. Abstentions are not considered “votes.”

Appointment and Removal of Directors. Members of our Board of Directors may be elected by simple majority of the votes validly cast at any general meeting of shareholders. Under our Articles, all directors can be elected for a period of up to six years with such possible extension as provided therein. Currently each director is serving a one-year term set to expire at the 2018 AGM. Any director may be removed with or without cause by a simple majority vote at any general meeting of shareholders. If the office of a director becomes vacant, our Articles provide that the other directors, acting by a simple majority, may fill the vacancy on a provisional basis until a new director is appointed at the next general meeting of shareholders.

Neither Luxembourg law nor our Articles contain any restrictions as to the voting of our common shares by non-Luxembourg residents.

Amendment to Our Articles of Association

Luxembourg law requires an extraordinary general meeting of shareholders be convened in order to amend our Articles. The agenda of the extraordinary general meeting of shareholders must indicate the proposed amendments to our Articles.

Any resolutions to amend our Articles must be taken before a Luxembourg notary and such amendments must be published in accordance with Luxembourg law.

Merger and De-Merger

Any merger must be approved by an extraordinary general meeting of shareholders of the Luxembourg company to be held before a notary. Similarly, the de-merger of a Luxembourg company is generally subject to the approval by an extraordinary general meeting of shareholders.

Liquidation

In the event of our liquidation, dissolution or winding-up, the assets remaining after allowing for the payment of all liabilities will be paid out to the shareholders pro rata to their respective shareholdings. The decision to voluntarily liquidate, dissolve or wind-up requires the approval of our shareholders at an extraordinary general meeting of shareholders to be held before a notary.

No Appraisal Rights

Neither Luxembourg law nor our Articles provide for any appraisal rights of dissenting shareholders.

Distributions

Subject to Luxembourg law, each share is entitled to participate equally in distributions if and when declared by the shareholders out of funds legally available for such purposes. Pursuant to our Articles, our shareholders may, at a general meeting, approve distributions, and our Board of Directors may declare interim distributions, to the extent permitted by Luxembourg law. Declared and unpaid distributions held by us for the account of the shareholders shall not bear interest. Under Luxembourg law, claims for unpaid distributions will lapse in our favor five years after the date such distribution has been declared.

Annual Accounts

Each year our Board of Directors must prepare annual accounts of Pacific Drilling S.A., including an inventory of our assets and liabilities, and a balance sheet and a profit and loss account. Our Board of Directors must also prepare a consolidated management report each year on the consolidated financial statements of the Company. The annual accounts, the consolidated financial statements of the Company, the consolidated management report and the auditor’s reports must be available for inspection by shareholders at our registered office at least 15 calendar days prior to the date of the annual general meeting of shareholders.

The annual accounts, after approval by the shareholders at the annual general meeting, must be filed with the Luxembourg registry of trade and companies within seven months of the close of the financial year.

Information Rights

Luxembourg law gives shareholders limited rights to inspect certain corporate records 15 calendar days prior to the date of the annual general meeting of shareholders, including the annual accounts, the consolidated financial statements of the Company, a list of directors and independent auditors, a list of shareholders whose shares are not fully paid-up, the management consolidated report and the auditor’s reports.

The annual accounts, the consolidated financial statements of the Company, the consolidated management report and the auditor’s reports are sent to registered shareholders at the same time as the convening notice for the annual

general meeting of shareholders. In addition, any registered shareholder is entitled to receive a copy of these documents free of charge 15 calendar days prior to the date of the annual general meeting of shareholders upon request.

Under Luxembourg law, it is generally accepted that a shareholder has the right to receive responses to questions concerning items on the agenda for a general meeting of shareholders if such responses are necessary or useful for a shareholder to make an informed decision concerning such agenda item, unless a response to such questions could be detrimental to our interests.

Transfer Agent and Registrar

The transfer agent and registrar for our common shares is American Stock Transfer & Trust Company, LLC.

C. MATERIAL CONTRACTS

We have no material contracts other than those entered into in the ordinary course of business and those described in our description of indebtedness. See Item 5, "Liquidity and Capital Resources—Description of Indebtedness" and Note 6 to our consolidated financial statements in this annual report for a more detailed description of the terms of our debt financings.

D. EXCHANGE CONTROLS

There are no legislative or other legal provisions currently in force in Luxembourg or arising under our Articles that restrict the payment of dividends or distributions to holders of Pacific Drilling S.A. shares not resident in Luxembourg, except for regulations restricting the remittance of dividends, distributions and other payments in compliance with United Nations and European Union sanctions. There are no limitations, either under the laws of Luxembourg or in our Articles, on the right of non-Luxembourg nationals to hold or vote Pacific Drilling S.A. shares.

E. TAXATION

Material Luxembourg Tax Considerations for U.S. Holders of Common Shares

The following is a summary discussion of certain Luxembourg tax considerations that may be applicable to U.S. Holders as a result of owning or disposing of our common shares. This does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any of our common shares, and does not purport to include tax considerations that arise from rules of general application or that are generally assumed to be known to holders. This discussion is not a complete analysis or listing of all of the possible tax consequences of such transactions and does not address all tax considerations that might be relevant to particular holders in light of their personal circumstances or to persons that are subject to special tax rules.

It is not intended to be, nor should it be construed to be, legal or tax advice. The summary is not exhaustive and we strongly encourage shareholders to consult their own tax advisors as to the Luxembourg tax consequences of the ownership and disposition of our common shares. The summary applies only to U.S. shareholders who will own our common shares as capital assets and does not apply to other categories of shareholders, such as dealers in securities, trustees, insurance companies, collective investment schemes and shareholders who have, or who are deemed to have, acquired their common shares in the capital of our common shares by virtue of an office or employment.

This discussion is based on the laws of the Grand-Duchy of Luxembourg, including the Income Tax Act of December 4, 1967, as amended, the Municipal Business Tax Act of December 1, 1936, as amended, and the Net Wealth Tax Act of October 16, 1934, as amended, to which we jointly refer to as the laws of the Grand-Duchy of Luxembourg, including the regulations promulgated thereunder, and published judicial decisions and administrative pronouncements, each as in effect on the date of this annual report or with a known future effective date and is subject to any change in law or regulations or changes in interpretation or application thereof (and which may possibly have a retroactive effect). However, there can be no assurance that the Luxembourg tax authorities will not challenge any of the Luxembourg tax considerations described below; in particular, changes in law and/or administrative practice, as well as changes in relevant facts and circumstances, may alter the tax considerations described below. Prospective investors are encouraged to consult their own professional advisors as to the effects of state, local or foreign laws and regulations, including Luxembourg tax law and regulations, to which they may be subject.

For purposes of this summary, a "U.S. Holder" means any investor in our common shares who is a United States resident within the meaning of Article 4 of the double tax treaty of 3 April 1996 concluded between Luxembourg and the United States (the "Treaty") and entitled to all the benefits of the Treaty pursuant to Article 24 of the Treaty.

Tax Regime Applicable to Realized Capital Gains

U.S. Holders

U.S. Holders will be subject to the following Luxembourg tax treatment in relation to capital gains in the cases described below (among others):

- An individual who is a U.S. Holder of common shares (and who does not have a permanent establishment, a permanent representative or a fixed place of business in Luxembourg to which the common shares are attributable) will not be subject to Luxembourg taxation on capital gains arising upon disposal of such common shares pursuant to Article 14 (5) of the Treaty.

- A corporate U.S. Holder, which has a permanent establishment, a permanent representative or a fixed place of business in Luxembourg to which our common shares are attributable, will be required to recognize capital gains (or losses as the case may be) on the sale of such common shares, which will be subject to Luxembourg corporate income tax and municipal business tax. However, gains realized on the sale of the common shares may benefit from the exemption provided for by Article 166 of the Luxembourg Income Tax and the Grand-Ducal Decree of December 21, 2001 (as amended) provided that at the time of the disposal of the common shares (a) the corporate U.S. Holder (acting through its permanent representative or fixed place of business in Luxembourg) of common shares holds a stake representing at least 10% of our total share capital or a cost price of at least 6,000,000 Euros ("€") and (b) such qualifying shareholding has been held for an uninterrupted period of at least 12 months or the corporate U.S. Holder (acting through its permanent representative or fixed place of business in Luxembourg) undertakes to continue to own such qualifying shareholding until such time as the corporate U.S. Holder (acting through its permanent representative or fixed place of business in Luxembourg) has held our common shares for an uninterrupted period of at least 12 months. In certain circumstances, the exemption may not apply in part or in full; for example; the capital gains exemption (for gains arising on an alienation of the common shares) does not apply up to the aggregate amount of previously tax deducted expenses and write-offs related to these common shares.

- A corporate U.S. Holder, which has no permanent establishment in Luxembourg to which the common shares are attributable, will not be subject to Luxembourg taxation on capital gains arising upon disposal of such common shares pursuant to Article 14 (5) of the Treaty.

Tax Regime Applicable to Distributions

Luxembourg Withholding Tax

A Luxembourg withholding tax of 15% (17.65% if the dividend tax is not withheld from the shareholder) is due on dividends and similar distributions to our holders (subject to the exceptions discussed under "—Exemption from Luxembourg Withholding Tax" below). Absent an exception, we will be required to withhold at such rate from distributions to the shareholder and pay such withheld amounts to the Luxembourg tax authorities.

Exemption from Luxembourg Withholding Tax

Dividends and similar distributions paid to U.S. Holders may be exempt from Luxembourg dividend withholding tax if: (1) the U.S. Holder is a qualifying corporate entity holding a stake representing at least 10% of our total share capital or which acquired the common shares for at least €1,200,000 (or its equivalent amount in a foreign currency); and (2) the U.S. Holder has either held this qualifying stake in our capital for an uninterrupted period of at least 12 months at the time of the payment of the dividend or undertakes to continue to own such qualifying shareholding until such time as it has held the common shares for an uninterrupted period of at least 12 months. Based on the above, the U.S. Holder will be a qualifying corporate entity for the exemption if it is fully subject to a tax in the United States that corresponds to Luxembourg corporate income tax.

Under current Luxembourg tax law, payments to shareholders in relation to a reduction of share capital or share premium are not subject to Luxembourg dividend withholding tax if certain conditions are met, including, for example, the condition that we do not have distributable reserves or profits. If we have, at the time of the payment to shareholders with respect to their common shares, distributable reserves or profits, a distribution of share capital or share premium will be recharacterized for Luxembourg tax purposes as a distribution of such reserves or earnings subject to withholding tax. Based on this treatment under Luxembourg law, if certain conditions are met, it can be expected that a substantial amount of potential future payments to be made by us may not be subject to Luxembourg withholding tax.

Reduction of Luxembourg Withholding Tax

U.S. corporate Holders may claim application of a reduced Luxembourg dividend withholding tax at a rate of 5% under the conditions provided for by Article 10 (2) (a) (i) of the Treaty, i.e., shareholding of at least 10% of the voting stock of the distributing company without minimum holding period in relation to these shares.

Net Wealth Tax

U.S. Holders

Luxembourg net wealth tax will not be levied on a U.S. Holder with respect to the common shares unless the common shares are attributable to an enterprise or part thereof that is carried on through a permanent establishment, a fixed place of business or a permanent representative in Luxembourg, in which case an exemption may apply based on Paragraph 60 of the Law of October 16, 1934 on the valuation of assets (Bewertungsgesetz),

Registration Tax/Stamp Duty

No registration tax or stamp duty will be payable by a U.S. Holder of common shares in Luxembourg solely upon the disposal of common shares by sale or exchange.

Estate and Gift Taxes

No estate or inheritance tax is levied on the transfer of common shares upon the death of a U.S. Holder of common shares in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes, and no gift tax is levied upon a gift of common shares if the gift is not passed before a Luxembourg notary or recorded in a deed registered in Luxembourg.

THE LUXEMBOURG TAX CONSIDERATIONS SUMMARIZED ABOVE ARE FOR GENERAL INFORMATION ONLY. EACH PACIFIC DRILLING S.A. SHAREHOLDER IS ENCOURAGED TO CONSULT HIS OR HER TAX ADVISOR AS TO THE PARTICULAR CONSEQUENCES THAT MAY APPLY TO SUCH SHAREHOLDER.

Material U.S. Federal Income Tax Considerations for Holders of Common Shares

The following is a discussion of the material U.S. federal income tax considerations relating to the purchase, ownership and disposition of our common shares. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed Treasury Regulations thereunder, judicial authority and administrative interpretations, as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. There can be no assurance that the Internal Revenue Service (“IRS”) will take a similar view of such consequences, and we have not obtained, nor do we intend to obtain, a ruling from the IRS with respect to the U.S. federal income tax consequences of the purchase, ownership and disposition of the common shares. This discussion is limited to beneficial owners that hold our common shares as “capital assets” (generally, property held for investment).

This discussion does not address all U.S. federal income tax considerations that may be relevant to a particular holder based on its particular circumstances, and you are encouraged to consult your own independent tax advisor

regarding your specific tax situation. For example, the discussion does not address the tax considerations that may be relevant to U.S. Holders in special tax situations, such as:

- dealers in securities or currencies;
- insurance companies;
- regulated investment companies and real estate investment trusts;
- tax-exempt organizations;
- brokers or dealers in securities or currencies and traders in securities that elect to mark to market;
- certain financial institutions;
- partnerships or other pass-through entities and holders of interests therein;
- holders whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- U.S. expatriates;
- individual retirement accounts and other tax deferred accounts;
- holders that acquired our common shares in compensatory transactions;
- holders that hold our common shares as part of a hedge, straddle or conversion or other integrated transaction; or
- holders that own, directly, indirectly, or constructively, 10% or more of the total combined voting power of the Company.

This discussion does not address the alternative minimum tax consequences of holding common shares. Moreover, this discussion does not address the state, local or non-U.S. tax consequences of holding our common shares, or any aspect of U.S. federal tax law other than U.S. federal income taxation.

You are a "U.S. Holder" if you are a beneficial owner of our common shares and you are, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or any other entity taxable as a corporation, created or organized in or under the laws of the United States or any State thereof, including the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (a) if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons (as defined in the Code) have the authority to control all of its substantial decisions or (b) that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

You are a "Non-U.S. Holder" for purposes of this discussion if you are a beneficial owner of our common shares that is an individual, corporation, estate or trust that is not a U.S. Holder.

If a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the

activities of the partnership. A partner of a partnership considering the purchase of our common shares is encouraged to consult its own independent tax advisor.

You are encouraged to consult your own independent tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax consequences of purchasing, owning and disposing of our common shares in your particular circumstances.

U.S. Holders

Passive Foreign Investment Company Rules

A U.S. Holder generally will be subject to a special, adverse tax regime that would differ in certain respects from the tax treatment described below if we are, at any time during the U.S. Holder's holding period with respect to our common shares, a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. A U.S. Holder of a PFIC is also subject to special reporting requirements.

In general, we will be a PFIC for any taxable year if either (i) at least 75% of our gross income for the taxable year is "passive income" or (ii) at least 50% of the average value of all our assets (determined on the basis of a quarterly average) produce or are held for the production of passive income. For this purpose, passive income generally includes, among other things, dividends, interest, certain rents and royalties, annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income. Based on our operations described herein, all or a substantial portion of our income from offshore contract drilling services should be treated as services income and not as passive income, and thus all or a substantial portion of the assets that we own and operate in connection with the production of that income should not constitute passive assets, for purposes of determining whether we are a PFIC. However, this involves a facts and circumstances analysis and it is possible that the IRS would not agree with this conclusion.

We believe that we will not be a PFIC in the current taxable year and that we will not become a PFIC in any future taxable year. The determination of whether a corporation is a PFIC is made annually and thus may be subject to change. Therefore, we can give investors no assurance as to our PFIC status. U.S. Holders are encouraged to consult their own independent tax advisors about the PFIC rules, including the availability of certain elections and reporting requirements. The remainder of this discussion assumes that we will not be a PFIC for the current taxable year or for any future taxable year.

Taxation of Dividends

Any distributions made with respect to our common shares (including amounts withheld on account of foreign taxes) will, to the extent made from current or accumulated earnings and profits as determined under U.S. federal income tax principles, constitute dividends for U.S. federal income tax purposes. To the extent that any distribution exceeds the amount of our current and accumulated earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. Holder's adjusted tax basis in the common shares, and thereafter as capital gain. Such dividends generally would be treated as foreign-source income for U.S. foreign tax credit purposes.

Dividends (including amounts withheld on account of foreign taxes) paid with respect to our common shares generally will be includible in the gross income of a U.S. Holder as ordinary income on the day on which the dividends are received by the U.S. Holder. A non-corporate U.S. Holder would be entitled to a preferential rate of U.S. federal income taxation (with the applicable rate based on the income and filing status of the U.S. Holder) with respect to any dividends paid on our common shares only if we are a "qualified foreign corporation." We will be treated as a qualified foreign corporation if the common shares are readily tradable on an established securities market or if we are eligible for the benefits of a comprehensive income tax treaty with the United States. As our common shares are traded on an established securities market, we are a qualified foreign corporation and therefore non-corporate U.S. Holders will be eligible for a preferential tax rate if the holders meet certain holding period and other requirements. A preferential tax rate will not apply to amounts that the U.S. Holder takes into account as "investment income," which may be offset by investment expense. Dividends on our common shares will not be eligible for the dividends-received deduction generally

allowed to U.S. corporations under the Code. You are encouraged to consult your independent tax advisor regarding qualification for a preferential rate on dividend income and the rules related to investment income.

Subject to limitations under U.S. federal income tax law concerning credits or deductions for foreign taxes, a Luxembourg withholding tax imposed on dividends described above under "—Material Luxembourg Tax Considerations for U.S. Holders of Common Shares—Tax Regime Applicable to Distributions—Luxembourg Withholding Tax" generally would be treated as a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or at a U.S. Holder's election, may be deducted in computing taxable income if the U.S. Holder has elected to deduct all foreign income taxes for the taxable year). The rules with respect to foreign tax credits are complex and U.S. Holders are encouraged to consult their independent tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Taxation of Capital Gains

Gain or loss realized by a U.S. Holder on the sale, exchange or other taxable disposition of common shares will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized (including the gross amount of the proceeds before the deduction of any foreign tax) on the sale, exchange or other taxable disposition and such U.S. Holder's adjusted tax basis in the common shares. The capital gains of a U.S. Holder that is an individual, estate or trust currently will be subject to a reduced rate of U.S. federal income tax (with the applicable rate based on the income and filing status of the U.S. Holder) if the holder's holding period for the common shares exceeded one year as of the time of the disposition. The deductibility of capital losses is subject to certain limitations. Capital gain or loss, if any, realized by a U.S. Holder on the sale, exchange or other taxable disposition of common shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, in the case of a disposition of shares that is subject to Luxembourg or other foreign income tax imposed on the gain, the U.S. Holder may not be able to benefit from the foreign tax credit for that foreign income tax (i.e., because gain on the disposition would be U.S. source). Alternatively, the U.S. Holder may take a deduction for the foreign income tax if such holder does not take a credit for any foreign income tax during the taxable year.

Reporting Requirements Regarding Foreign Financial Accounts

Certain U.S. Holders who are individuals and who hold "specified foreign financial assets" (as defined in section 6038D of the Code) with values in excess of certain dollar thresholds, as prescribed by applicable U.S. Treasury Regulations, are required to report such assets on IRS Form 8938 with their U.S. federal income tax returns. Specified foreign financial assets include stock of a non-U.S. corporation (such as our common shares) that is not held in an account maintained by a "financial institution" (as defined in section 1471(d)(5) of the Code). An individual who fails to timely furnish the required information may be subject to a penalty. Additionally, in the event a U.S. Holder does not file the required information, the statute of limitations may not close until three years after such information is filed. Under certain circumstances, an entity may be treated as an individual for purposes of the foregoing rules. Investors are urged to consult their tax advisor regarding these reporting requirements and any other reporting requirements that may be applicable to their particular circumstances.

Additional Medicare Tax on Net Investment Income

An additional 3.8% Medicare tax is imposed on the "net investment income" of certain United States citizens and resident aliens and on the undistributed "net investment income" of certain estates and trusts. Among other items, "net investment income" generally includes dividends and certain net gain from the disposition of property, less certain deductions. Investors are encouraged to consult their independent tax advisors with respect to this additional tax.

Non-U.S. Holders

Dividends

A Non-U.S. Holder generally will not be subject to U.S. federal income tax on dividends received on our common shares, unless the dividends are effectively connected with the Holder's conduct of a trade or business in the United States and, if required by an applicable income tax treaty, the dividends are attributable to a permanent establishment maintained by the Holder in the United States or unless the Holder is subject to backup withholding, as discussed below. Except to the extent otherwise provided under an applicable income tax treaty, a Non-U.S. Holder generally will be

taxed in the same manner as a U.S. Holder on dividends that are effectively connected with the Holder's conduct of a trade or business in the United States. Effectively connected dividends received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments.

Taxation of Capital Gains

In general, a Non-U.S. Holder of common shares will not be subject to U.S. federal income or withholding tax with respect to any gain recognized on a sale, exchange or other taxable disposition of such common shares unless:

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and if required by an applicable income tax treaty, is also attributable to a permanent establishment that the Non-U.S. Holder maintains in the United States), in which case, the Non-U.S. Holder will generally be subject to regular graduated rates in the same manner as a U.S. Holder, and if the Non-U.S. Holder is a corporation, may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable income tax treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments;

- the Non-U.S. Holder is an individual who is present in the United States for 183 or more days in the taxable year of the sale, exchange or other taxable disposition and meets certain other requirements, in which case the gain generally will be subject to a flat 30% tax that may be offset by U.S. source capital losses (even though the Non-U.S. Holder is not considered a resident of the United States); or

- the Non-U.S. Holder is subject to backup withholding, as discussed below.

Backup Withholding and Information Reporting

In general, dividends on common shares, and the proceeds of a sale, exchange or other disposition of common shares for cash, paid within the United States or through certain U.S. related financial intermediaries to a U.S. Holder or a Non-U.S. Holder are subject to information reporting to the IRS and may be subject to backup withholding unless the holder is an exempt recipient, is an exempt foreign person or, in the case of backup withholding, provides an accurate taxpayer identification number and certifies under penalty of perjury that the holder is a U.S. person and is not subject to backup withholding.

Backup withholding is not an additional tax. Generally, a holder may obtain a refund of any amounts withheld under the backup withholding rules that exceed such holder's U.S. federal income tax liability by timely filing a refund claim with the IRS. The amount of any backup withholding withheld from a payment to a holder will be allowed as a credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Holders are encouraged to consult their independent tax advisors regarding the application of information reporting and backup withholding in their particular situations, the availability of exemptions and the procedures for obtaining exemptions.

You are encouraged to consult with your own independent tax advisor regarding the application of the U.S. federal income tax laws to your particular circumstances, as well as any additional tax consequences resulting from an investment in our common shares, including the applicability and effect of the tax laws of any state, local or non-U.S. jurisdiction, including estate, gift and inheritance tax laws.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We file annual and special reports and other information with the SEC. You may read and copy any documents filed by the Company at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website at www.sec.gov, which contains reports and other information regarding registrants that file electronically with the SEC. In addition, we post these documents on our website at www.pacificdrilling.com in the Investor Relations section.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. These risks arise primarily as a result of potential changes in the fair market value of financial instruments that would result from adverse fluctuations in interest rates and foreign currency exchange rates as discussed below. We have entered, and in the future may enter, into derivative financial instrument transactions to manage or reduce market risk, but we do not enter into derivative financial instrument transactions for speculative or trading purposes.

Interest Rate Risk . We are exposed to changes in interest rates through our variable rate debt. As of December 31, 2017, our net exposure to floating interest rate fluctuations on our outstanding debt for which we continued to accrue interest subsequent to the Petition Date was $1,019.2 million. A 1% increase or decrease to the overall variable interest rate charged to us would thus increase or decrease our interest expense by approximately $10.2 million on an annual basis as of December 31, 2017. As of December 31, 2016, our net exposure to floating interest rate fluctuations on our outstanding debt under the 2013 Revolving Credit Facility, the SSCF and the Senior Secured Term Loan B was $750.9 million, based on floating rate debt of $1,863.4 million less the $1,112.5 million notional principal of our floating to fixed interest rate swaps. A 1% increase or decrease to the overall variable interest rate charged to us would have thus increased or decreased our interest expense by approximately $7.5 million on an annual basis as of December 31, 2016.

Foreign Currency Exchange Rate Risk . We use the U.S. dollar as our functional currency because the substantial majority of our revenues and expenses are denominated in U.S. dollars. Accordingly, our reporting currency is also U.S. dollars. However, there is a risk that currency fluctuations could have an adverse effect on us as we do earn revenue and incur expenses in other currencies. We utilize the payment structure of client contracts to selectively reduce our exposure to exchange rate fluctuations in connection with monetary assets, liabilities and cash flows denominated in certain foreign currencies. Due to various factors, including client acceptance, local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual local currency needs may vary from those anticipated in the client contracts, resulting in partial exposure to foreign exchange risk. Fluctuations in foreign currencies have not had a material impact on our overall operating results or financial position.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. DEBT SECURITIES

Not applicable.

B. WARRANTS AND RIGHTS

Not applicable.

C. OTHER SECURITIES

Not applicable.

D. AMERICAN DEPOSITORY SHARES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

See Notes 2 and 6 to our consolidated financial statements.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report have been designed and are effective at the reasonable assurance level so that the information required to be disclosed by us in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules, regulations and forms and have been accumulated and communicated to our management, including executive and financial officers, as appropriate, to allow timely decisions regarding required disclosures.

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices), and actions taken to correct deficiencies as identified.

There are inherent limitations to the effectiveness of internal control over financial reporting, however well designed, including the possibility of human error and the possible circumvention or overriding of controls. The design of an internal control system is also based in part upon assumptions and judgments made by management about the likelihood of future events, and there can be no assurance that an internal control will be effective under all potential future conditions. As a result, even an effective system of internal controls can provide no more than reasonable assurance with respect to the fair presentation of financial statements and the processes under which they were prepared.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria for internal control over financial reporting described in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operating effectiveness of its internal control over financial reporting.

Management reviewed the results of its assessment with the Audit Committee of our Board of Directors. Based on this assessment, management has concluded that, as of December 31, 2017, our internal control over financial reporting was effective.

(c) Attestation Report of the Registered Public Accounting Firm

Not applicable.

(d) Changes in Internal Control over Financial Reporting

There were no changes in these internal controls during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Mr. Charney, Chairman of the Audit Committee, is an independent Director as defined by the NYSE and is an audit committee financial expert as defined by the SEC. See Item 6.A, "Directors and Senior Management" for a description of Mr. Charney's relevant experience.

ITEM 16B. CODE OF ETHICS

We have a Global Code of Conduct applicable to our employees, directors and officers, including our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and other senior financial officers, that meets the standards and definitions of the SEC. Any changes to, or waiver from, the Global Code of Conduct will be made only by the Board of Directors, or a committee thereof, and appropriate disclosure will be made promptly on our website at www.pacificdrilling.com, in accordance with the rules and regulations of the SEC.

We have posted a copy of our Global Code of Conduct on our website at www.pacificdrilling.com in the Investor Relations section and will provide a copy without charge upon request sent to pdcompliance@pacificdrilling.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by KPMG LLP, an independent registered accounting firm and our principal external auditors, for the periods indicated.

	Years ended December 31,	
	2017	2016
	(In thousands)	
Audit fees [a]	$ 935	$ 1,078
Audit-related fees [b]	—	—
Tax fees [c]	—	64
All other fees [d]	—	—
Total	$ 935	$ 1,142

(a) Audit fees represent professional services rendered for the audit of our annual consolidated financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements.

(b) Audit-related fees consist of assurance and related services rendered by the principal accountant related to the performance of the audit or review of our consolidated financial statements, which have not been reported under audit fees above.

(c) Tax fees represent fees for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

(d) All other fees include services other than audit fees, audit-related fees and tax fees set forth above.

Audit Committee's Pre-Approval Policies and Procedures

The Audit Committee's primary responsibilities are to assist the Board of Directors' oversight of our accounting practices; the integrity of our financial statements; our compliance with legal and regulatory requirements; the qualifications, selection, independence and performance of our independent auditors; and the internal audit function. The Audit Committee has adopted in its charter a policy regarding the pre-approval of audit and permissible non-audit services provided by the Company's independent auditors.

Under the policy, the Audit Committee pre-approves all audit services to be provided to the Company, whether provided by the principal auditors or other firms, and all other services (review, attest and non-audit) to be provided to the Company by the independent auditors; provided, however, that de minimis non-audit services may instead be

approved in accordance with applicable rules and regulations. All services provided by the principal external auditors for the years ended December 31, 2017, 2016 and 2015 were approved by the Audit Committee pursuant to the pre-approval policy.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Month in the year ended December 31, 2017	Total number of shares purchased	Average price paid per share ($)	Total number of shares purchased as part of publicly announced plans or programs [(a)]	Maximum number of shares that may yet be purchased under the plans or programs [(a)]
January	—	—	—	1,000,000
February	—	—	—	1,000,000
March	—	—	—	1,000,000
April	—	—	—	1,000,000
May	—	—	—	1,000,000
June	—	—	—	—
July	—	—	—	—
August	—	—	—	—
September	—	—	—	—
October	—	—	—	—
November	—	—	—	—
December	—	—	—	—
Total	—	$ —	—	—

(a) On May 11, 2015, our shareholders approved a share repurchase program for the repurchase up to 1.0 million shares of our common stock. The program expired on May 31, 2017 with no shares repurchased.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Not applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18 below.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements listed below are filed as part of this annual report on Form 20-F:

Pacific Drilling S.A.

Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm	F-1
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Notes to Consolidated Financial Statements	F-7

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1	Coordinated Articles of Association of Pacific Drilling S.A., dated June 24, 2016 (incorporated by reference to Exhibit 1.1 to our Annual Report on Form 20-F filed February 24, 2017, File No. 001-35345).
2.1	Registration Rights Agreement between Pacific Drilling S.A. and Quantum Pacific (Gibraltar) Limited, dated November 16, 2011 (incorporated by reference to Exhibit 2(a)(1) to our Annual Report on Form 20-F filed March 27, 2012, File No. 001-35345).
2.2	Indenture, dated as of November 28, 2012, among Pacific Drilling V Limited, as issuer, Pacific Drilling S.A., as parent guarantor, and each issuer subsidiary guarantor from time to time party thereto, as guarantors, and Deutsche Bank Trust Company Americas, as Trustee and Collateral Agent (incorporated by reference to Exhibit 99.1 to the Report on Form 6-K, filed December 5, 2012, File No. 001-35345).
2.3	Supplemental Indenture to 7.25% Senior Secured Notes Due 2017, dated as of October 5, 2016, among Pacific Drilling V Limited, as issuer, Pacific Drilling S.A., as parent guarantor, and each issuer subsidiary guarantor from time to time party thereto, as guarantors, and Deutsche Bank Trust Company Americas, as Trustee and Collateral Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 6-K, filed November 8, 2016, File No. 001-35345).
2.4	Form of Note (incorporated by reference to Exhibit 99.2 to our Report on Form 6-K, filed December 5, 2012, File No. 001-35345).
2.5	Indenture, dated as of June 3, 2013, among Pacific Drilling S.A., the guarantors party thereto and Deutsche Bank Trust Company Americas, as Trustee (incorporated by reference to Exhibit 99.1 to the Report on Form 6-K, filed June 7, 2013, File No. 001-35345).
4.1	Intercreditor Agreement, dated as of June 3, 2013, by and among Citibank, N.A., as Pari Passu Collateral Agent for the Pari Passu Secured Parties, Citibank, N.A., as administrative agent for the Revolving Credit Agreement Secured Parties, Citibank, N.A., as administrative agent for the Term Loan Secured Parties, Deutsche Bank Trust Company Americas, as trustee under the Indenture, Pacific Drilling S.A. and each other Grantor and other party signatory thereto or that has executed a Joinder Consent Agreement (incorporated by reference to Exhibit 99.5 to the Report on Form 6-K, filed June 7, 2013, File No. 001-35345).
4.2	Term Loan Agreement, dated as of June 3, 2013, among Pacific Drilling S.A., as Borrower, Various Lenders and Citibank, N.A., as Administrative Agent, Citigroup Global Markets, Inc., Goldman Sachs Lending Partners LLC, Deutsche Bank Securities Inc. and Barclays Bank PLC, as Joint Lead Arrangers, Joint Bookrunners and Joint Syndication Agents and ABN AMRO Securities (USA) LLC, Credit Agricole Securities (USA) Inc., ING Financial Markets LLC, Nordea Bank Danmark A/S, Pareto Securities AS, RS Platou Markets AS, Scotia Capital (USA) Inc., Skandinaviska Enskilda Banken AB (Publ.), Standard Chartered Bank and NIBC Bank N.V., as Co-Documentation Agents and Co-Syndication Agents (incorporated by reference to Exhibit 99.3 to the Report on Form 6-K, filed June 7, 2013, File No. 001-35345).
4.3	Credit Agreement, dated as of June 3, 2013, among Pacific Drilling S.A., as Borrower, Various Lenders and Citibank, N.A., as Administrative Agent and Issuing Lender, Citigroup Global Markets Inc., Goldman Sachs Bank USA and Deutsche Bank Securities Inc., as Joint Lead Arrangers and Joint Bookrunners, Barclays Bank PLC, as Joint Bookrunners and Citigroup Global Markets Inc., as Syndication Agent (incorporated by reference to Exhibit 99.4 to the Report on Form 6-K, filed June 7, 2013, File No. 001-35345).
4.4	First Amendment to Credit Agreement, dated as of October 30, 2013, by and among Pacific Drilling S.A., as Borrower, the lenders party thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 99.3 to the Report on Form 6-K, filed November 7, 2013, File No. 001-35345).

Exhibit Number	Description
4.5	Second Amendment and Limited Waiver to Credit Agreement, dated as of March 28, 2014, by and among Pacific Drilling S.A., as Borrower, the lenders party thereto, and Citibank, N.A., as Administrative Agent, and solely for purposes of Section III thereof, Pacific Santa Ana(Gibraltar) Limited and Pacific Santa Ana S.à r.l. (incorporated by reference to Exhibit 99.2 to the Report on Form 6-K, filed April 3, 2014, File No. 001-35345).
4.6	Third Amendment to Credit Agreement, dated as of July 30, 2014, by and among Pacific Drilling S.A., as Borrower, the lenders party thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 99.1 to the Report on Form 6-K, filed July 31, 2014, File No. 001-35345).
4.7	Fourth Amendment to Credit Agreement, dated as of March 2, 2015, by and among Pacific Drilling S.A., as Borrower, the lenders party thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 99.2 to the Report on Form 6-K, filed March 16, 2015, File No. 001-35345).
4.8	Fifth Amendment to Credit Agreement. dated as of November 5, 2015, by and among Pacific Drilling S.A., as Borrower, the lenders party thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 4.8 to our Annual Report on Form 20-F filed March 1, 2016, File No. 001-35345).
4.9	Sixth Amendment to Credit Agreement dated as of January 20, 2017, by and among Pacific Drilling S.A., as Borrower, the lenders party thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 4.9 to our Annual Report on Form 20-F filed February 24, 2017, File No. 001-35345).
4.10	Amendment No. 1 to Senior Secured Credit Facility Agreement, dated as of September 13, 2013 (incorporated by reference to Exhibit 99.1 to the Report on Form 6-K, filed November 7, 2013, File No. 001-35345).
4.11	Amended and Restated Senior Secured Credit Facility Agreement, dated as of September 13, 2013, among Pacific Sharav S.à r.l. and Pacific Drilling VII Limited, as Borrowers, Pacific Drilling S.A., as Guarantor, and the arrangers, lenders, agents and banks named therein (incorporated by reference to Exhibit 99.2 to the Report on Form 6-K, filed November 7, 2013, File No. 001-35345).
4.12	Amendment No. 2 to Senior Secured Credit Facility Agreement, dated as of March 27, 2014, among Pacific Sharav S.à r.l. and Pacific Drilling VII Limited, as Borrowers, Pacific Drilling S.A., as Guarantor, and the arrangers, lenders, agents and banks named therein (incorporated by reference to Exhibit 99.1 to the Report on Form 6-K, filed April 3, 2014, File No. 001-35345).
4.13	Amendment No. 3 to Senior Secured Credit Facility Agreement, dated as of August 14, 2014, among Pacific Sharav S.à r.l. and Pacific Drilling VII Limited, as Borrowers, Pacific Drilling S.A., as Guarantor, and the arrangers, lenders, agents and banks named therein (incorporated by reference to Exhibit 99.1 to the Report on Form 6-K, filed August 15, 2014, File No. 001-35345).
4.14	Amendment No. 4 to Senior Secured Credit Facility Agreement, dated as of March 2, 2015, among Pacific Sharav S.à r.l. and Pacific Drilling VII Limited, as Borrowers, Pacific Drilling S.A., as Guarantor, and the arrangers, lenders, agents and banks named therein (incorporated by reference to Exhibit 99.1 to the Report on Form 6-K, filed March 16, 2015, File No. 001-35345).
4.15	Amendment No. 5 to Senior Secured Credit Facility Agreement, dated as of November 5, 2015, among Pacific Sharav S.à r.l. and Pacific Drilling VII Limited, as Borrowers, Pacific Drilling S.A., as Guarantor, and the arrangers, lenders, agents and banks named therein (incorporated by reference to Exhibit 4.14 to our Annual Report on Form 20-F filed March 1, 2016, File No. 001-35345).
4.16	Amendment No. 6 to Senior Secured Credit Facility Agreement, dated as of January 20, 2017 among Pacific Sharav S.à r.l. and Pacific Drilling VII Limited, as Borrowers, Pacific Drilling S.A., as Guarantor, and the arrangers, lenders, agents and banks named therein (incorporated by reference to Exhibit 4.16 to our Annual Report on Form 20-F filed February 24, 2017, File No. 001-35345).
4.17	Pacific Drilling S.A. 2011 Omnibus Stock Incentive Plan, as amended and restated (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-8, filed March 6, 2014, File No. 333-194380).

Exhibit Number	Description
8.1*	Subsidiaries of Pacific Drilling S.A.
12.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
12.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
13.1**	Certificate of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
13.2**	Certificate of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
15.1*	Consent of Independent Registered Public Accounting Firm.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

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* Filed herewith.
** Furnished herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

PACIFIC DRILLING S.A.

By: /s/ Paul T. Reese
Name: Paul T. Reese
Title: Chief Executive Officer

Date: April 2, 2018

Report of Independent Registered Publi c Accounting Firm

To the Shareholders and Board of Directors
Pacific Drilling S.A.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Pacific Drilling S.A. (Debtor In Possession) and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations, is in violation of its debt covenants, and is facing risks and uncertainties surrounding its Chapter 11 proceedings that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2008.

Houston, Texas
April 2, 2018

PACIFIC DRILLING S.A. (DEBTOR IN POSSESSION) AND SUBSIDIARIES
Consolidated Statements of Operations
(in thousands, except per share information)

	Years Ended December 31,		
	2017	2016	2015
Revenues			
Contract drilling	$ 319,716	$ 769,472	$ 1,085,063
Costs and expenses			
Operating expenses	(244,089)	(290,038)	(431,261)
General and administrative expenses	(87,134)	(63,379)	(55,511)
Depreciation expense	(278,949)	(275,901)	(243,457)
	(610,172)	(629,318)	(730,229)
Loss from construction contract rescission	—	—	(40,155)
Operating income (loss)	(290,456)	140,154	314,679
Other income (expense)			
Interest expense	(178,983)	(189,044)	(156,361)
Write-off of deferred financing costs	(30,846)	—	—
Gain on debt extinguishment	—	36,233	—
Reorganization items	(6,474)	—	—
Other expense	(5,544)	(2,393)	(3,217)
Income (loss) before income taxes	(512,303)	(15,050)	155,101
Income tax expense	(12,863)	(22,107)	(28,871)
Net income (loss)	$ (525,166)	$ (37,157)	$ 126,230
Earnings (loss) per common share, basic (Note 10)	$ (24.64)	$ (1.76)	$ 5.97
Weighted-average number of common shares, basic (Note 10)	21,315	21,167	21,145
Earnings (loss) per common share, diluted (Note 10)	$ (24.64)	$ (1.76)	$ 5.97
Weighted-average number of common shares, diluted (Note 10)	21,315	21,167	21,156

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. (DEBTOR IN POSSESSION) AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Years Ended December 31,		
	2017	2016	2015
Net income (loss)	$ (525,166)	$ (37,157)	$ 126,230
Other comprehensive income (loss):			
Unrealized loss on available-for-sale securities	(485)	—	—
Reclassification adjustment for other-than-temporary impairment on available-for-sale securities realized in net income	485	—	—
Unrecognized loss on derivative instruments	(565)	(6,290)	(14,889)
Reclassification adjustment for loss on derivative instruments realized in net income (Note 12)	5,265	8,798	10,440
Reclassification adjustment for loss on derivative instruments realized in property and equipment (Note 12)	—	1,789	1,164
Total other comprehensive income (loss)	4,700	4,297	(3,285)
Total comprehensive income (loss)	$ (520,466)	$ (32,860)	$ 122,945

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. (DEBTOR IN POSSESSION) AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except par value)

	December 31, 2017	December 31, 2016
Assets:		
Cash and cash equivalents	$ 308,948	$ 585,980
Restricted cash	8,500	40,188
Accounts receivable, net	40,909	94,622
Materials and supplies	87,332	95,679
Deferred costs, current	14,892	10,454
Prepaid expenses and other current assets	14,774	13,892
Total current assets	475,355	840,815
Property and equipment, net	4,652,001	4,909,873
Long-term receivable	202,575	202,575
Other assets	33,030	44,944
Total assets	$ 5,362,961	$ 5,998,207
Liabilities and shareholders' equity:		
Accounts payable	$ 11,959	$ 17,870
Accrued expenses	36,174	45,881
Long-term debt, current	—	496,790
Accrued interest	6,088	14,164
Deferred revenue, current	23,966	45,755
Total current liabilities	78,187	620,460
Long-term debt, net of current maturities	—	2,648,659
Deferred revenue	12,973	32,233
Other long-term liabilities	32,323	30,655
Total liabilities not subject to compromise	123,483	3,332,007
Liabilities subject to compromise	3,087,677	—
Commitments and contingencies		
Shareholders' equity:		
Common shares, $0.01 par value per share, 5,000,000 shares authorized, 22,551 shares issued and 21,339 and 21,184 shares outstanding as of December 31, 2017 and December 31, 2016, respectively	213	212
Additional paid-in capital	2,366,464	2,360,398
Accumulated other comprehensive loss	(14,493)	(19,193)
Retained earnings (accumulated deficit)	(200,383)	324,783
Total shareholders' equity	2,151,801	2,666,200
Total liabilities and shareholders' equity	$ 5,362,961	$ 5,998,207

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. (DEBTOR IN POSSESSION) AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

(in thousands)

	Common Shares		Additional Paid-In Capital	Treasury Shares		Accumulated Other Comprehensive Loss	Retained Earnings/ (Accumulated Deficit)	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
Balance at January 1, 2015	21,579	$ 217	$ 2,371,390	1,698	$ (8,240)	$ (20,205)	$ 235,710	$ 2,578,872
Shares issued under share-based compensation plan	101	1	(537)	(101)	—	—	—	(536)
Shares repurchased	(559)	—	—	559	(21,760)	—	—	(21,760)
Share-based compensation	—	—	12,534	—	—	—	—	12,534
Other comprehensive loss	—	—	—	—	—	(3,285)	—	(3,285)
Net income	—	—	—	—	—	—	126,230	126,230
Balance at December 31, 2015	21,121	218	2,383,387	2,156	(30,000)	(23,490)	361,940	2,692,055
Shares issued under share-based compensation plan	63	1	(90)	(63)	—	—	—	(89)
Cancellation of treasury shares	—	(7)	(29,993)	(726)	30,000	—	—	—
Share-based compensation	—	—	7,094	—	—	—	—	7,094
Other comprehensive income	—	—	—	—	—	4,297	—	4,297
Net loss	—	—	—	—	—	—	(37,157)	(37,157)
Balance at December 31, 2016	21,184	212	2,360,398	1,367	—	(19,193)	324,783	2,666,200
Shares issued under share-based compensation plan	155	1	(200)	(155)	—	—	—	(199)
Modification of unvested awards from equity to liability	—	—	(553)	—	—	—	—	(553)
Share-based compensation	—	—	6,819	—	—	—	—	6,819
Other comprehensive income	—	—	—	—	—	4,700	—	4,700
Net loss	—	—	—	—	—	—	(525,166)	(525,166)
Balance at December 31, 2017	21,339	$ 213	$ 2,366,464	1,212	$ —	$ (14,493)	$ (200,383)	$ 2,151,801

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. (DEBTOR IN POSSESSION) AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31,		
	2017	2016	2015
Cash flow from operating activities:			
Net income (loss)	$ (525,166)	$ (37,157)	$ 126,230
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	278,949	275,901	243,457
Amortization of deferred revenue	(46,829)	(67,053)	(86,276)
Amortization of deferred costs	11,689	13,945	25,951
Amortization of deferred financing costs	24,889	18,786	11,278
Amortization of debt discount	940	1,279	1,015
Write-off of deferred financing costs	30,846	—	5,965
Loss from construction contract rescission	—	—	38,084
Deferred income taxes	7,409	15,494	9,840
Share-based compensation expense	6,819	7,094	12,534
Gain on debt extinguishment	—	(36,233)	—
Other-than-temporary impairment of available-for-sale securities	6,829	—	—
Reorganization items	5,315	—	—
Changes in operating assets and liabilities:			
Accounts receivable	53,713	73,428	62,977
Materials and supplies	6,187	2,564	(2,583)
Prepaid expenses and other assets	(20,457)	(29,276)	(10,840)
Accounts payable and accrued expenses	38,214	(24,843)	(18,712)
Deferred revenue	5,780	35,175	3,226
Net cash provided by (used in) operating activities	(114,873)	249,104	422,146
Cash flow from investing activities:			
Capital expenditures	(36,645)	(52,625)	(181,458)
Purchase of available-for-sale securities	(6,000)	—	—
Net cash used in investing activities	(42,645)	(52,625)	(181,458)
Cash flow from financing activities:			
Payments for shares issued under share-based compensation plan	(199)	(89)	(536)
Proceeds from long-term debt	—	450,000	315,000
Payments on long-term debt	(146,473)	(110,832)	(581,083)
Payments for financing costs	(4,530)	(25,423)	(4,070)
Purchases of treasury shares	—	—	(21,760)
Net cash provided by (used in) financing activities	(151,202)	313,656	(292,449)
Increase (decrease) in cash and cash equivalents	(308,720)	510,135	(51,761)
Cash, cash equivalents and restricted cash, beginning of period	626,168	116,033	167,794
Cash, cash equivalents and restricted cash, end of period	$ 317,448	$ 626,168	$ 116,033

See accompanying notes to consolidated financial statements.

Note 1—Nature of Business

Pacific Drilling S.A. and its subsidiaries ("Pacific Drilling," the "Company," "we," "us" or "our") is an international offshore drilling contractor committed to being the preferred provider of offshore drilling services to the oil and natural gas industry through the use of high-specification floating rigs. Our primary business is to contract our fleet to drill wells for our clients.

Note 2—Bankruptcy Proceeding and Liquidity

Bankruptcy Proceeding— On November 12, 2017 (the "Petition Date"), Pacific Drilling S.A. and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions (the "Bankruptcy Petitions") for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). We have received approval from the Bankruptcy Court to jointly administer the cases under the caption *In re Pacific Drilling S.A* . No trustee has been appointed and we will continue to operate as a "debtor in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. The Bankruptcy Court also granted us relief for a variety of "first day" motions to continue to operate our business in the normal course. The approved motions gave us the authority to, among other things, continue to pay employee wages and benefits without interruption, to utilize our current cash management system, and to pay certain foreign and critical vendors for goods and services provided prior to the Petition Date.

As a result of the Bankruptcy Petitions, the realization of assets and the satisfaction of liabilities are subject to uncertainty. Although the filing of the Bankruptcy Petitions triggered defaults under all of our existing debt obligations, creditors are stayed from taking any action against the Debtors as a result of such defaults, subject to certain limited exceptions permitted by the Bankruptcy Code. Absent an order of the Bankruptcy Court, substantially all of the Debtors' pre-petition liabilities are subject to settlement under the Bankruptcy Code. While operating as debtors-in-possession under Chapter 11, we may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or as otherwise permitted in the ordinary course of business (and subject to applicable orders of the Bankruptcy Court), for amounts other than those reflected in the accompanying consolidated financial statements. Further, any restructuring plan may impact the amounts and classifications of assets and liabilities reported in our consolidated financial statements.

As of December 31, 2017, we have segregated liabilities and obligations whose treatment and satisfaction were dependent on the outcome of our reorganization under the Chapter 11 proceedings and have classified these items as liabilities subject to compromise on our consolidated balance sheets. Generally, all actions to enforce or otherwise effect repayment of pre-petition liabilities of the Debtors, as well as all pending litigation against the Debtors, were stayed while they are subject to the Chapter 11 proceedings. The ultimate amount and treatment for these types of liabilities will be subject to the claims resolution processes in our Chapter 11 proceedings and any restructuring plan confirmed by the Bankruptcy Court. Liabilities subject to compromise include only those liabilities that are obligations of the Debtors and exclude the obligations of the Company's non-debtor subsidiaries. Liabilities subject to compromise may vary significantly from the stated amounts of claims filed with the Bankruptcy Court.

As of December 31, 2017, the components of liabilities subject to compromise are as follows:

	December 31, 2017
	(in thousands)
2017 Senior Secured Notes	$ 439,364
2018 Senior Secured Term Loan B	718,125
2013 Revolving Credit Facility	475,000
Senior Secured Credit Facility	661,478
2020 Senior Secured Notes	750,000
Accrued interest	39,618
Accounts payable and other estimated allowed claims	4,092
Total liabilities subject to compromise	$ 3,087,677

See Note 6 for further discussion of the 2017 Senior Secured Notes, 2018 Senior Secured Term Loan B, 2013 Revolving Credit Facility, Senior Secured Credit Facility, 2020 Senior Secured Notes.

In addition, we have classified all income, expenses, gains or losses that were incurred or realized as a result of the Chapter 11 proceedings as reorganization items in our consolidated statements of operations. The components of reorganization items are as follows:

	Year Ended December 31, 2017
	(in thousands)
Professional fees	$ 6,447
Revision of estimated claims	27
Total reorganization items	$ 6,474

Liquidity— Our liquidity fluctuates depending on a number of factors, including, among others, our contract backlog, our revenue efficiency and the timing of accounts receivable collection as well as payments for operating costs and other obligations. Market conditions in the offshore drilling industry in recent years have led to materially lower levels of spending for offshore exploration and development by our current and potential customers on a global basis while at the same time the supply of available drillships has increased, which in turn has negatively affected our revenue, profitability and cash flows.

Primary sources of funds for our short-term liquidity needs are expected to be our cash flow generated from operating activities and existing cash, cash equivalents and restricted cash balances. As of December 31, 2017, we had $308.9 million of cash and cash equivalents and $8.5 million of restricted cash. As part of our "first day" relief in the Chapter 11 proceedings, the Bankruptcy Court granted us authority to use property that may be deemed to be "cash collateral" of our prepetition lenders within the meaning of Section 363(a) of the Bankruptcy Code, which may include a portion of our cash flow generated from operating activities. We do not have additional borrowing capacity under any of our outstanding credit facilities, though we may seek "debtor in possession" financing with the approval of the Bankruptcy Court in the future if required.

We have significant indebtedness. Our level of indebtedness has adversely impacted and is continuing to adversely impact our financial condition. Our financial condition, the defaults under our debt agreements, and the risks and uncertainties surrounding our Chapter 11 proceedings raise substantial doubt about our ability to continue as a going concern. However, the consolidated financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments that might result from the outcome of our Chapter 11 proceedings. If we cannot continue as a going concern, adjustments to the carrying values and classification of our assets and liabilities and the reported amounts of income and expenses could be required and could be material.

Note 3—Significant Accounting Policies

Bankruptcy Accounting —Our consolidated financial statements included herein have been prepared as if we are a going concern and reflect the application of Accounting Standards Codification ("ASC") 852, *Reorganizations* , issued

by the Financial Accounting Standards Board ("FASB"). ASC 852 requires that financial statements for periods subsequent to the Chapter 11 filing distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, we classify liabilities and obligations whose treatment and satisfaction are dependent on the outcome of the reorganization under the Chapter 11 proceedings as liabilities subject to compromise on our consolidated balance sheets at December 31, 2017. In addition, we classify all income, expenses, gains or losses that were incurred or realized as a result of the Chapter 11 proceedings as reorganization items in our consolidated statements of operations. See Note 2.

Our consolidated financial statements do not purport to reflect or provide for the consequences of our Chapter 11 proceedings. In particular, the consolidated financial statements do not purport to show: (i) the realizable value of assets on a liquidation basis or their availability to satisfy liabilities; (ii) the amount of prepetition liabilities that may be allowed for claims or contingencies, or the status and priority thereof; (iii) the effect on stockholders' equity accounts of any changes that may be made to our capitalization; or (iv) the effect on operations of any changes that may be made to our business.

Principles of Consolidation —Our consolidated financial statements include the accounts of Pacific Drilling S.A. and consolidated subsidiaries that we control by ownership of a majority voting interest and entities that meet the criteria for variable interest entities for which we are deemed to be the primary beneficiary for accounting purposes. We eliminate all intercompany transactions and balances in consolidation.

We are party to a Nigerian joint venture, Pacific International Drilling West Africa Limited ("PIDWAL"), with Derotech Offshore Services Limited ("Derotech"), a privately-held Nigerian registered limited liability company. Derotech owns 51% of PIDWAL and PIDWAL has a 50.1% ownership interest in two of our rig holding subsidiaries, Pacific Bora Ltd. and Pacific Scirocco Ltd. PIDWAL's interest in the rig holding subsidiaries is held through a holding company of PIDWAL, Pacific Drillship Nigeria Limited ("PDNL"). Derotech will not accrue the economic benefits of its interest in PIDWAL unless and until it satisfies certain outstanding obligations to us and a certain pledge is cancelled by us. Likewise, PIDWAL will not accrue the economic benefits of its interest in PDNL unless and until it satisfies certain outstanding obligations to us and a certain pledge is cancelled by us. PIDWAL and PDNL are variable interest entities for which we are the primary beneficiary. Accordingly, we consolidate all interests of PIDWAL and PDNL and no portion of their operating results is allocated to the noncontrolling interest. See Note 17.

In addition to the joint venture agreement, we are a party to marketing and logistic services agreements with Derotech and an affiliated company of Derotech. During the years ended December 31, 2017, 2016 and 2015, we incurred fees of $2.7 million, $8.7 million and $13.9 million, respectively, under such agreements.

Accounting Estimates —The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those related to allowance for doubtful accounts, financial instruments, depreciation of property and equipment, impairment of long-lived assets, long-term receivable, liabilities subject to compromise, reorganization items, income taxes, share-based compensation and contingencies. We base our estimates and assumptions on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from such estimates.

Revenues and Operating Expenses —Contract drilling revenues are recognized as earned, based on contractual dayrates. In connection with drilling contracts, we may receive fees for preparation and mobilization of equipment and personnel or for capital improvements to rigs. Fees and incremental costs incurred directly related to contract preparation and mobilization along with reimbursements received for capital expenditures are deferred and amortized to revenue over the primary term of the drilling contract. The cost incurred for reimbursed capital expenditures are depreciated over the estimated useful life of the asset. We may also receive fees upon completion of a drilling contract that are conditional based on the occurrence of an event, such as demobilization of a rig. These conditional fees and related expenses are reported in income upon completion of the drilling contract. If receipt of such fees is not conditional, they are recognized as revenue over the primary term of the drilling contract. Amortization of deferred revenue and deferred mobilization

costs are recorded on a straight-line basis over the primary drilling contract term, which is consistent with the general pace of activity, level of services being provided and dayrates being earned over the life of the contract.

Cash and Cash Equivalents —Cash equivalents are highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

Restricted Cash —As of December 31, 2017 and 2016, our consolidated balance sheets included $8.5 million in restricted cash used as cash collateral under our treasury management services agreement with a financial institution. As of December 31, 2016, restricted cash also included $31.7 million pledged to the lenders under a debt agreement as cash collateral. See Note 6.

Accounts Receivable —We record trade accounts receivable at the amount we invoice our clients. We provide an allowance for doubtful accounts, as necessary, based on a review of outstanding receivables, historical collection information and existing economic conditions. We do not generally require collateral or other security for receivables. As of December 31, 2017 and 2016, we had $2.6 million and $0 in allowance for doubtful accounts, respectively.

Available-for-sale Securities —We record our investment in available-for-sale securities at fair value with unrealized gains and losses, net of tax, in accumulated other comprehensive loss on our consolidated balance sheets. We report realized gains or losses and any unrealized losses that are determined to be other than temporary in our consolidated statements of operations. See Note 11.

Materials and Supplies —Materials and supplies held for consumption are carried at average cost, net of allowances for excess or obsolete materials and supplies of $11.1 million and $7.3 million as of December 31, 2017 and 2016, respectively.

Property and Equipment —High-specification drillships are recorded at cost of construction, including any major capital improvements, less accumulated depreciation and if applicable, impairment. Other property and equipment is recorded at cost and consists of purchased software systems, furniture, fixtures and other equipment. Ongoing maintenance, routine repairs and minor replacements are expensed as incurred.

Interest is capitalized based on the costs of new borrowings attributable to qualifying new construction or at the weighted-average cost of debt outstanding during the period of construction. We capitalize interest costs for qualifying new construction from the point borrowing costs are incurred for the qualifying new construction and cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

Property and equipment are depreciated to their salvage value on a straight-line basis over the estimated useful lives of each class of assets. Our estimated useful lives of property and equipment are as follows:

	Years
Drillships and related equipment	15-35
Other property and equipment	2-7

We review property and equipment for impairment when events or changes in circumstances indicate that the carrying amounts of our assets held and used may not be recoverable. Potential impairment indicators include steep declines in commodity prices and related market conditions, actual or expected declines in rig utilization, increases in idle time or significant damage to the property and equipment that adversely affects the extent and manner of its use. We assess impairment using estimated undiscounted cash flows for the property and equipment being evaluated by applying assumptions regarding future operations, market conditions, dayrates, utilization and idle time. An impairment loss is recorded in the period if the carrying amount of the asset is not recoverable. During 2017, 2016 and 2015, there were no long-lived asset impairments.

Deferred Financing Costs —Deferred financing costs associated with long-term debt are carried at cost and are amortized to interest expense using the effective interest rate method over the term of the applicable long-term debt. As of December 31, 2017, all deferred financing costs have been written off. See Note 6.

Foreign Currency Transactions —The consolidated financial statements are stated in U.S. dollars. We have designated the U.S. dollar as the functional currency for our foreign subsidiaries in international locations because we

contract with clients, purchase equipment and finance capital using the U.S. dollar. Transactions in other currencies have been translated into U.S. dollars at the rate of exchange on the transaction date. Any gain or loss arising from a change in exchange rates subsequent to the transaction date is included as an exchange gain or loss. Monetary assets and liabilities denominated in currencies other than U.S. dollars are reported at the rates of exchange prevailing at the end of the reporting period. During 2017, 2016 and 2015, foreign exchange losses were $0.7 million, $0.5 million and $3.6 million, respectively, and recorded in other expense within our consolidated statements of operations.

Earnings per Share —Basic earnings per common share ("EPS") is computed by dividing the net income by the weighted-average number of common shares outstanding for the period. Basic and diluted EPS are retrospectively adjusted for the effects of stock dividends or stock splits. Diluted EPS reflects the potential dilution from securities that could share in the earnings of the Company. Anti-dilutive securities are excluded from diluted EPS. In May 2016, shareholders at our Extraordinary General Meeting approved a 1-for-10 reverse stock split of our common shares (the "Reverse Stock Split"). All share and per share information in the accompanying financial statements has been restated retroactively to reflect the Reverse Stock Split.

Fair Value Measurements —We estimate fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability. Our valuation techniques require inputs that are categorized using a three-level hierarchy as follows: (1) unadjusted quoted prices for identical assets or liabilities in active markets ("Level 1"), (2) direct or indirect observable inputs, including quoted prices or other market data, for similar assets or liabilities in active markets or identical assets or liabilities in less active markets ("Level 2") and (3) unobservable inputs that require significant judgment for which there is little or no market data ("Level 3"). When multiple input levels are required for a valuation, we categorize the entire fair value measurement according to the lowest level input that is significant to the measurement even though we may have also utilized significant inputs that are more readily observable.

Share-Based Compensation —The grant date fair value of share-based awards granted to employees is recognized as an employee compensation expense over the requisite service period on a straight-line basis. For share-based awards to be settled in cash, compensation expense is remeasured each period with a cumulative adjustment to compensation cost based on changes in our share price. The amount of compensation expense recognized is adjusted to reflect the number of awards for which the related vesting conditions are expected to be met using estimated forfeitures. The amount of compensation expense ultimately recognized is based on the number of awards that do meet the vesting conditions at the vesting date.

Derivatives —We apply cash flow hedge accounting to interest rate swaps that are designated as hedges of the variability of future cash flows. The derivative financial instruments are recorded on our consolidated balance sheets at fair value as either assets or liabilities. Changes in the fair value of derivatives designated as cash flow hedges, to the extent the hedge is effective, are recognized in accumulated other comprehensive income until the hedged item is recognized in earnings.

Hedge effectiveness is measured on an ongoing basis to ensure the validity of the hedges based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings. Hedge accounting is discontinued prospectively if it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item.

For interest rate hedges related to interest capitalized in the construction of fixed assets, other comprehensive income is released to earnings as the asset is depreciated over its useful life. For all other interest rate hedges, other comprehensive income is released to earnings as interest expense is accrued on the underlying debt.

Contingencies —We record liabilities for estimated loss contingencies when we believe a loss is probable and the amount of the probable loss can be reasonably estimated. Once established, we adjust the estimated contingency loss accrual for changes in facts and circumstances that alter our previous assumptions with respect to the likelihood or amount of loss.

Income Taxes —Income taxes are provided based upon the tax laws and rates in the countries in which our subsidiaries are registered and where their operations are conducted and income and expenses are earned and incurred, respectively. We recognize deferred tax assets and liabilities for the anticipated future tax effects of temporary

differences between the financial statement basis and the tax basis of our assets and liabilities using the applicable enacted tax rates in effect the year in which the asset is realized or the liability is settled. A valuation allowance for deferred tax assets is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We recognize tax benefits from an uncertain tax position only if it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the position. The amount recognized is the largest benefit that we believe has greater than a 50% likelihood of being realized upon settlement. Actual income taxes paid may vary from estimates depending upon changes in income tax laws, actual results of operations and the final audit of tax returns by taxing authorities. We recognize interest and penalties related to uncertain tax positions in income tax expense.

Recently Adopted Accounting Standards

Deferred Taxes — On November 20, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, *Balance Sheet Classification of Deferred Taxes* , which requires all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance, however, does not change the existing requirement that only permits offsetting within a tax jurisdiction. We adopted the standard prospectively effective January 1, 2017, which resulted in the reclassification of our deferred tax balances from current to long-term on our consolidated balance sheets. Our adoption of the standard did not have a material effect on our consolidated financial statements and related disclosures.

Share-based Payments — On March 30, 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* , which requires recognition of the income tax effects of equity awards in the income statement when the awards vest or are settled. The standard also allows employers to withhold shares upon settlement of an award for an amount up to the employees' maximum individual tax rate in the relevant jurisdiction without resulting in liability classification of the award. The standard permits entities to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. We adopted the standard effective January 1, 2017, using estimated forfeitures to recognize expense for share-based payment awards. Our adoption of the standard did not have a material effect on our consolidated financial statements and related disclosures.

Recently Issued Accounting Standards

Revenue Recognition — On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* , which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard replaces most existing revenue recognition guidance under GAAP.

Effective January 1, 2018, we account for the services provided within our drilling contracts as a single performance obligation composed of a series of distinct goods or services, which will be satisfied over time. We determine the total transaction price for each individual contract by estimating both fixed and variable consideration expected to be earned over the term of the contract. Consideration that does not relate to a distinct good or service, such as mobilization, demobilization, and contract preparation revenue, is allocated across the single performance obligation and recognized ratably over the term of the contract. All other components of consideration within a contract, including the dayrate revenue, continue to be recognized in the period when the services are performed. Our revenue recognition under ASU 2014-09 differs from our previous revenue recognition pattern only as it relates to demobilization revenue. Demobilization revenue, which was recognized upon completion of a contract under previous GAAP, is estimated at contract inception and recognized over the term of the contract under ASU 2014-09. We plan to adopt ASU 2014-09 effective January 1, 2018 using the modified retrospective approach whereby we will record the cumulative effect of applying the new standard to all outstanding contracts as of January 1, 2018 as an adjustment to opening retained earnings. We do not expect this adjustment to be material.

Classification and Measurement of Financial Instruments — On January 25, 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* , which requires all equity investments that do not result in consolidation and are not accounted for under the equity method to be measured at fair value through earnings, and eliminates the available-for-sale classification for equity securities with readily determinable fair values. The standard requires entities to record a cumulative-effect adjustment

on their balance sheets as of the beginning of the fiscal year of adoption. We adopted the standard effective January 1, 2018 with no impact to our consolidated financial statements.

Leases — On February 25, 2016, the FASB issued ASU 2016-02, *Leases* , which (a) requires lessees to recognize a right-of-use asset and liability for virtually all leases, and (b) updates previous accounting standards for lessors to align certain requirements with the updates to lessee accounting standards and the revenue recognition accounting standards. The update, which permits early adoption, is effective for annual and interim periods beginning after December 15, 2018. Under the updated accounting standards, we believe that our drilling contracts contain a lease component, and our adoption of the updates, therefore, may require that we separately recognize revenues associated with the lease and services components. Additionally, for transactions in which we are considered a lessee, we will recognize a lease liability and a right-of-use asset based on our portfolio of leases upon adoption. We expect to adopt the standard effective January 1, 2019 using the modified retrospective approach. Our adoption, and the ultimate effect on our consolidated financial statements, will be based on an evaluation of the contract-specific facts and circumstances, and such effect could introduce variability to the timing of our revenue recognition relative to current accounting standards. We are currently evaluating the requirements to determine the effect such requirements may have on our consolidated financial statements and related disclosures.

Measurement of Credit Losses on Financial Instruments — On June 16, 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* , which introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income, and (4) beneficial interests in securitized financial assets. This update is effective for annual and interim periods beginning after January 1, 2020. We are currently evaluating the effect the standard may have on our consolidated financial statements and related disclosures.

Tax Accounting for Intra-Entity Asset Transfers — On October 24, 2016, the FASB issued ASU 2016-16, *Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory* , which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transaction occurs as opposed to deferring tax consequences and amortizing them into future periods. The standard requires a modified retrospective approach with a cumulative-effect adjustment directly to retained earnings at the beginning of the period of adoption. We adopted the standard effective January 1, 2018 with no impact to our consolidated financial statements.

Scope of Modification Accounting for Stock Compensation — On May 10, 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718)—Scope of Modification Accounting* , which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. We adopted the standard effective January 1, 2018.

Modification of Accounting for Hedging Activities — On August 28, 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815)—Targeted Improvements to Accounting for Hedging Activities* , which eliminates the requirement to separately measure and report hedge ineffectiveness and requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The new guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. We adopted the standard effective January 1, 2018.

Note 4—Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2017	2016
	(in thousands)	
Drillships and related equipment	$ 5,911,792	$ 5,891,860
Other property and equipment	20,566	20,360
Property and equipment, cost	5,932,358	5,912,220
Accumulated depreciation	(1,280,357)	(1,002,347)
Property and equipment, net	$ 4,652,001	$ 4,909,873

During the years ended December 31, 2017, 2016 and 2015, we capitalized interest costs of $0, $0 and $37.1 million, respectively.

Note 5—Loss from Construction Contract Rescission

On January 25, 2013, we entered into a contract with Samsung Heavy Industries Co., Ltd. (“SHI”) for the construction of an eighth drillship, the *Pacific Zonda* , which provided for a purchase price of approximately $517.5 million and an original delivery date of March 31, 2015 (the “Construction Contract”). On October 29, 2015, we exercised our right to rescind the Construction Contract due to SHI’s failure to timely deliver the drillship in accordance with the contractual specifications. The carrying value of the newbuild at the date of rescission was $315.7 million, consisting of (i) advance payments in the aggregate of $181.1 million paid by us to SHI, (ii) purchased equipment, (iii) internally capitalized construction costs and (iv) capitalized interest.

On November 25, 2015, SHI formally commenced an arbitration proceeding against us in accordance with the Construction Contract. On November 30, 2015, we made demand under the third party refund guarantee accompanying the Construction Contract for the amount of our advance payments made under the Construction Contract, plus interest. Any payment under the refund guarantee is suspended until an award under the arbitration is obtained.

As of December 31, 2017 and 2016, we owned $75.0 million in purchased equipment for the *Pacific Zonda* recorded in property and equipment, a majority of which remains on board the *Pacific Zonda* subject to return to us by SHI. During the year ended December 31, 2015, we incurred $2.0 million in crew costs directly associated with the *Pacific Zonda* subsequent to our rescission of the Construction Contract. The resulting net loss recognized in the year ended December 31, 2015 was $40.2 million, which is included in “loss from construction contract rescission” in our consolidated statements of operations.

Based on our assessment of the facts and circumstances of the rescission, we believe the recovery of the advance payments and accrued interest in the amount of $202.6 million is probable, and is thus presented as a long-term receivable on our consolidated balance sheets at December 31, 2017 and 2016, respectively.

Note 6—Debt

Debt, net of debt discounts, consists of the following:

	December 31, 2017	December 31, 2016
	(in thousands)	
Debt Obligations:		
2017 Senior Secured Notes	$ 439,364	$ 438,880
2018 Senior Secured Term Loan B	718,125	722,706
2013 Revolving Credit Facility	475,000	500,000
Senior Secured Credit Facility	661,478	777,326
2020 Senior Secured Notes	750,000	750,000
Less: unamortized deferred financing costs	—	(43,463)
Total debt	3,043,967	3,145,449
Less: liabilities subject to compromise	(3,043,967)	—
Less: current portion of long-term debt	—	(496,790)
Total long-term debt	$ —	$ 2,648,659

On November 12, 2017, the Debtors filed the Bankruptcy Petitions for relief under Chapter 11 of the Bankruptcy Code. The filing of the Bankruptcy Petitions constituted an event of default with respect to the 2017 Senior Secured Notes, 2018 Senior Secured Term Loan B, 2013 Revolving Credit Facility, Senior Secured Credit Facility and 2020 Senior Secured Notes (as defined below). As a result, the corresponding pre-petition secured indebtedness became immediately due and payable and any efforts to enforce such payment obligations were automatically stayed as a result of the Chapter 11 proceedings. As of December 31, 2017, all debt is classified as liabilities subject to compromise on our consolidated balance sheets.

2017 Senior Secured Notes

In November 2012, Pacific Drilling V Limited (“PDV”), an indirect, wholly-owned subsidiary of the Company, and the Company, as guarantor, completed a private placement of $500.0 million in aggregate principal amount of 7.25% senior secured notes due 2017 (the “2017 Senior Secured Notes”). The 2017 Senior Secured Notes bore interest at 7.25% per annum, payable semiannually on June 1 and December 1, with a scheduled maturity on December 1, 2017.

The 2017 Senior Secured Notes are secured by a first-priority security interest (subject to certain exceptions) in the *Pacific Khamsin* , and substantially all of the other assets of PDV, including an assignment of earnings and insurance proceeds related to the *Pacific Khamsin* .

During the year ended December 31, 2016, we repurchased $60.6 million of our 2017 Senior Secured Notes.

Senior Secured Credit Facility

In February 2013, Pacific Sharav S.à r.l. and Pacific Drilling VII Limited (collectively, the “SSCF Borrowers”) and the Company, as guarantor, entered into a senior secured credit facility agreement, as amended and restated (the “SSCF”), to finance the construction, operation and other costs associated with the *Pacific Sharav* and the *Pacific Meltem* (the “SSCF Vessels”). The SSCF is primarily secured on a first priority basis by liens on the SSCF Vessels, and by an assignment of earnings and insurance proceeds relating thereto.

In 2015, we completed the final drawdown under this facility, resulting in a cumulative total drawdown of $985.0 million. Following the final drawdown, the SSCF consisted of two principal tranches: (i) a Commercial Tranche of $492.5 million provided by a syndicate of commercial banks and (ii) a Garanti — Instituttet for Eksportkreditt (“GIEK”) Tranche of $492.5 million guaranteed by GIEK, comprised of two sub-tranches: (x) an Eksportkreditt Norge AS (“EKN”) sub-tranche of $246.3 million and (y) a bank sub-tranche of $246.3 million.

Borrowings under (A) the Commercial Tranche bear interest at London Interbank Offered Rate (“LIBOR”) plus a margin of 3.75%, (B) the EKN sub-tranche bear interest, at our option, at (i) LIBOR plus a margin of 1.5% (which margin may be reset on May 31, 2019) or (ii) at a Commercial Interest Reference Rate of 2.37% and (C) the bank sub-

tranche bear interest at LIBOR plus a margin of 1.5%. Borrowings under both sub-tranches are also subject to a guarantee fee of 2% per annum. Interest is payable quarterly.

The Commercial Tranche has a scheduled maturity on May 31, 2019. Loans made with respect to the *Pacific Sharav* under the GIEK Tranche have a scheduled maturity on May 12, 2026. Loans made with respect to the *Pacific Meltem* under the GIEK Tranche have a scheduled maturity on November 24, 2026. The GIEK Tranche contains a put option exercisable if the Commercial Tranche is not refinanced or renewed on or before February 28, 2019. If the GIEK Tranche put option is exercised, each SSCF Borrower must prepay, in full, the portion of all outstanding loans that relate to the GIEK Tranche, on or before May 31, 2019, without any premium, penalty or fees of any kind. The SSCF requires semiannual amortization payments of $39.9 million; however, we will not make these payments during the pendency of our Chapter 11 proceedings.

As of December 31, 2016, we had pledged $31.7 million as collateral to the SSCF lenders to comply with the loan to rig value covenant. The pledged amount was classified as restricted cash on our consolidated balance sheets at December 31, 2016. During 2017, we applied the cash collateral to the principal installment due in May 2017.

2020 Senior Secured Notes

On June 3, 2013, we completed a $750.0 million private placement of 5.375% senior secured notes due 2020 (the “2020 Senior Secured Notes”).

The 2020 Senior Secured Notes bear interest at 5.375% per annum, payable semiannually on June 1 and December 1, with a scheduled maturity on June 1, 2020.

The 2020 Senior Secured Notes are guaranteed by each of our subsidiaries that own the *Pacific Bora* , the *Pacific Mistral* , the *Pacific Scirocco* and the *Pacific Santa Ana* (the “Shared Collateral Vessels”), each of our subsidiaries that own or previously owned equity or similar interests in a Shared Collateral Vessel-owning subsidiary, and certain other of our subsidiaries that are parties to charters in respect of the Shared Collateral Vessels, and will be guaranteed by certain other future subsidiaries.

The 2020 Senior Secured Notes are secured, on an equal and ratable, first priority basis, with the obligations under the Senior Secured Term Loan B (as defined below), the 2013 Revolving Credit Facility (as defined below) and certain future obligations, subject to payment priorities in favor of lenders under the 2013 Revolving Credit Facility pursuant to the terms of an intercreditor agreement (the “Intercreditor Agreement”), by liens on the Shared Collateral Vessels, a pledge of the equity of the entities that own the Shared Collateral Vessels, assignments of earnings and insurance proceeds with respect to the Shared Collateral Vessels, and certain other assets of the subsidiary guarantors (collectively, the “Shared Collateral”).

2018 Senior Secured Institutional Term Loan – Term Loan B

On June 3, 2013, we entered into a $750.0 million senior secured institutional term loan maturing 2018 (the “Senior Secured Term Loan B”). The Senior Secured Term Loan B bears interest, at our election, at either (1) LIBOR, which will not be less than a floor of 1% plus a margin of 3.5% per annum, or (2) a rate of interest per annum equal to (i) the prime rate for such day, (ii) the sum of the federal funds rate plus 0.5% or (iii) 1% per annum above the one-month LIBOR, whichever is the highest rate in each case plus a margin of 2.5% per annum. Interest is payable quarterly. The Senior Secured Term Loan B requires quarterly amortization payments of $1.9 million and has a scheduled maturity on June 3, 2018; however, we will not make these payments during the pendency of our Chapter 11 proceedings.

The Senior Secured Term Loan B is secured by the Shared Collateral and subject to the terms and provisions of the Intercreditor Agreement.

2013 Revolving Credit Facility

On June 3, 2013, we entered into a $500.0 million senior secured revolving credit facility with a scheduled maturity on June 3, 2018 (as amended, the “2013 Revolving Credit Facility”). The 2013 Revolving Credit Facility is secured by the Shared Collateral and subject to the provisions of the Intercreditor Agreement. The 2013 Revolving

Credit Facility permitted loans to be extended up to a maximum sublimit of $475.0 million and permitted letters of credit to be issued up to a maximum sublimit of $300.0 million, subject to a $475.0 million overall facility limit.

Borrowings under the 2013 Revolving Credit Facility bear interest, at our option, at either (1) LIBOR plus a margin ranging from 3.25% to 3.75% based on our leverage ratio, or (2) a rate of interest per annum equal to (i) the prime rate for such day, (ii) the sum of the federal funds rate plus 0.5% or (iii) 1% per annum above the one-month LIBOR, whichever is the highest rate in each case plus a margin ranging from 2.25% to 2.75% per annum based on our leverage ratio. Undrawn commitments accrue a fee ranging from 1.3% to 1.5% per annum based on our leverage ratio. Interest is payable quarterly. Outstanding but undrawn letters of credit accrue a fee at a rate equal to the margin on LIBOR loans minus 1%.

Interest Expense

We have not accrued interest expenses that we believe are not probable of being treated as an allowed claim in the Chapter 11 proceedings. During the year ended December 31, 2017, contractual interest related to the 2017 Senior Secured Notes, the 2020 Senior Secured Notes and the Senior Secured Term Loan B that would have been accrued absent the Bankruptcy Petitions was $12.0 million.

Deferred Financing Costs

During the year ended December 31, 2017, $30.8 million of deferred financing costs previously recorded within our consolidated balance sheets were written off as an expense.

Note 7—Income Taxes

Pacific Drilling S.A., a holding company and Luxembourg resident, is subject to Luxembourg corporate income tax and municipal business tax at a combined rate of 27.1% for the year ended December 31, 2017, and 29.2% for the years ended December 31, 2016 and 2015. Qualifying dividend income and capital gains on the sale of qualifying investments in subsidiaries are exempt from Luxembourg corporate income tax and municipal business tax. Consequently, Pacific Drilling S.A. expects dividends from its subsidiaries and capital gains from sales of investments in its subsidiaries to be exempt from Luxembourg corporate income tax and municipal business tax.

Income taxes have been provided based on the laws and rates in effect in the countries in which our operations are conducted or in which our subsidiaries are considered residents for income tax purposes. Our income tax expense or benefit arises from our mix of pretax earnings or losses, respectively, in the international tax jurisdictions in which we operate. Because the countries in which we operate have different statutory tax rates and tax regimes with respect to one another, there is no expected relationship between the provision for income taxes and our income or loss before income taxes.

Income (loss) before income taxes consists of the following:

	Years ended December 31,		
	2017	2016	2015
		(in thousands)	
Luxembourg	$ 349	$ 190,849	$ 94,558
United States	1,301	3,855	4,812
Other jurisdictions	(513,953)	(209,754)	55,731
Income (loss) before income taxes	$ (512,303)	$ (15,050)	$ 155,101

The components of income tax (provision) / benefit consists of the following:

	Years ended December 31,		
	2017	2016	2015
	(in thousands)		
Current income tax benefit (expense):			
Luxembourg	$ (2,287)	$ 53	$ (1,107)
United States	(3,202)	(1,874)	(2,347)
Other foreign	35	(4,792)	(15,577)
Total current	$ (5,454)	$ (6,613)	$ (19,031)
Deferred tax benefit (expense):			
Luxembourg	$ 321	$ (2,893)	$ (2,908)
United States	(6,145)	(448)	(1,071)
Other foreign	(1,585)	(12,153)	(5,861)
Total deferred	$ (7,409)	$ (15,494)	$ (9,840)
Income tax expense	$ (12,863)	$ (22,107)	$ (28,871)

A reconciliation between the Luxembourg statutory rate of 27.1% for the year ended December 31, 2017 and 29.2% for the years ended December 31, 2016 and 2015 and our effective tax rate is as follows:

	Years ended December 31,		
	2017	2016	2015
Statutory rate	27.1 %	29.2 %	29.2 %
Effect of tax rates different than the Luxembourg statutory tax rate	(19.2)%	(13.2)%	(22.5)%
Change in valuation allowance	(8.0)%	(85.1)%	10.6 %
Changes in unrecognized tax benefits	(0.8)%	(75.9)%	1.9 %
Equity based compensation shortfall	(1.2)%	(7.0)%	1.4 %
Change in enacted statutory tax rates	(0.5)%	— %	— %
Adjustments related to prior years	0.1 %	5.1 %	(2.0)%
Effective tax rate	(2.5)%	(146.9)%	18.6 %

The components of deferred tax assets and liabilities consists of the following:

	December 31,	
	2017	2016
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 52,568	$ 26,190
Depreciation and amortization	35,873	25,109
Accrued payroll expenses	4,595	9,471
Deferred revenue	2,189	5,744
Other	1,119	1,622
Deferred tax assets	96,344	68,136
Less: valuation allowance	(86,495)	(45,766)
Total deferred tax assets	$ 9,849	$ 22,370
Deferred tax liabilities:		
Depreciation and amortization	$ (6,505)	$ (7,465)
Deferred expenses	(1,459)	(8,598)
Other	(88)	(1,083)
Total deferred tax liabilities	$ (8,052)	$ (17,146)
Net deferred tax assets	$ 1,797	$ 5,224

As of December 31, 2017 and 2016, the Company had gross deferred tax assets of $52.6 million and $26.2 million, respectively, related to loss carry forwards in various worldwide tax jurisdictions. The majority of the loss carry forwards have no expiration.

A valuation allowance for deferred tax assets is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2017 and 2016, the valuation allowance for deferred tax assets was $86.5 million and $45.8 million, respectively. During the year ended December 31, 2017, the increase in our valuation allowance primarily resulted from net operating losses, for which it is uncertain if a tax benefit will be realized. The newly enacted U.S. tax legislation reduced our net deferred tax assets as of December 31, 2017 by an immaterial amount, and is not expected to have a material impact on our income tax expense in future years.

We consider the earnings of certain of our subsidiaries to be indefinitely reinvested. Accordingly, we have not provided for taxes on these unremitted earnings. Should we make distributions from the unremitted earnings of these subsidiaries, we would be subject to taxes payable in certain jurisdictions. As of December 31, 2017, the amount of indefinitely reinvested earnings was approximately $24.1 million, and if all of these indefinitely reinvested earnings were distributed, we would be subject to estimated taxes of approximately $7.2 million.

We recognize tax benefits from an uncertain tax position only if it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the position. The amount recognized is the largest benefit that we believe has greater than a 50% likelihood of being realized upon settlement. As of December 31, 2017, we had $38.9 million of unrecognized tax benefits which were included in other long-term liabilities on our consolidated balance sheets and would impact our consolidated effective tax rate if realized. To the extent we have income tax receivable balances available to utilize against amounts payable for unrecognized tax benefits, we have presented such receivable balances as a reduction to other long-term liabilities on our consolidated balance sheets. A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2017 and 2016 is as follows:

	December 31,	
	2017	2016
	(in thousands)	
Balance, beginning of year	$ 34,027	$ 24,914
Increases in unrecognized tax benefits as a result of tax positions taken during current year	4,833	9,113
Balance, end of year	$ 38,860	$ 34,027

As of December 31, 2017 and 2016, accrued interest and penalties totaled $0 and $4.8 million respectively, and were included in other long-term liabilities on our consolidated balance sheets. During the years ended December 31, 2017, 2016 and 2015, we recognized expense of $0, $2.3 million, and $1.2 million associated with interest and penalties respectively. Interest and penalties are included in income tax expense in our consolidated statements of operations.

The Company is subject to taxation in various U.S., foreign, and state jurisdictions in which it conducts business. Tax years as early as 2011 remain subject to examination. As of December 31, 2017, the Company has ongoing tax audits in Nigeria and Brazil.

Note 8—Shareholders' Equity

In 2014, the Company's shareholders approved, and the Board of Directors authorized, a share repurchase program for the repurchase of up to 0.8 million shares and up to $30.0 million. In 2015, we completed this repurchase program through cumulative buybacks of 0.7 million shares at an aggregate cost of $30.0 million. Repurchased shares of our common stock are held as treasury shares until they are reissued or retired.

In May 2016, shareholders at our Extraordinary General Meeting approved the cancellation of 0.7 million treasury shares that we repurchased under our share repurchase program. We accounted for this non-cash transaction by netting the treasury shares at total cost of $30.0 million against the statutory share capital of the cancelled shares and additional paid-in capital.

In May 2016, upon approval by shareholders at our Extraordinary General Meeting, a 1-for-10 reverse stock split of our common shares, the Reverse Stock Split became effective and our common shares began trading on a split-adjusted basis. On the effective date of the Reverse Stock Split, our shareholders received one new common share for every 10 common shares they owned. All share and per share information in the accompanying financial statements has been restated retroactively to reflect the Reverse Stock Split.

As of December 31, 2017, the Company's share capital consists of 5.0 billion common shares authorized, $0.01 par value per share, 22.5 million common shares issued and 21.3 million common shares outstanding, of which approximately 70.3% is held by Quantum Pacific (Gibraltar) Limited.

Note 9—Share-Based Compensation

We recorded share-based compensation expense and related tax benefit within our consolidated statements of operations as follows:

	Years Ended December 31,		
	2017	2016	2015
		(in thousands)	
Operating expenses	$ 416	$ 658	$ 4,650
General and administrative expenses	6,403	6,436	7,884
Share-based compensation expense	6,819	7,094	12,534
Tax benefit [(a)]	(1,147)	(2,011)	(2,690)
Total	$ 5,672	$ 5,083	$ 9,844

(a) The effects of tax benefit from share-based compensation expense are included within income tax expense in our consolidated statements of operations.

Stock Options

In 2011, the Board approved the creation of the Pacific Drilling S.A. 2011 Omnibus Stock Incentive Plan (the "2011 Stock Plan"), which provides for issuance of common stock options, as well as share appreciation rights, restricted shares, restricted share units and other equity based or equity related awards to directors, officers, employees and consultants. The Board also resolved that 0.7 million common shares of Pacific Drilling S.A. be reserved and authorized for issuance pursuant to the terms of the 2011 Stock Plan. In 2014, the Board approved an amendment to the 2011 Stock Plan increasing the number of common shares reserved and available for issuance from 0.7 million to 1.6 million.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model utilizing the assumptions noted in the table below. Given the insufficient historical data available regarding the volatility of the Company's traded share price, expected volatility of the Company's share price does not solely provide a reasonable basis for estimating volatility. Instead, the expected volatility utilized in our Black-Scholes valuation model is based on the volatility of the Company's traded share price for the period available following the initial public offering of our shares and the implied volatilities from the expected volatility of a representative group of our publicly listed industry peer group for prior periods. Additionally, given the lack of historical data available, the expected term of the options is calculated using the simplified method because the historical option exercise experience of the Company does not provide a reasonable basis for estimating expected term. Options granted generally vest 25% annually over four years, have a 10-year contractual term and will be settled in shares of our stock. The risk free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

During the years ended December 31, 2017 and 2016, there were no options granted. During the year ended December 31, 2015, the fair value of the options granted was calculated using the following weighted-average assumptions:

	2015 Stock Options
Expected volatility	40.9 %
Expected term (in years)	6.25
Expected dividends	—
Risk-free interest rate	1.7 %

A summary of option activity under the 2011 Stock Plan as of and for the year ended December 31, 2017 is as follows:

	Number of Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)	(per share)	(in years)	(in thousands)
Outstanding — January 1, 2017	637	$ 74.24		
Granted	—	—		
Exercised	—	—		
Cancelled or forfeited	(358)	81.62		
Outstanding — December 31, 2017	279	$ 64.76	6.7	$ —
Exercisable — December 31, 2017	195	$ 77.07	6.1	$ —

The weighted-average grant date fair value of options granted during the year ended December 31, 2015 was $14.90 per option.

During the years ended December 31, 2017, 2016 and 2015, no options were exercised. As of December 31, 2017, total compensation costs related to nonvested option awards not yet recognized was $0.7 million and was expected to be recognized over 1.3 years.

Restricted Share Units

Pursuant to the 2011 Stock Plan, the Company has granted restricted share units to certain members of our Board of Directors, executives and employees that will be settled in shares of our stock and generally vest over a period of three to four years. The fair value of restricted share units is determined using the market value of our shares on the date of grant. During the second quarter of 2017, the Company converted all 0.3 million of unvested restricted share units granted in 2016 into cash-settled restricted share units. We accounted for the modification by transferring $0.6 million amortized expense from equity to liability.

A summary of restricted share units activity under the 2011 Stock Plan as of and for the year ended December 31, 2017 was as follows:

	Number of Restricted Stock Units	Weighted-Average Grant-Date Fair Value
	(in thousands)	(per share)
Nonvested — January 1, 2017	580	$ 18.14
Granted	—	—
Converted to liability awards	(277)	5.29
Vested	(214)	24.06
Cancelled or forfeited	(19)	37.70
Nonvested — December 31, 2017	70	$ 45.28

The weighted-average grant-date fair value of restricted share units granted was $5.29 and $36.40 per share for the years ended December 31, 2016 and 2015, respectively. The total grant-date fair value of the restricted share units vested was $5.2 million, $4.8 million and $9.7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, total compensation costs related to nonvested restricted share units not yet recognized was $ 1.5 million an d is expected to be recognized over a weighted-average period of 1.1 years.

Cash-Settled Restricted Share Units

During the year ended December 31, 2017, pursuant to the 2011 Stock Plan, the Company granted 0.6 million of cash-settled restricted share units to certain of our executives and employees. The value of cash-settled restricted share

units is determined based on our common share price on the vesting date and are paid in cash with no actual shares issued. Compensation expense of cash-settled restricted share units is remeasured each quarter with a cumulative adjustment to compensation cost during the period based on changes in our share price.

For executives, units vest if and when certain performance targets of the Company are met prior to the vesting dates. For other employees, units generally vest 33.3% annually over three years. During the year ended December 31, 2017, 0.2 million of cash-settled restricted share units vested and were settled for $0.5 million in cash, and 0.2 million units were forfeited. As of December 31, 2017, 0.5 million of unvested cash-settled restricted share units were outstanding.

Note 10—Earnings per Share

The following reflects the income and the share data used in the basic and diluted EPS computations:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands, except per share information)		
Numerator:			
Net income (loss), basic and diluted	$ (525,166)	$ (37,157)	$ 126,230
Denominator:			
Weighted-average number of common shares outstanding, basic	21,315	21,167	21,145
Effect of share-based compensation awards	—	—	11
Weighted-average number of common shares outstanding, diluted	21,315	21,167	21,156
Earnings (loss) per share:			
Basic	$ (24.64)	$ (1.76)	$ 5.97
Diluted	$ (24.64)	$ (1.76)	$ 5.97

The following table presents the share effects of share-based compensation awards excluded from our computations of diluted EPS as their effect would have been anti-dilutive for the periods presented:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Share-based compensation awards	349	1,217	889

Note 11—Available-for-Sale Securities

In June and August 2017, we received certain equity securities of Hyperdynamics Corporation (“Hyperdynamics”), consisting of 4,677,450 Hyperdynamics common shares and warrants to purchase 3,082,194 Hyperdynamics common shares issued to us as payment of a portion of our revenues due under a drilling contract with Hyperdynamics. These equity securities were classified as available-for-sale securities, recorded in prepaid expenses and other current assets on our consolidated balance sheets.

In September 2017, the share price of Hyperdynamics decreased significantly after it announced that its exploration well did not encounter hydrocarbons. In December 2017, Hyperdynamics filed for Chapter 7 bankruptcy in the U.S. Bankruptcy Court for the Southern District of Texas. During the year ended December 31, 2017, we recognized an other-than-temporary impairment in our Hyperdynamics available-for-sale securities of $6.8 million, recorded in other expense in our consolidated statements of operations. As of December 31, 2017, the aggregate fair value and cost basis of our investment were $0.

Note 12—Derivatives

We are exposed to market risk from changes in interest rates and foreign exchange rates. From time to time, we may enter into a variety of derivative financial instruments in connection with the management of our exposure to fluctuations in interest rates and foreign exchange rates. We do not enter into derivative transactions for speculative purposes; however, for accounting purposes, certain transactions may not meet the criteria for hedge accounting.

In 2013, we entered into an interest rate swap as a cash flow hedge against future fluctuations in LIBOR with a notional value of $712.5 million. The interest rate swap did not amortize and had a scheduled maturity on December 3, 2017. On a quarterly basis, we paid a fixed rate of 1.56% and received the maximum of 1% or three-month LIBOR. As of September 30, 2017, we discontinued hedge accounting of the interest rate swap. The interest rate swap was terminated shortly after the Petition Date.

In 2013, we also entered into an interest rate swap as a cash flow hedge against future fluctuations in LIBOR with a notional value of $400.0 million. The interest rate swap did not amortize and had a scheduled maturity on July 1, 2018. On a quarterly basis, we paid a fixed rate of 1.66% and received three-month LIBOR. As of the Petition Date, we discontinued hedge accounting of the interest rate swap. The interest rate swap was terminated shortly after the Petition Date.

In 2014, we entered into a series of foreign currency forward contracts as a cash flow hedge against future exchange rate fluctuations between the Euro and U.S. dollar. We used the forward contracts to hedge Euro payments for forecasted capital expenditures. As of December 31, 2016, the forward contracts were fully settled. Upon settlement, we paid U.S. dollars and received Euros at forward rates ranging from $1.25 to $1.27. As a result of settling the effective hedge in 2016 and 2015, we incurred net cash outflows of $1.8 million and $1.2 million, respectively, and reclassified the amounts from accumulated other comprehensive income to property and equipment.

The following table provides data about the fair values of derivatives that were designated as hedge instruments:

Derivatives Designated as Hedging Instruments	Balance Sheet Location	December 31, 2017	December 31, 2016
		(in thousands)	
Short-term — Interest rate swaps	Accrued expenses	$ —	$ (3,838)
Long-term — Interest rate swaps	Other long-term liabilities	—	(84)
Total		$ —	$ (3,922)

We have elected not to offset the fair value of derivatives subject to master netting agreements, but to report them on a gross basis on our consolidated balance sheets.

The following table summarizes the cash flow hedge gains and losses:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Other Comprehensive Income ("OCI") for the Year Ended December 31,			Loss Reclassified from Accumulated OCI into Income for the Year Ended December 31,			Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) for the Year ended December 31,		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(in thousands)								
Interest rate swaps	$ 4,700	$ 2,713	$ (1,701)	$ 5,265	$ 8,798	$ 10,440	$ —	$ —	$ —
Foreign currency forward contracts	$ —	$ 1,584	$ (1,584)	$ —	$ —	$ —	$ —	$ —	$ (296)

As of December 31, 2017, the estimated amount of net losses associated with derivative instruments that would be reclassified from accumulated other comprehensive loss to earnings during the next twelve months was $0.8 million. During the years ended December 31, 2017, 2016 and 2015, we reclassified $4.5 million, $8.0 million and $9.6 million to interest expense and $0.8 million, $0.8 million and $0.8 million to depreciation from accumulated other comprehensive loss, respectively.

Note 13—Fair Value Measurements

We estimated fair value by using appropriate valuation methodologies and information available to management as of December 31, 2017 and 2016. Considerable judgment is required in developing these estimates, and accordingly, estimated values may differ from actual results.

The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximated their carrying value due to their short-term nature. It is not practicable to estimate the fair value of our receivable from SHI (see Note 5), SSCF debt and 2013 Revolving Credit Facility. The following table presents the carrying value and estimated fair value of our cash and cash equivalents and other debt instruments:

	December 31,			
	2017		2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents	$ 308,948	$ 308,948	$ 585,980	$ 585,980
2017 Senior Secured Notes	439,364	243,847	438,880	208,698
2018 Senior Secured Term Loan B	718,125	290,841	722,706	256,931
2020 Senior Secured Notes	750,000	307,500	750,000	270,000

We estimate the fair value of our cash equivalents using significant other observable inputs, representative of a Level 2 fair value measurement, including the net asset values of the investments. As of December 31, 2017 and December 31, 2016, the aggregate carrying amount of our cash equivalents was $220.7 million and $0, respectively. We estimate the fair values of our variable-rate and fixed-rate debt using quoted market prices to the extent available and significant other observable inputs, which represent Level 2 fair value measurements.

The following table presents the carrying value and estimated fair value of our financial instruments recognized at fair value on a recurring basis:

	December 31, 2016			
		Fair Value Measurements Using		
	Carrying Value	Level 1	Level 2	Level 3
Liabilities:	(in thousands)			
Interest rate swaps	$ (3,922)	—	$ (3,922)	—

We use an income approach to value assets and liabilities for outstanding interest rate swaps. These contracts are valued using a discounted cash flow model that calculates the present value of future cash flows under the terms of the contracts using market information as of the reporting date, such as prevailing interest rates and forward rates. The determination of the fair values above incorporated various factors, including the impact of the counterparty's non-performance risk with respect to our financial assets and our non-performance risk with respect to our financial liabilities.

See Note 12 for further discussion of our use of derivative instruments and their fair values.

Note 14—Commitments and Contingencies

Operating Leases— We lease office space in countries in which we operate. As of December 31, 2017, the future minimum lease payments under the non-cancelable operating leases with lease terms in excess of one year was as follows:

	(In thousands)
Years Ending December 31,	
2018	$ 2,218
2019	2,158
2020	2,135
2021	2,174
2022	2,213
Thereafter	3,961
Total future minimum lease payments	$ 14,859

During the years ended December 31, 2017, 2016 and 2015, rent expense was $2.4 million, $2.5 million and $3.0 million, respectively.

Commitments —As of December 31, 2017, we had no material commitments.

Customs Bonds —As of December 31, 2017, we were contingently liable under certain customs bonds totaling approximately $43.0 million issued as security in the normal course of our business.

Contingencies —It is to be expected that we will routinely be involved in litigation and disputes arising in the ordinary course of our business.

On the Petition Date, Pacific Drilling S.A. and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. As a result of the Chapter 11 proceedings, attempts to prosecute, collect, secure or enforce remedies with respect to pre-petition claims against us are subject to the automatic stay provisions of Section 362(a) of the Bankruptcy Code, including litigation relating to us and our subsidiaries that are Debtors in the Chapter 11 proceedings.

On April 16, 2013, Transocean Offshore Deepwater Drilling, Inc. (“Transocean”) filed a complaint against us in the United States District Court for the Southern District of Texas alleging infringement of their dual activity patents, which was supplemented by an Amended Complaint filed on May 13, 2013. On August 1, 2017, we reached an amicable settlement of the litigation with Transocean for an immaterial amount.

On October 29, 2015, we exercised our right to rescind the Construction Contract with SHI for the drillship the *Pacific Zonda* due to SHI’s failure to timely deliver the drillship in accordance with the contractual specifications. SHI rejected our rescission, and on November 25, 2015, formally commenced an arbitration proceeding against us in London under the Arbitration Act 1996 before a tribunal of three arbitrators (as specified in the Construction Contract). SHI claims that we wrongfully rejected their tendered delivery of the drillship and seeks the final installment of the purchase price under the Construction Contract. On November 30, 2015, we made demand under the third party refund guarantee accompanying the Construction Contract for the amount of our advance payments made under the Construction Contract, plus interest. Any payment under the refund guarantee is suspended until an award under the arbitration is obtained. In addition to seeking repayment of our advance payments made under the Construction Contract, we have made a counterclaim for the return of our purchased equipment, or the value of such equipment, and damages for our wasted expenditures. As part of our “first day” relief in the Chapter 11 proceedings, the Bankruptcy Court granted us a modification of the automatic stay provisions of the Bankruptcy Code to allow us to proceed with this arbitration.

An evidentiary hearing was held in London before a tribunal of three arbitrators (the “Tribunal”) from February 5 through March 2, 2018. Written closing submissions are due to be filed with the Tribunal by late April, with short replies to such submissions due in mid-May 2018. Oral closing submissions are currently scheduled to be heard by the Tribunal in early August 2018. We expect the Tribunal to render its award some time thereafter. We do not believe that the ultimate outcome resulting from this arbitration will have a material adverse effect on our financial position, results of operations or cash flows.

Note 15—Concentrations of Credit and Market Risk

Financial instruments that potentially subject the Company to credit risk are primarily cash equivalents, restricted cash and accounts receivable. At times, cash equivalents and restricted cash may be in excess of FDIC insurance limits. With regards to accounts receivable, we have an exposure from our concentration of clients within the oil and natural gas industry. This industry concentration has the potential to impact our exposure to credit and market risks as our clients could be affected by similar changes in economic, industry or other conditions. However, we believe that the credit risk posed by this industry concentration has been largely offset by the creditworthiness of our client base and receipt of advanced payments before providing services to certain customers. During the years ended December 31, 2017, 2016 and 2015, the percentage of revenues earned from our clients was as follows:

	Years Ended December 31,		
	2017	2016	2015
Chevron	81.6 %	77.1 %	81.2 %
Total	— %	22.9 %	17.2 %
Other	18.4 %	— %	1.6 %

Some of our employees in Nigeria are represented by unions. As of December 31, 2017 and 2016, approximately 1% and 1% of our labor force was covered by collective bargaining agreements, all of which are subject to annual salary negotiation.

Note 16—Segments and Geographic Areas

Our drillships are part of a single, global market for contract drilling services and can be redeployed globally due to changing demands. We consider the operations of each of our drillships to be an operating segment. We evaluate the financial performance of each of our drillships and our overall fleet based on several factors, including revenues from clients and operating profit. The consolidation of our operating segments into one reportable segment is attributable to how we manage our fleet, including the nature of our services provided, type of clients we serve and the ability of our drillships to operate in a single, global market. The accounting policies of our operating segments are the same as those described in the summary of significant accounting policies (see Note 3).

As of December 31, 2017, the *Pacific Bora* was located offshore Nigeria, the *Pacific Santa Ana* was located offshore Mauritania, and the *Pacific Sharav* was located offshore the United States. As of December 31, 2017, the *Pacific Scirocco* , the *Pacific Mistral* , the *Pacific Khamsin* and the *Pacific Meltem* were anchored at Las Palmas.

During the years ended December 31, 2017, 2016 and 2015, the percentage of revenues earned by geographic area, based on drilling location, is as follows:

	Years Ended December 31,		
	2017	2016	2015
Gulf of Mexico	81.6 %	56.9 %	38.1 %
Nigeria	11.2 %	43.1 %	60.3 %
Other	7.2 %	— %	1.6 %

Note 17—Variable Interest Entities

The carrying amounts associated with our consolidated variable interest entities, after eliminating the effect of intercompany transactions, were as follows:

	December 31,	
	2017	2016
	(in thousands)	
Assets	$ 3,142	$ 10,020
Liabilities	(1,548)	(2,247)
Net carrying amount	$ 1,594	$ 7,773

PIDWAL is a joint venture formed to provide drilling services in Nigeria and to hold an equity investment in PDNL. PDNL is a company owned by us and PIDWAL, formed to hold the equity investments in certain of our rig-owning entities operating in Nigeria. We determined that each of these companies met the criteria of a variable interest entity for accounting purposes because its equity at risk was insufficient to permit it to carry on its activities without additional subordinated financial support from us. We also determined that we were the primary beneficiary for accounting purposes since (a) for PIDWAL, we had the power to direct the day-to-day management and operations of the entity, and for PDNL we had the power to secure and direct its equity investment, which are the activities that most significantly impact each entity's economic performance, and (b) we had the obligation to absorb losses or the right to receive a majority of the benefits that could be potentially significant to the variable interest entities. As a result, we consolidate PIDWAL and PDNL in our consolidated financial statements.

During the years ended December 31, 2017 and 2016, we provided financial support to PIDWAL to enable it to operate as a going concern by funding its working capital via intercompany loans and payables. We also issued a corporate guarantee as credit support for customs bonds issued in the amount of $43.0 million in favor of PIDWAL as of December 31, 2017.

During the years ended December 31, 2017 and 2016, we provided financial support to PDNL to fund its equity investment in our rig-owning entities operating in Nigeria via intercompany loans. Both the equity investment and intercompany loans of PDNL are eliminated upon consolidation.

Note 18—Retirement Plans

We sponsor a defined contribution retirement plan covering substantially all U.S. employees and an international savings plan covering international employees. During the years ended December 31, 2017, 2016 and 2015, our total employer contributions to both plans amounted to $2.8 million, $4.1 million and $7.0 million, respectively.

Note 19—Supplemental Cash Flow Information

During the years ended December 31, 2017, 2016 and 2015, we paid $120.8 million, $169.8 million and $164.5 million of interest, net of amounts capitalized, respectively. During the years ended December 31, 2017, 2016 and 2015, we paid income taxes of $4.9 million, $12.3 million, and $27.2 million, respectively.

Within our consolidated statements of cash flows, capital expenditures represent expenditures for which cash payments were made during the period. These amounts exclude accrued capital expenditures, which are capital expenditures that were accrued but unpaid. During the years ended December 31, 2017, 2016 and 2015, changes in accrued capital expenditures were $(18.5) million, $(9.0) million and $9.9 million, respectively.

During the years ended December 31, 2017 and 2016, non-cash acquisition of available-for-sale securities was $0.8 million and $0, respectively. See Note 11 for further discussion of our investment in Hyperdynamics.

During the years ended December 31, 2017, 2016 and 2015, non-cash amortization of deferred financing costs and accretion of debt discount totaling $0, $0 and $3.5 million were capitalized to property and equipment, respectively. Accordingly, these amounts are excluded from capital expenditures on our consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015.

Note 20—Related Party Transactions

In August 2017, following pre-approval by our Audit Committee, we executed an agreement with our majority shareholder for the reimbursement or payment of certain legal and advisory fees incurred by the majority shareholder and related to its participation in the negotiation of our debt restructuring on behalf of all our shareholders. Such obligation ended upon our filing of the Bankruptcy Petitions on the Petition Date. During the year ended December 31, 2017, we incurred fees of $3.2 million under such agreement.

Note 21—Condensed Combined Debtors Financial Statements

In accordance with the requirements of ASC 852, *Reorganization* , the following are the condensed combined financial statements of the Debtors. Intercompany transactions among the Debtors have been eliminated in the financial statements contained herein. Intercompany transactions among the Debtors and the Company’s non-debtor subsidiaries have not been eliminated in the Debtors financial statements.

PACIFIC DRILLING S.A. (DEBTOR IN POSSESSION) AND CERTAIN SUBSIDIARIES

Condensed Combined Statements of Operations

(in thousands)

	Year Ended December 31, 2017
Revenues	
Contract drilling	$ 308,647
Costs and expenses	
Operating expenses	(233,193)
General and administrative expenses	(81,337)
Depreciation expense	(278,845)
	(593,375)
Operating loss	(284,728)
Other expense	
Interest expense	(178,848)
Write-off of deferred financing costs	(30,846)
Reorganization items	(6,474)
Other expense	(5,333)
Loss before income taxes	(506,229)
Income tax expense	(12,340)
Net loss	$ (518,569)

PACIFIC DRILLING S.A. (DEBTOR IN POSSESSION) AND CERTAIN SUBSIDIARIES

Condensed Combined Balance Sheets

(in thousands)

	December 31, 2017
Assets:	
Cash and cash equivalents	$ 305,489
Restricted cash	8,500
Accounts receivable, net	40,466
Intercompany receivable	96,488
Materials and supplies	87,332
Deferred costs, current	14,892
Prepaid expenses and other current assets	14,146
Total current assets	567,313
Property and equipment, net	4,651,710
Intercompany loan receivable	27,021
Long-term receivable	202,575
Other assets	30,892
Total assets	$ 5,479,511
Liabilities and shareholders’ equity:	
Accounts payable	$ 10,412
Intercompany payable	5,867
Accrued expenses	26,688
Accrued interest	6,088
Deferred revenue, current	23,514
Total current liabilities	72,569
Deferred revenue	12,973
Other long-term liabilities	32,321
Total liabilities not subject to compromise	117,863
Liabilities subject to compromise	3,151,010
Shareholders’ equity	2,210,638
Total liabilities and shareholders’ equity	$ 5,479,511

PACIFIC DRILLING S.A. (DEBTOR IN POSSESSION) AND CERTAIN SUBSIDIARIES

Condensed Combined Statement of Cash Flows

(in thousands)

	Year Ended December 31, 2017
Cash flow from operating activities:	
Net loss	$ (518,569)
Adjustments to reconcile net loss to net cash used in operating activities	408,344
Net cash used in operating activities	(110,225)
Cash flow from investing activities:	
Capital expenditures	(36,645)
Purchase of available-for-sale securities	(6,000)
Net cash used in investing activities	(42,645)
Cash flow from financing activities:	
Net payments for shares issued under share-based compensation plan	(199)
Payments on long-term debt	(146,473)
Payments for financing costs	(4,530)
Net cash used in financing activities	(151,202)
Decrease in cash and cash equivalents	(304,072)
Cash, cash equivalents and restricted cash, beginning of period	618,061
Cash, cash equivalents and restricted cash, end of period	$ 313,989

Exhibit 8.1

Subsidiaries

All subsidiaries are, indirectly or directly, wholly-owned by Pacific Drilling S.A. except as indicated below.

Entity	Jurisdiction of Formation
Pacific Drilling do Brasil Investimentos Ltda.	Brazil
Pacific Drilling do Brasil Serviços de Perfuração Ltda.	Brazil
Pacific Drilling Services Pte. Ltd.	Singapore
Pacific International Drilling West Africa Limited	Nigeria (1)
Pacific Drilling Netherlands Coöperatief U.A.	The Netherlands
Pacific Drilling N.V.	Curacao
Pacific Drilling Administrator Limited	British Virgin Islands
Pacific Deepwater Construction Limited	British Virgin Islands
Pacific Drilling International Ltd.	British Virgin Islands
Pacific Drilling Manpower Ltd.	British Virgin Islands
Pacific Drilling Operations Limited	British Virgin Islands
Pacific Drilling South America 1 Limited	British Virgin Islands
Pacific Drilling South America 2 Limited	British Virgin Islands
Pacific Drilling V Limited	British Virgin Islands
Pacific Drilling VII Limited	British Virgin Islands
Pacific Drilling VIII Limited	British Virgin Islands
Pacific Drillship Nigeria Limited	British Virgin Islands (2)
Pacific Sharav Korlátolt Felelősségű Társaság	Hungary
Pacific Bora Ltd.	Liberia (3)
Pacific Mistral Ltd.	Liberia
Pacific Scirocco Ltd.	Liberia (3)
Pacific Drilling Limited	Liberia
Pacific Drilling, Inc.	USA, Delaware
Pacific Drilling International, LLC	USA, Delaware
Pacific Drilling Services, Inc.	USA, Delaware
Pacific Drilling Manpower, Inc.	USA, Delaware
Pacific Drilling Operations, Inc.	USA, Delaware
Pacific Drilling, LLC	USA, New York
Pacific Drilling Finance S.à r.l.	Luxembourg
Pacific Drillship S.à r.l.	Luxembourg
Pacific Drilling Manpower S.à r.l.	Luxembourg
Pacific Santa Ana S.à r.l.	Luxembourg
Pacific Sharav S.à r.l.	Luxembourg
Pacific Drilling (Gibraltar) Limited	Gibraltar
Pacific Drillship (Gibraltar) Limited	Gibraltar
Pacific Drilling Holding (Gibraltar) Limited	Gibraltar
Pacific Santa Ana (Gibraltar) Limited	Gibraltar

(1) 49% owned by Pacific Drilling Operations Limited. The remaining 51% is owned by Derotech Offshore Services Limited.
(2) 99.9% owned by Pacific International Drilling West Africa Limited, and .1% owned by Pacific Drilling Limited.
(3) 49.9% owned by Pacific Drilling Limited. The remaining 50.1% is owned by Pacific Drillship Nigeria Limited.

Exhibit 12.1

CERTIFICATION

I, Paul T. Reese, certify that:

1. I have reviewed this annual report on Form 20-F of Pacific Drilling S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 2, 2018

By: /s/ Paul T. Reese
Name: Paul T. Reese
Title: Chief Executive Officer

Exhibit 12.2

CERTIFICATION

I, Johannes P. Boots, certify that:

1. I have reviewed this annual report on Form 20-F of Pacific Drilling S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 2, 2018

By: /s/ Johannes P. Boots
Name: Johannes P. Boots
Title: Chief Financial Officer

Exhibit 13.1

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Paul T. Reese, Chief Executive Officer, hereby certify, to my knowledge, that:

1. the Company's annual report on Form 20-F for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 2, 2018

By: /s/ Paul T. Reese
Name: Paul T. Reese
Title: Chief Executive Officer

Exhibit 13.2

**PRINCIPAL FINANCIAL OFFICER CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Johannes P. Boots, Chief Financial Officer, hereby certify, to my knowledge, that:

1. the Company's annual report on Form 20-F for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 2, 2018

By:	/s/ Johannes P. Boots
Name:	Johannes P. Boots
Title:	Chief Financial Officer

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Pacific Drilling S.A.:

We consent to the incorporation by reference in the registration statement (No. 333-194380) on Form S-8 of Pacific Drilling S.A. of our report dated April 2, 2018, with respect to the consolidated balance sheets of Pacific Drilling S.A. (Debtor in Possession) and subsidiaries (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"), which report appears in the December 31, 2017 annual report on Form 20-F of Pacific Drilling S.A.

Our report contains an explanatory paragraph that states that the Company has suffered recurring losses from operations, is in violation of its debt covenants, and is facing risks and uncertainties surrounding its Chapter 11 proceedings that raise substantial doubt about its ability to continue as a going concern.

/s/ KPMG LLP

Houston, Texas
April 2, 2018