

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, 2018

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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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

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

Name of each exchange on which registered
New York Stock Exchange

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None.

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

As of December 31, 2018, there were 75,031,380 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 every Interactive Data File required to be submitted 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 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

TABLE OF CONTENTS

	<u>Page</u>
<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	4
<u>PART I</u>	5
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	5
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	5
<u>ITEM 3. KEY INFORMATION</u>	5
<u>A. SELECTED FINANCIAL DATA</u>	5
<u>B. CAPITALIZATION AND INDEBTEDNESS</u>	9
<u>C. REASONS FOR THE OFFER AND USE OF PROCEEDS</u>	9
<u>D. RISK FACTORS</u>	9
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	26
<u>A. HISTORY AND DEVELOPMENT OF THE COMPANY</u>	26
<u>B. BUSINESS OVERVIEW</u>	29
<u>C. ORGANIZATIONAL STRUCTURE</u>	34
<u>D. PROPERTY, PLANT AND EQUIPMENT</u>	34
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	34
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	34
<u>A. OPERATING RESULTS</u>	35
<u>B. LIQUIDITY AND CAPITAL RESOURCES</u>	43
<u>C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.</u>	47
<u>D. TREND INFORMATION</u>	47
<u>E. OFF-BALANCE SHEET ARRANGEMENTS</u>	48
<u>F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS</u>	48
<u>G. SAFE HARBOR</u>	48
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	48
<u>A. DIRECTORS AND SENIOR MANAGEMENT</u>	48
<u>B. COMPENSATION</u>	52
<u>C. BOARD PRACTICES</u>	56
<u>D. EMPLOYEES</u>	57
<u>E. SHARE OWNERSHIP</u>	58
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	59
<u>A. MAJOR SHAREHOLDERS</u>	59
<u>B. RELATED PARTY TRANSACTIONS</u>	62
<u>C. INTERESTS OF EXPERTS AND COUNSEL</u>	62
<u>ITEM 8. FINANCIAL INFORMATION</u>	62
<u>A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION</u>	62
<u>B. SIGNIFICANT CHANGES</u>	63
<u>ITEM 9. THE OFFER AND LISTING</u>	63
<u>A. OFFER AND LISTING DETAILS</u>	63
<u>B. PLAN OF DISTRIBUTION</u>	63
<u>C. MARKETS</u>	63
<u>D. SELLING SHAREHOLDERS</u>	63
<u>E. DILUTION</u>	63
<u>F. EXPENSES OF THE ISSUE</u>	63
<u>ITEM 10. ADDITIONAL INFORMATION</u>	63
<u>A. SHARE CAPITAL</u>	63
<u>B. MEMORANDUM AND ARTICLES OF ASSOCIATION</u>	63
<u>C. MATERIAL CONTRACTS</u>	72
<u>D. EXCHANGE CONTROLS</u>	72
<u>E. TAXATION</u>	73
<u>F. DIVIDENDS AND PAYING AGENTS</u>	80
<u>G. STATEMENT BY EXPERTS</u>	80
<u>H. DOCUMENTS ON DISPLAY</u>	81
<u>I. SUBSIDIARY INFORMATION</u>	81

	<u>Page</u>
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	81
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	81
<u>A. DEBT SECURITIES</u>	81
<u>B. WARRANTS AND RIGHTS</u>	81
<u>C. OTHER SECURITIES</u>	81
<u>D. AMERICAN DEPOSITORY SHARES</u>	81
<u>PART II</u>	81
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	81
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	82
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	82
<u>ITEM 16. RESERVED</u>	83
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	83
<u>ITEM 16B. CODE OF ETHICS</u>	83
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	83
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	84
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	84
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	84
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	84
<u>ITEM 16H. MINE SAFETY DISCLOSURE</u>	84
<u>PART III</u>	85
<u>ITEM 17. FINANCIAL STATEMENTS</u>	85
<u>ITEM 18. FINANCIAL STATEMENTS</u>	85
<u>ITEM 19. EXHIBITS</u>	86

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information contained in this annual report constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and are generally identifiable by their use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “our ability to,” “may,” “plan,” “potential,” “predict,” “project,” “projected,” “should,” “will,” “would,” or other similar words which are not generally historical in nature. The forward-looking statements speak only as of the date of this annual report, and we undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

Our forward-looking statements express our current expectations or forecasts of possible future results or events, including future financial and operational performance and cash balances; future revenue efficiency levels; market outlook; forecasts of trends; future client contract opportunities; future contract dayrates; our business strategies and plans or objectives of management; estimated duration of client contracts; backlog; expected capital expenditures; projected costs and savings; and the potential impact of our completed Chapter 11 bankruptcy proceedings on our future operations and ability to finance our business.

Although we believe that the assumptions and expectations reflected in our forward-looking statements are reasonable and made in good faith, these statements are not guarantees, and actual future results may differ materially due to a variety of factors. These statements are subject to a number of risks and uncertainties and are based on a number of judgments and assumptions as of the date such statements are made about future events, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in such statements due to a variety of factors, including if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect.

Important factors that could cause actual results to differ materially from our expectations include:

- changes in actual and forecasted worldwide oil and gas supply and demand and prices, and the related impact on demand for our services;
- the offshore drilling market, including changes in capital expenditures by our clients;
- rig availability and supply of, and demand for, high-specification drillships and other drilling rigs competing with our fleet;
- our ability to enter into and negotiate favorable terms for new drilling contracts or extensions of existing drilling contracts;
- our ability to successfully negotiate and consummate definitive contracts and satisfy other customary conditions with respect to letters of intent and letters of award that we receive for our drillships;
- possible cancellation, renegotiation, termination or suspension of drilling contracts as a result of mechanical difficulties, performance, market changes or other reasons;
- costs related to stacking of rigs and costs to mobilize a stacked rig;
- our small fleet and reliance on a limited number of clients;
- our ability to maintain relationships with suppliers, clients, other third parties and employees following our emergence from Chapter 11 bankruptcy proceedings; and
- the other risk factors described under the heading “Risk Factors” in Item 3.D. of this annual report.

All forward-looking statements in this annual report are expressly qualified in their entirety by the cautionary statements in this section and the “Risk Factors” section herein. Additional factors or risks that we currently deem immaterial, that are not presently known to us, that arise in the future or that are not specific to us could also cause our actual results to differ materially from our expected results. Given these uncertainties, you are cautioned not to unduly rely on our forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or developments, changed circumstances or otherwise. Further, we may make changes to our business strategies and plans at any time and without

notice, based on any changes in the above-listed factors, our assumptions or otherwise, any of which could materially affect our results.

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 “U.S. \$” and “\$” in this report are to, and amounts are represented in, United States 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

Background – Emergence from Bankruptcy Proceedings

By order entered on November 2, 2018 (the “Confirmation Order”), the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) confirmed the Company’s Modified Fourth Amended Joint Plan of Reorganization, dated October 31, 2018 (the “Plan”) that had been filed with the Bankruptcy Court in connection with the filing by the Company and certain of its subsidiaries (the “Initial Debtors”) of petitions (the “Bankruptcy Petitions”) on November 12, 2017 (the “Petition Date”) with the Bankruptcy Court seeking relief under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”). During the course of the bankruptcy proceedings, the Initial Debtors continued to operate their businesses as debtors-in-possession. On November 19, 2018 (the “Plan Effective Date”), the Company and the Initial Debtors other than the Zonda Debtors (described below) (the “Debtors”) emerged from bankruptcy after successfully completing their reorganization pursuant to the Plan.

The Company’s two subsidiaries involved in the arbitration with Samsung Heavy Industries Co. Ltd. (“SHI”) related to the *Pacific Zonda* – Pacific Drilling VIII Limited (“PDVIII”) and Pacific Drilling Services, Inc. (“PDSI” and, together with PDVIII, the “Zonda Debtors”) – are not Debtors under the Plan and filed a separate plan of reorganization that was confirmed by order of the Bankruptcy Court on January 30, 2019. On the date the plan was confirmed, the Zonda Debtors had \$4.6 million in cash and no other material assets after accounting for post-petition administrative expenses (other than the value of their claims against SHI) for SHI to recover against on account of its claims. The Company expects that the Zonda Debtors will emerge from their separate bankruptcy proceedings after the successful resolution of the arbitration related to the vessel known as the *Pacific Zonda*. If the Company is unsuccessful in the arbitration, the Company expects to liquidate the Zonda Debtors. For additional information, see Item 4.A. “History and Development of the Company – Zonda Arbitration.”

Prior to our emergence from bankruptcy on November 19, 2018, we had approximately \$3.0 billion principal amount of pre-petition indebtedness consisting of amounts outstanding under a 2013 senior secured revolving credit facility (the “2013 Revolving Credit Facility”), a senior secured credit facility (the “SSCF”), a 2018 senior secured institutional term loan facility (the “Term Loan B”), 2017 senior secured notes (the “2017 Notes”) and 2020 senior secured notes (the “2020 Notes”), plus an additional \$50 million in post-petition debtor-in-possession financing. One shareholder, Quantum Pacific Gibraltar Ltd (“QP”), owned approximately 70.3% of our outstanding common shares.

Pursuant to the Plan, we raised approximately \$1.5 billion in new capital, before expenses, consisting of approximately \$1.0 billion raised through issuance of our 8.375% First Lien Notes due 2023 (the “First Lien Notes”) and 11.0%/12.0% Second Lien PIK Notes due 2024 (the “Second Lien PIK Notes” and, together with the First Lien Notes, the “Notes”), and \$500.0 million raised through the issuance of new common shares pursuant to a private placement to QP and a separate equity rights offering. We used the net proceeds to repay all of our pre-petition indebtedness that was

not equitized pursuant to the Plan, to repay the post-petition debtor-in-possession financing, and to pay certain fees and expenses. As a result of these transactions, we believe that on as of March 1, 2019, QP owned approximately 5.1% of our outstanding common shares and seven institutional investors (primarily QP and former holders of our Term Loan B, 2017 Notes and 2020 Notes extinguished pursuant to the Plan) owned in the aggregate approximately 85.7% of our outstanding common shares.

More specifically, upon emergence of the Company from bankruptcy on November 19, 2018 in accordance with the Plan:

- The Company's pre-petition 2013 Revolving Credit Facility and SSCF and post-petition debtor-in-possession financing were repaid in full;
- Holders of the Company's pre-petition Term Loan B, 2017 Notes and 2020 Notes received an aggregate of 24,416,442 common shares (or, approximately 32.6% of the outstanding shares) in exchange for their claims;
- The Company issued an aggregate of 44,174,136 common shares (or, approximately 58.9% of the outstanding shares) to holders of the Term Loan B, 2017 Notes and 2020 Notes who subscribed in the Company's \$460.0 million equity rights offering;
- The Company issued 3,841,229 common shares (or, approximately 5.1% of the outstanding shares) to QP in a \$40.0 million private placement;
- The Company issued 2,566,056 common shares (or approximately 3.4% of the outstanding shares) to members of an ad hoc group of holders of the Term Loan B, 2017 Notes and 2020 Notes (the "Ad Hoc Group") in payment of their fee for backstopping the equity rights offering;
- The Company issued approximately 7.5 million common shares to Pacific Drilling Administrator Limited, a wholly owned subsidiary of the Company that serves as administrator of the Company's 2018 Omnibus Stock Incentive Plan (the "2018 Stock Plan"), adopted by the Board, and which shares were reserved for issuance under the 2018 Stock Plan;
- Existing holders of the Company's common shares received no recovery and were diluted by the issuances of common shares under the Plan such that they held in the aggregate approximately 0.003% of the Company's common shares outstanding upon emergence from bankruptcy; and
- The undisputed claims of other unsecured creditors such as clients, employees and vendors, will be paid in full in the ordinary course of business.

Prior to the issuance of the shares described above, the Company effected a 1-for-10,000 reverse stock split (the "Reverse Stock Split"). As a result of the Reverse Stock Split and the issuances of common shares described above, the Company had issued and outstanding on the Plan Effective Date approximately 75.0 million common shares, and approximately 7.5 million shares were reserved for issuance pursuant to the 2018 Stock Plan.

In addition, pursuant to the Plan, on September 26, 2018 bankruptcy-remote subsidiaries of the Company issued, and on November 19, 2018 such subsidiaries merged with the Company and the Company assumed (the "Notes Assumption"):

- \$750.0 million in aggregate principal amount of the First Lien Notes secured by first-priority liens on substantially all assets of the Debtors; and
- \$273.6 million in aggregate principal amount of the Second Lien PIK Notes secured by second-priority liens on substantially all assets of the Debtors. Approximately \$23.6 million aggregate principal amount was issued as a commitment fee to the Ad Hoc Group for their agreement to backstop the issuance of the Second Lien PIK Notes.

Concurrent with the Notes Assumption, all of the Company's subsidiaries other than the Zonda Debtors, certain immaterial subsidiaries and Pacific International Drilling West Africa Limited ("PIDWAL," a Nigerian limited liability company indirectly 49% owned by the Company) guaranteed on a senior secured basis the First Lien Notes and Second Lien PIK Notes. It is expected that the Zonda Debtors will guarantee the First Lien Notes and Second Lien PIK Notes upon their emergence from bankruptcy pursuant to their separate plan of reorganization after the successful resolution of

the arbitration proceeding involving the *Pacific Zonda* discussed elsewhere herein. If the Company is unsuccessful in the arbitration, the Company expects to liquidate the Zonda Debtors and the Zonda Debtors would not guarantee the First Lien Notes and Second Lien PIK Notes.

Pursuant to the Plan, the following additional principal transactions and events occurred on the Plan Effective Date:

- *Amendment of Articles of Association* . The Company’s Articles of Association (our “Articles”) were amended to, among other things, reflect the new capital structure and establish a classified board of Class A directors and Class B directors.
- *Governance Agreement* . The Company entered into a Governance Agreement (the “Governance Agreement”) with certain holders of its shares, which provides for, among other things, director nomination and board observer rights of the parties, as well as an agreement to increase the Company’s share capital at the request of certain parties.
- *Resignation of Directors and Election of New Directors* . All of the Company’s directors prior to our emergence from bankruptcy resigned from our board of directors and upon our emergence from bankruptcy, W. Matt Ralls (Chairman), David Weinstein and Bernie G. Wolford Jr. joined the board of directors as Class A directors, and Daniel Han, Donald Platner, and Kiran Ramineni joined the board of directors as Class B directors. Subsequent to our emergence from bankruptcy, John V. Simon joined our board of directors as a Class A director.
- *Appointment of Chief Executive Officer* . Bernie G. Wolford Jr. was appointed Chief Executive Officer of the Company.
- *Registration Rights Agreement* . The Company entered into a Registration Rights Agreement (the “Registration Rights Agreement”) with certain holders of its shares, which grants such holders certain registration rights with respect to our common shares.

See Note 2 to our consolidated financial statements for additional information.

Selected Financial Data

On the Plan Effective Date, we adopted and applied the relevant guidance with respect to the accounting and financial reporting for entities that have emerged from bankruptcy proceedings, or “Fresh Start Accounting.” Under Fresh Start Accounting, our balance sheet on the Plan Effective Date reflects all of our assets and liabilities at fair value. Our emergence from bankruptcy and the adoption of Fresh Start Accounting resulted in a new reporting entity, referred to herein as the “Successor”, for financial reporting purposes. To facilitate discussion and analysis of our financial condition and results of operations herein, we refer to the reorganized Debtors as the Successor for periods subsequent to November 19, 2018 and as the “Predecessor” for periods on or prior to November 19, 2018. As a result of the adoption of Fresh Start Accounting and the effects of the implementation of the Plan, our consolidated financial statements subsequent to November 19, 2018 may not be comparable to our consolidated financial statements prior to November 19, 2018, and as such, “black-line” financial statements are presented to distinguish between the Predecessor and Successor companies.

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.

	Successor	Predecessor				
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through	Years Ended December 31,			
		November 19, 2018	2017	2016	2015	2014
(in thousands, except per share information)						
Statement of operations data:						
Revenues						
Contract drilling	\$ 28,489	\$ 236,379	\$ 319,716	\$ 769,472	\$ 1,085,063	\$ 1,085,794
Costs and expenses						
Operating expenses	(19,744)	(189,606)	(244,089)	(290,038)	(431,261)	(459,617)
General and administrative expenses	(4,245)	(50,604)	(87,134)	(63,379)	(55,511)	(57,662)
Depreciation and amortization expense	(27,277)	(248,302)	(278,949)	(275,901)	(243,457)	(199,337)
	(51,266)	(488,512)	(610,172)	(629,318)	(730,229)	(716,616)
Loss from construction contract rescission	—	—	—	—	(40,155)	—
Operating income (loss)	(22,777)	(252,133)	(290,456)	140,154	314,679	369,178
Other income (expense)						
Interest expense	(10,904)	(106,632)	(178,983)	(189,044)	(156,361)	(130,130)
Write-off of deferred financing costs	—	—	(30,846)	—	—	—
Gain on debt extinguishment	—	—	—	36,233	—	—
Reorganization items	(1,300)	(1,799,664)	(6,474)	—	—	—
Interest income ⁽¹⁾	1,008	3,148	2,717	362	265	521
Equity earnings in unconsolidated subsidiaries	392	—	—	—	—	—
Expenses to unconsolidated subsidiaries, net	(1,198)	—	—	—	—	—
Other income (expense)	526	(1,904)	(8,261)	(2,755)	(3,482)	(5,692)
Income (loss) before income taxes	(34,253)	(2,157,185)	(512,303)	(15,050)	155,101	233,877
Income tax (expense) benefit	6,769	2,308	(12,863)	(22,107)	(28,871)	(45,620)
Net income (loss)	\$ (27,484)	\$ (2,154,877)	\$ (525,166)	\$ (37,157)	\$ 126,230	\$ 188,257
Earnings (loss) per common share, basic ⁽²⁾	\$ (0.37)	\$ (100.89)	\$ (24.64)	\$ (1.76)	\$ 5.97	\$ 8.67
Weighted-average number of common shares, basic ⁽²⁾	75,010	21,359	21,315	21,167	21,145	21,722
Earnings (loss) per common share, diluted ⁽²⁾	\$ (0.37)	\$ (100.89)	\$ (24.64)	\$ (1.76)	\$ 5.97	\$ 8.66
Weighted-average number of common shares, diluted ⁽²⁾	75,010	21,359	21,315	21,167	21,156	21,737

(in thousands)	Successor	Predecessor			
	Year Ended December 31, 2018	Years Ended December 31,			
		2017	2016	2015	2014
Balance sheet data:					
Cash, cash equivalents and restricted cash	\$ 389,075	\$ 317,448	\$ 626,168	\$ 116,033	\$ 167,794
Property and equipment, net	1,915,172	4,652,001	4,909,873	5,143,556	5,431,823
Total assets ⁽³⁾	2,748,213	5,362,961	5,998,207	5,792,720	6,028,080
Long-term debt ⁽⁴⁾	1,039,335	3,043,967	3,145,449	2,845,670	3,101,021
Shareholders' equity	1,618,958	2,151,801	2,666,200	2,692,055	2,578,872

- (1) Interest income presented for the years ended December 31, 2017, 2016, 2015 and 2014 has been reclassified from other expense.
- (2) Share and per share data for the years ended December 31, 2015 and 2014 have been restated to reflect a 1-for-10 reverse stock split in May 2016.
- (3) Total assets for the year ended December 31, 2014 have been adjusted to reflect the retrospective adoption of an accounting standard, which requires debt issuance costs to be presented on the balance sheet as a direct deduction from the debt liability rather than as an asset.
- (4) 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 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. Any of the risk factors described below could significantly and negatively affect our business, 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 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 natural gas prices. Our business has been and may continue to be materially and adversely affected by the significant decline in the oil and gas industry. Lack of an improvement in the market for our offshore contract drilling services would materially and adversely affect our liquidity and ability to repay or refinance our indebtedness.

The offshore contract drilling industry has been cyclical and volatile, and the substantial drop in oil prices beginning mid-2014 resulted in a significant decline in drilling activity. 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. 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 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 and we cannot assure you that the market will improve. If the market for our offshore contract drilling services does not improve as a result of low oil prices, continued low demand for contract drilling services and/or continued low levels of exploration, development or production expenditures by oil and gas companies, our revenues could be further reduced and our business, results of operations, liquidity and ability to repay or refinance our indebtedness would be materially and adversely affected.

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

As of March 1, 2019, we did not have signed drilling contracts for four of our seven drillships, the *Pacific Scirocco*, the *Pacific Meltem*, the *Pacific Khamsin* or the *Pacific Mistral*. Our ability to obtain drilling contracts for our drillships will depend on market conditions and our clients' drilling programs. Some of the new contracts we have recently obtained have been for significantly shorter terms and lower dayrates than our prior drilling contracts, and there is uncertainty as to whether new contracts we may enter into in the future will continue to have comparatively shorter durations or require us to work at depressed dayrates. We may not be able to secure contracts for our drillships on favorable terms, or at all. Our failure to secure drilling contracts for our uncontracted drillships or currently operating drillships after the expiration of existing contracts, or to successfully negotiate and execute definitive contracts and satisfy other conditions precedent to finalizing any letters of intent and letters of award, 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 rigs and could adversely affect our financial position, results of operations or cash flows.

There are numerous high-specification floating rigs currently available for drilling services in the industry worldwide. The current oversupply of high-specification floating rigs has led to a significant reduction in dayrates and lower utilization, and 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.

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 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 seven drillships, we anticipate that revenues will depend on contracts with a limited number of clients. As of March 1, 2019, one of our operating drillships, the *Pacific Sharav*, was working for a subsidiary of Chevron, under a contract that has been extended to November 2019, and our drillship the *Pacific*

Bora was working under a contract with Nigerian AGIP Exploration Limited, a subsidiary of Eni S.p.A., to operate in Nigeria. Additionally, another of our drillships, the *Pacific Santa Ana*, was under contract for the second phase of a plug and abandonment project for PC Mauritania 1 Pty Ltd. (“Petronas”), expected to commence in third quarter 2019, as well as a contract with Total E&P Senegal for work in Senegal and Mauritania expected to commence in April 2019.

The loss of any one of our clients or any potential 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 backlog of contract drilling revenue may not be fully realized.

Our contract backlog includes firm commitments only, which are represented by signed drilling contracts. 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 contract backlog amounts we present, 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, and accordingly the actual amount of revenues earned may be substantially lower than the backlog reported. 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 contracts for various reasons, as described below under “—Our drilling contracts may be terminated early in certain circumstances.” 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 would assume under stronger market conditions.

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, as a result, 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. For example, our current contract with Chevron for the *Pacific Sharav* expires in August 2019, and our extension of that contract, as well as our other more recent contracts are at dayrates that are significantly lower than the dayrate of the current Chevron contract. Additionally, our clients may seek to terminate existing contracts prior to the expiration of their terms, as described below 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 would assume under stronger market conditions, such as greater exposure to environmental or other liabilities and more onerous termination provisions giving the client 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 continue to realize the cost-savings we have recently achieved on our idle rigs and reactivation of idle rigs may take longer or be more costly than we anticipate.

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 maintain the rigs in “modified smart-stack” status, 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.

We believe our results for the year ended December 31, 2018 reflect the cost savings we expected to achieve from our smart-stacking and modified smart-stacking approaches. We may not continue to realize those cost-savings, and, if we are required to idle additional rigs, we may not achieve similar cost savings.

Reactivation of idle rigs may take longer and be more costly than anticipated and there is limited history of reactivating idle rigs after smart-stacking. 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.

Our drilling contracts may be terminated early in certain circumstances.

Our contracts with clients generally 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. Accordingly, the actual amount of revenues earned may be substantially lower than the backlog reported. Our contracts also generally provide for termination by the client without the payment of any termination fee under various circumstances, such as sustained unacceptable performance by us, as a result of impaired performance caused by equipment or operational issues, destruction of a drilling rig, or sustained periods of downtime due to force majeure events or otherwise. 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 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. We may not be able to sell our drillships at prices we deem acceptable or at all. 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 have a material adverse effect on 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 of hazardous materials 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 damages. 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 by 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, suppliers of drilling equipment and 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 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, foreign and international laws and regulations that may, among other things, require us to obtain and maintain specific permits or other governmental approvals to control or limit the discharge of oil and other contaminants into the environment or otherwise relate to environmental protection, and which impose stringent standards on our activities that are protective of the environment. For example, 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, the Outer Continental Shelf Lands Act, the Comprehensive Environmental Response, Compensation, and Liability Act and the International Convention for the Prevention of Pollution from Ships (each, as 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.

Prior catastrophic events that resulted in the release of oil or other contaminants offshore have heightened environmental and regulatory concerns about the oil and gas industry. In the past, the U.S. federal government, acting through the U.S. Department of the Interior and its implementing agencies that have since evolved into the present day Bureau of Ocean Energy Management and Bureau of Safety and Environmental Enforcement, have issued various rules, Notices to Lessees and Operators and temporary drilling moratoria that interrupted operations and resulted in additional stringent environmental and safety regulations or requirements applicable to oil and 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 (currently representing approximately 1% of our workforce) 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 or engage in work stoppages or slowdowns for reasons unrelated to our union

arrangements. Any future work stoppage or slowdown could, depending on the affected operations and the length of the work stoppage or slowdown, 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 applicable laws, 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 may be limited by our financial position at the time, changes in laws and regulations and by adverse market conditions. In addition, our ability to raise additional capital is limited by the terms of our debt agreements. 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 geographical areas and the time spent on and costs of such mobilizations may materially and adversely affect 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 key personnel 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. In addition, our ability to attract, recruit and retain key personnel may be negatively impacted by our emergence from bankruptcy and the uncertainties currently facing the industry in which we operate.

Any significant cyber-attack or interruption in network security could materially and adversely disrupt and affect our operations and 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 clients, 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 the Company, its 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, cyber-attack, 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 be subject to property, environmental, natural resource and other damage claims by oil and 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. In particular, 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 pursuant to 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 re-drill 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 clients may not have sufficient resources to cover their indemnification obligations or may contest their obligation to indemnify us. The indemnification provisions of our contracts may be subject to differing interpretations and the laws or courts of certain jurisdictions may enforce such provisions while other laws or courts may find them unenforceable, void or limited by public policy considerations, including when the cause of the underlying loss or damage is our gross negligence or willful misconduct, when punitive damages are attributable to us or when fines or penalties are imposed directly against 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.

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 occurred in various parts of the world in which we operate, could adversely impact our operations, the operations of our clients 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 new legislation or 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. In addition, some experts believe climate change could increase the frequency and severity of extreme weather conditions. We are currently unable to predict the manner or extent of any such potential GHG reduction or climate change effects.

We may be involved in litigation, arbitration or other legal proceedings from time to time, the outcomes of which may be unpredictable and may have an adverse impact on our business and financial condition, which may be material.

Our business involves numerous operating hazards and risks, and we operate in many different international jurisdictions. In the normal course of our business we may become involved in disputes and legal or arbitration proceedings, which may have unpredictable outcomes and which may be material. We are involved in arbitration

proceedings relating to the vessel known as the *Pacific Zonda*, as described elsewhere herein (the “Zonda Arbitration”), and as of December 31, 2018 we have recorded a receivable from unconsolidated subsidiaries of \$204.7 million related to the arbitration. For additional information, see Note 7 to our consolidated financial statements. While we expect to prevail in the Zonda Arbitration, we cannot assure you that we will do so.

Risks Related to Our Emergence from Bankruptcy

We experienced a change of control in connection with our emergence from bankruptcy and our new board of directors may change our business strategy and has changed and may continue to change key personnel.

As a result of the issuances of common shares, change in the composition of our board of directors, amendments to our Articles and execution and delivery of the Governance Agreement discussed elsewhere in this annual report, a change in control of the Company occurred on the Plan Effective Date in connection with the Company’s emergence from the Chapter 11 bankruptcy proceedings. Pursuant to the Governance Agreement, until the “Nomination Termination Time” (as defined therein), certain of our shareholders have the right to appoint our Class B directors, constituting three of our seven directors. As of the Plan Effective Date and March 1, 2019, only a few of our shareholders, if they were to act in concert, could control the election of our remaining four Class A directors.

Pursuant to our Articles and the Governance Agreement, prior to the Nomination Termination Time, any two Class B directors acting in their capacities as such (a “Class B Majority”) have broad authority to act on the Company’s behalf in connection with any Acquisition Proposal or Acquisition (as such terms are defined in the Articles), including but not limited to the authority to solicit prospective Acquisition Proposals, to retain, at the Company’s expense such consultants, legal counsel and other advisors as a Class B Majority may from time to time deem appropriate to assist the Class B directors in the performance of their duties with respect to Acquisition Proposals, and subject to specified conditions, to execute and deliver on behalf of the Company definitive documentation providing for the consummation of an Acquisition. For additional information, see Item 10.B. “Additional Information - Memorandum and Articles of Association.”

Our post-emergence board of directors may change our business strategy, including but not limited to changing our operating strategy or soliciting Acquisition Proposals. On the Plan Effective Date, our new board of directors appointed a new chief executive officer and has made and may make other changes in key personnel. These or potential future changes may not be successful and may be disruptive to our business and relationships with clients, vendors, suppliers, service providers, other third parties and employees.

We remain subject to risks and uncertainties associated with our emergence from bankruptcy.

Notwithstanding our emergence from bankruptcy on November 19, 2018, our operations and liquidity remain subject to a number of risks and uncertainties related to the fact that we operated under Bankruptcy Court protection for approximately one year. These risks and uncertainties include the following:

- our ability to maintain our relationships and contracts with our clients, vendors, suppliers, service providers and other third parties;
- our ability to execute our business plan or make effective changes to our business plan in response to changes in market conditions or changes in strategy implemented by our post-emergence board of directors or other factors;
- our ability to attract, motivate and retain key employees; and
- our ability to generate sufficient cash flow to operate our business and service our debt, and to comply with terms and conditions of the indentures governing our First Lien Notes and Second Lien PIK Notes.

Our operating results may be adversely affected by the possible reluctance of third parties to do business with a company that recently emerged from Chapter 11 bankruptcy proceedings. For example, third parties could require that we provide additional financial assurances, which could be costly. In addition, failure to retain or attract and maintain key personnel or erosion of employee morale could have a material adverse effect on our ability to meet client expectations, obtain new contracts and effectively operate our business, thereby adversely affecting our results of operations and financial condition. We cannot accurately predict or quantify the ultimate impact that our emergence from bankruptcy may have on our business, results of operations and financial condition.

The Plan was based in large part upon assumptions and analyses developed by us. If these assumptions and analyses prove to be incorrect, our results of operations, liquidity and financial condition may be materially and adversely affected.

As a part of the Plan process, we were required to prepare projected financial information to demonstrate to the Bankruptcy Court the feasibility of the Plan and our ability to continue operations upon emergence from bankruptcy. The Plan, and these projections, were reflective of assumptions and analyses based on our experience and perception of historical trends, prevailing conditions and expected future developments, as well as other factors that we considered at the time to be appropriate under the circumstances. Whether actual future results and developments will be consistent with our expectations and assumptions reflected in the Plan depends on a number of factors, including but not limited to: (i) our ability to maintain our clients' confidence in our viability as a continuing entity and to attract and retain sufficient business from them, (ii) our ability to retain or attract and retain key employees, (iii) 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 and (iv) our ability to make required interest payments on and ultimately pay or refinance our debt. Any of these factors could materially adversely affect the success of our reorganized business.

In addition, the Plan was developed in reliance upon financial projections, and these projections are not part of this annual report, have not been and are not expected to be updated and should not be relied upon in connection with the purchase of our common shares. 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 connection with our emergence from bankruptcy, our historical financial information may not be indicative of our future financial performance.

In connection with our emergence from bankruptcy, we have adopted Fresh Start Accounting in accordance with provisions of ASC 852, *Reorganizations*, which resulted in the Company becoming a new entity for financial reporting purposes on November 19, 2018, the effective date of emergence. Fresh Start Accounting results in the Company's assets and liabilities being recorded at fair value as of the Plan Effective Date. As a result of the adoption of Fresh Start Accounting, the Company's consolidated financial statements subsequent to November 19, 2018 will not be comparable to its consolidated financial statements on and prior to that date. The lack of comparable historical information may discourage investors from purchasing our common shares.

Our pre-emergence net operating losses may be significantly reduced and/or limited under Luxembourg income tax law.

From a Luxembourg Generally Accepted Accounting Principles (the "Lux GAAP") standpoint, debt forgiveness resulting from the Chapter 11 bankruptcy proceedings would lead to an increase of the net asset value of the Luxembourg debtor benefitting from the forgiveness. Such an increase would correspond to the amount of the debt that is forgiven for no consideration. The increase of the net asset value would also be reflected in the Lux GAAP profit and loss through recognition of cancellation of debt income ("COD Income") corresponding to the amount of the debt forgiven for no consideration. Based on the principle of "*accrochement du bilan fiscal au bilan commercial*" (translated as "tax follows book") provided in article 40 of the Luxembourg Income Tax Law (the "Luxembourg ITL") (which is considered as the general rule), any COD Income realized upon the cancellation of a debt from a Lux GAAP standpoint should also increase the net asset value of the debtor for Luxembourg tax purposes.

Article 52 of the Luxembourg ITL relates specifically to gains derived by a Luxembourg corporate debtor upon total or partial debt forgiveness occurring in the context of a financial reorganization aimed at the financial recovery of the debtor (*i.e.*, "*gain d'assainissement*" or "reorganization profit"). This article provides that the increase in the net asset value of a Luxembourg corporate debtor resulting from a *gain d'assainissement* / reorganization profit is eliminated from the positive taxable result of the Luxembourg debtor only to the extent of that result. In other words, the tax exemption applies only to the portion of net *gain d'assainissement* / reorganization profit exceeding existing tax losses available during the year of the debt forgiveness.

Considering the above, we may benefit from an exemption of COD Income pursuant to article 52 of the Luxembourg ITL upon cancellation of our debts. Based on article 52 of the Luxembourg ITL and article 114(2)1 of the Luxembourg ITL, COD Income derived by us upon cancellation of our debts should first be offset with existing tax losses carry forwards and be exempt based on article 52 of the Luxembourg ITL for the remainder.

Luxembourg tax law allows tax losses to offset taxable profits unless it is determined that a change of shareholders results in tax abuse. Luxembourg jurisprudence uses a “facts and circumstances” analysis that indicates an abuse of law could be found where the loss-generating activity is discontinued following a change in ownership and a new profitable business is begun. However, a finding of valid commercial reasons reflecting the economic reality should be sufficient to avoid the perception of abuse of law. Also, after a corporate restructuring, utilizing accumulated tax losses within the same group should not be suspect if there are economic reasons beyond using the losses. Finally, the mere conversion of our legal form may, in certain situations, not prevent our use of the losses to offset future profits. Similarly, a mere change in shareholders should not result in loss of the deductibility of the tax losses. However, a change in shareholders together with a change of activity (such as disposition of the loss generating assets and the beginning of a completely new activity by the loss company) would significantly increase the risk of characterization of the transaction as tax abusive and jeopardize the deductibility of the tax losses.

There is uncertainty regarding whether courts outside the United States will recognize the Confirmation Order.

Our parent company, Pacific Drilling S.A., is incorporated pursuant to, and the rights attaching to its shares are governed by, the laws of Luxembourg. Additionally, many of our subsidiaries which were Debtors under the Plan are incorporated under, and their interests are governed by, the laws of foreign jurisdictions other than the United States. Although we intend to make commercially reasonable efforts to ensure that the Confirmation Order and the steps we took to implement the restructuring thereunder are effective in all applicable jurisdictions, it is possible that if a creditor or stakeholder were to challenge the restructuring, a foreign court may refuse to recognize the effect of the Confirmation Order.

Risks Related to Our Indebtedness

We have substantial indebtedness.

As of December 31, 2018, we have total long-term debt of \$1.0 billion. Our substantial debt could have important consequences to our debt and equity holders, including, but not limited to:

- increasing our vulnerability to general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, business development or other general corporate requirements;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, business development or other general corporate requirements;
- increasing the cost of borrowing under any future credit facilities;
- making it more difficult to obtain surety bonds, letters of credit, bank guarantees or other financing, particularly during periods in which capital markets are weak;
- limiting our flexibility in planning for, or reacting to, changes in our business and in the oil and gas industry; and
- placing us at a competitive disadvantage compared to less leveraged competitors.

Our ability to service our debt obligations and fund any working capital needs and capital expenditures will depend, among other things, on our future operating results, which could be affected by market, economic, financial, competitive and other factors beyond our control. We may not be able to generate sufficient cash flows or obtain other capital resources to service our debt obligations. If our cash flows and capital resources are insufficient to fund our debt service obligations and other cash requirements, we may be forced to reduce or eliminate our share repurchase program, sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our debt service obligations and fund other cash requirements.

The indentures governing our First Lien Notes and Second Lien PIK Notes contain restrictive covenants that may limit our ability to pursue business opportunities, change our capital structure or respond to changes in market conditions.

The indentures governing our First Lien Notes and Second Lien PIK Notes contain restrictive covenants that may limit our ability to pursue business opportunities, change our capital structure or respond to changes in market conditions. For example, the indentures contain covenants that limit our ability, and the ability of our “restricted subsidiaries” (as defined therein), to:

- incur or guarantee additional indebtedness and issue preferred stock;
- pay dividends on or redeem or repurchase capital stock, make certain investments or make certain payments on or with respect to subordinated and junior debt;
- create or incur certain liens;
- impose restrictions on the ability of restricted subsidiaries to pay dividends;
- merge or consolidate with other entities;
- enter into certain transactions with affiliates;
- impair our ability to grant security interests in the collateral securing our debt; and
- engage in certain lines of business.

These limitations may adversely affect our ability to take actions that we would choose to take in the absence of such restrictions, such as pursue certain business opportunities, obtain certain financing, pay dividends, redeem shares, sell assets or fund capital expenditures, and may adversely affect our ability to react to changes in market or competitive conditions or withstand a downturn in our business.

We and our subsidiaries may incur significant amounts of additional debt.

We and our subsidiaries may incur significant amounts of additional debt in the future, including additional first lien secured debt (up to \$50 million of which may be superpriority first lien debt), subject to the limitations in the indentures governing our First Lien Notes and Second Lien PIK Notes. If we incur additional debt, the risks related to our capital structure and outstanding indebtedness could be exacerbated, and we may not be able to meet all of our debt obligations.

We cannot assure you that we will ever pay cash interest on the Second Lien PIK Notes, and the payment of PIK interest will increase our indebtedness and the risks associated therewith.

The indenture governing the Second Lien PIK Notes provides that we are permitted to pay all or a portion of the interest on such notes in cash in lieu of payment in-kind (“PIK”) interest. However, our ability to pay cash interest on the Second Lien PIK Notes will depend on available restricted payment capacity under the indenture governing the First Lien Notes. We cannot assure you that we will have available capacity or, if we do have available capacity, that we will use that capacity to pay cash interest on the Second Lien PIK Notes. As a result, holders of the Second Lien PIK Notes could potentially receive no cash interest on such notes. In addition, the payment of PIK interest will increase our indebtedness, related interest obligations, and the risks associated therewith. For additional information regarding our Second Lien PIK Notes, see Note 8 to our consolidated financial statements.

Default under the terms of the indentures governing our First Lien Notes and Second Lien PIK Notes could result in an acceleration of our indebtedness.

If we are unable to make required payments of principal and interest on our debt or to comply with the other covenants and restrictions in the indentures governing our First Lien Notes and Second Lien PIK Notes, or other debt agreements we may enter into in the future, there could be a default under the terms of these debt instruments. Our ability to make such payments and to comply with other covenants and restrictions may be affected by events beyond our control. As a result, we cannot assure you that we will be able to make such payments and to comply with the other covenants and restrictions.

If an event of default under the indentures governing our Notes occurs, the holders of the Notes may accelerate the Notes and declare all amounts outstanding due and payable. Borrowings under other future debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable. If any of these events occurs, our assets might not be sufficient to repay in full all of our outstanding indebtedness and we may be unable to find alternative financing. Even if we could obtain alternative financing, it might not be on terms that are favorable or acceptable to us.

We are a holding company and will depend on cash flow from our operating subsidiaries to meet required payments on our debt.

We conduct our operations through, and most of our assets are owned by, our subsidiaries. Our operating income and cash flow are generated by our subsidiaries. As a result, the principal source of funds necessary to meet our obligations in respect of our indebtedness will be cash we obtain from our subsidiaries. Contractual provisions or laws, as well as our subsidiaries' financial condition, operating requirements and debt requirements, may limit our ability to obtain cash from our subsidiaries to meet our debt service obligations. Our inability to obtain cash from our subsidiaries may mean that, even though we may have sufficient resources on a consolidated basis to meet our obligations, we may not be able to pay our debts or meet our other obligations. In addition, applicable tax laws may subject such subsidiaries' distributions to us to further taxation.

We may not be able to satisfy our obligations to holders of our First Lien Notes and Second Lien PIK Notes upon a change of control.

The indentures governing the Notes contain provisions relating to certain events constituting a "change of control" (as defined therein). Upon a change of control, holders of the Notes will have the right to require us to repurchase the Notes at 101% of their principal amount, plus accrued and unpaid interest. Our ability to repurchase Notes upon a change of control would be limited by our access to funds at the time of the repurchase and the terms of our then-outstanding debt agreements, which could restrict or prohibit such a repurchase. A change of control may also result in a default under other future debt instruments, giving the holders of such obligations the right to accelerate payment thereunder. We cannot assure you that we will have sufficient funds available upon a change of control to make any required repurchases of Notes or to make any other required repayments of debt.

Risks Related to Our Common Shares

Our common shares were relisted and began trading on the New York Stock Exchange (the "NYSE") on December 18, 2018; however, an active, liquid and orderly market for our common shares may not develop or be sustained. Investors may be unable to sell common shares at or above the price they bought them for.

Our common shares were relisted and began trading on the NYSE on December 18, 2018. We can give no assurances that an active, liquid and orderly trading market for our common shares will be developed or will be sustained. We believe that as of March 1, 2019, approximately 85.7% of our outstanding common shares were controlled by approximately seven principal shareholders. There can be no assurance that any of our existing shareholders will sell any or all of their common shares. There may be a lack of supply of, or demand for, our common shares on the NYSE, and in such case, the trading prices of our common shares may be particularly volatile, and a holder of common shares may not be able to sell the number of shares such holder wants to sell at the desired price. From September 13, 2017 to December 17, 2018, our common shares were traded on the over-the-counter market and from November 11, 2011 to September 12, 2017 our common shares were traded on the NYSE; however, our capital structure, business and market conditions have changed substantially during that time and as a result investors should not rely on our historical trading prices.

Sales of our common shares by existing shareholders, or the perception that these sales may occur, may depress the trading price of our common shares or cause the trading price of our common shares to decline.

Pursuant to our obligations under the Registration Rights Agreement that we entered into as of the Plan Effective Date with certain of our shareholders, we filed a registration statement with the Securities and Exchange Commission (the “SEC”) to register for resale certain of the shares held by those shareholders, and are generally required to maintain the registration statement for use by those shareholders, subject to exceptions and limitations in the Registration Rights Agreement. Up to approximately 54.8 million of our common shares may be sold pursuant to the registration statement by the selling shareholders, which represents approximately 73% of our issued and outstanding common shares as of March 1, 2019. We cannot predict the timing or amount of future sales of our common shares by selling shareholders, but such sales, or the perception that such sales could occur, may adversely affect prevailing trading prices for our common shares.

We may pay little or no dividends on our common shares.

We do not expect to pay dividends on our common shares for the foreseeable future. The payment of any future dividends to our shareholders will depend on decisions that will be made by our board of directors and will depend on then-existing conditions, including our operating results, financial condition, business prospects, Luxembourg corporate law restrictions, and restrictions under the indentures governing our Notes and under any future debt agreements or contracts.

We cannot guarantee that our share repurchase program will be fully implemented or that it will enhance long-term shareholder value. Repurchases of our common shares could also increase the volatility of the trading price of our common shares and will diminish our cash reserves.

On February 22, 2019, our shareholders approved a share repurchase program for a total expenditure of up to \$15.0 million for a two-year period. The share repurchase program does not obligate the Company to repurchase a specific number or dollar value of our common shares and may be suspended or discontinued at any time, which could result in a decrease in the trading price of our common shares. We cannot guarantee that the program will be fully consummated or that it will enhance long-term shareholder value. The share repurchase program will diminish our cash reserves. In addition, repurchases of our common shares through the program could affect the trading price of our common shares and increase volatility. The existence of a share repurchase program could cause the price of our common shares to be higher than it would be absent such a program and could potentially reduce the market liquidity for our common shares.

Certain shareholders have the right to appoint directors to our board of directors, and have the ability to influence other corporate matters, and their interests may not coincide with yours.

Our Articles establish a board of directors of seven directors, with three Class B directors and four Class A directors. Pursuant to the Governance Agreement, until the “Nomination Termination Time” (as defined therein), certain funds affiliated with Avenue Capital Management II, L.P. (collectively, the “Avenue Parties”) have the right to nominate one Class B director, certain affiliates of Strategic Value Partners, LLC (collectively, the “SVP Parties”) have the right to nominate one Class B director and the other parties to the Governance Agreement (defined therein collectively as the “Other Lenders”) have the right to nominate one Class B director. From and after the Nomination Termination Time, the board of directors will cease to be classified.

Pursuant to our Articles and the Governance Agreement, prior to the Nomination Termination Time, any two Class B directors acting in their capacities as such (a “Class B Majority”) have broad authority to act on the Company’s behalf in connection with any Acquisition Proposal or Acquisition (as such terms are defined in the Articles), including but not limited to the authority to solicit prospective Acquisition Proposals, to retain, at the Company’s expense such consultants, legal counsel and other advisors as a Class B Majority may from time to time deem appropriate to assist the Class B directors in the performance of their duties with respect to Acquisition Proposals, and subject to specified conditions, to execute and deliver on behalf of the Company definitive documentation providing for the consummation of an Acquisition. For additional information, see Item 10.B. “Additional Information - Memorandum and Articles of Association.”

In addition, as of March 1, 2019, only a few of our shareholders, if they were to act in concert, could control the election of our four Class A directors. As a result of the nomination rights in the Governance Agreement and the

concentration of ownership of our common shares, a relatively few number of shareholders are able to influence the composition of our board of directors and thereby our management and business strategy. Further, as of the Plan Effective Date, only a few of our shareholders, if they were to act in concert, could determine the outcome of a shareholder vote on significant corporate matters. The interests of these shareholders may not coincide with your interests.

As a “foreign private issuer,” we are exempt from most of the NYSE corporate governance standards applicable to U.S. public companies, except for the requirement to have an independent audit committee.

We are a “foreign private issuer” under the securities laws of the United States and the rules of the NYSE. Under the NYSE rules, a “foreign private issuer” is subject to less stringent corporate governance requirements than a domestic issuer. Subject to certain exceptions, the rules of the NYSE permit a “foreign private issuer” to follow its home country practice in lieu of the listing requirements of the NYSE. Based on the foregoing we may elect not to comply with certain NYSE corporate governance requirements, including (i) the requirement that a majority of the board of directors consist of independent directors, (ii) the requirement that all independent directors meet in executive session at least once a year, (iii) 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, (iv) the requirement that the compensation committee be composed entirely of independent directors and have a written charter addressing the committee’s purpose and responsibilities and (v) the requirement to adopt corporate governance guidelines. We are required to have, and do have, an audit committee composed entirely of independent directors. Accordingly, investors may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

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 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. 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 publicly available information concerning our Company than there is for U.S. public companies.

The rights of our shareholders and responsibilities of our directors and officers are governed by Luxembourg law and differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including jurisdictions in the United States.

Our corporate affairs are governed by our Articles, and by the laws governing companies incorporated in Luxembourg, including the Luxembourg Company Law (*loi du 10 août 1915 concernant les sociétés commerciales*). The rights of our shareholders and the responsibilities of our directors and officers under Luxembourg law differ in some respects from those of a company incorporated under other jurisdictions, including jurisdictions in the United States. Corporate laws governing Luxembourg companies may not be as extensive as those in effect in U.S. jurisdictions and the Luxembourg Company Law (as defined above) in respect of corporate governance matters might not be as protective of shareholders as the corporate law and court decisions interpreting the corporate law in Delaware, where the majority of U.S. public companies are incorporated. In addition, we anticipate that all of our shareholder meetings will take place in Luxembourg. Our shareholders may have more difficulty in protecting their interests in connection with actions taken by our directors and officers or our principal shareholders than they would as shareholders of a corporation incorporated in a jurisdiction in the United States.

Because we are incorporated under the laws of Luxembourg, shareholders may face difficulty protecting their interests, and their ability to obtain and enforce judgments 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 judgments against us obtained in U.S. courts based on the civil liability provisions of the federal securities laws of the United States. In addition, a substantial portion of our assets may be located outside the United States. There is uncertainty as to whether the courts of Luxembourg would enforce final judgments of United States courts obtained against us predicated upon the civil liability provisions of the federal securities laws of the United States.

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 generally will 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.E. “Taxation—Luxembourg Tax Considerations”). The withholding tax must be withheld by the Company 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 of our common shares.

A foreign corporation will be treated as a “passive foreign investment company,” or “PFIC”, for U.S. federal income tax purposes if, after the application of certain look-through rules, either: (i) at least 75% of its gross income for any taxable year consists of certain types of “passive income” or (ii) at least 50% of the value (determined on the basis of a quarterly average) 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.

Based on our operations as of the date of this annual report, 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. However, this involves a facts and circumstances analysis and it is possible that the IRS would not agree with this conclusion. Further, 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. Investors are encouraged to consult their own independent tax advisors about the PFIC rules, including the availability of certain elections and reporting requirements. For additional information see Item 10.E. “Taxation—U.S. Federal Income Tax Considerations.”

We may become a controlled foreign corporation in the future.

While we do not believe that we are currently a controlled foreign corporation (“CFC”), we will become a CFC if U.S. persons, who own (or are considered to own, as a result of the attribution rules) 10% or more of the voting power of our stock (each a “10% U.S. shareholder”), collectively own more than 50% of either the total combined voting power of all classes of our voting stock or the total value of our stock.

If we become a CFC, each U.S. Holder that is a 10% U.S. shareholder may be required to include in income its allocable share of our “Subpart F” income reported. Subpart F income generally includes dividends, interest, net gain from the sale or disposition of securities, non-actively managed rents and certain other generally passive types of income. The aggregate Subpart F income inclusions in any taxable year relating to a particular CFC are limited to such entity’s current earnings and profits (as determined for U.S. federal income tax purposes). These inclusions are treated as ordinary income (whether or not such inclusions are attributable to net capital gains). Thus, if we become a CFC, a 10% U.S. shareholder may be required to report as ordinary income its allocable share of our Subpart F income without corresponding receipts of cash.

Further, if we become a CFC, the tax basis of a 10% U.S. shareholder shares will be increased to reflect any required Subpart F income inclusions. Such income may be treated as income from sources within the United States, for certain foreign tax credit purposes, to the extent derived by us from U.S. sources. Such income will not be eligible for the reduced rate of tax applicable to “qualified dividend income” for individual U.S. persons.

Regardless of whether we have any Subpart F income, if we become a CFC, any gain recognized by a 10% U.S. shareholder from the disposition of our stock will be treated as ordinary income to the extent of such holder’s allocable share of our current and/or accumulated earnings and profits. In this regard, earnings would not include any amounts previously taxed pursuant to the CFC rules.

If we are classified as both a CFC and a PFIC, a 10% U.S. shareholder will be required to include amounts in income as described this subheading, and the consequences described under the above risk factor entitled “*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 of our common shares*” above will not apply. The interaction of these rules is complex. U.S. Holders should consult their own advisers as to the consequences of the CFC and PFIC rules in their individual circumstances.

Changes in our U.S. federal income tax classification, or that of our subsidiaries, could result in adverse tax consequences to our 10% or greater U.S. shareholders.

The Tax Cuts and Jobs Act (the “2017 Act”) signed on December 22, 2017 may have changed the consequences to U.S. shareholders that own, or are considered to own, as a result of the attribution rules, 10% or more of the voting power or value of the stock of a non-U.S. corporation (a “10% U.S. shareholder”) under the U.S. federal income tax laws applicable to owners of U.S. controlled foreign corporations (“CFCs”).

The 2017 Act repealed Section 958(b)(4) of the Internal Revenue Code of 1986, as amended (the “Code”), which, unless clarified in future regulations or other guidance, may result in classification of certain of the Company’s foreign subsidiaries as CFCs with respect to any single 10% U.S. shareholder. This may be the result without regard to whether 10% U.S. shareholders together own, directly or indirectly, more than 50% of the voting power or value of the Company as was the case under prior rules. The repeal is effective as of the last taxable year of CFCs beginning before January 1, 2018 and for the taxable year of 10% U.S. shareholders in which the CFCs’ taxable year ends. Additional tax consequences to 10% U.S. shareholders of a CFC may result from other provisions of the 2017 Act. For example, the 2017 Act added Section 951A of the Code which requires a 10% U.S. shareholder of a CFC to include in income its pro-

rata share of the global intangible low-taxed income (GILTI) of the CFC. The 2017 Act also eliminated the requirement in Section 951(a) of the Code necessitating that a foreign corporation be considered a CFC for an uninterrupted period of at least 30 days in order for a 10% U.S. shareholder to have a current income inclusion.

From time to time, the Company may elect to employ measures such as the share repurchase program approved by the Company's shareholders on February 22, 2019 that could inadvertently create additional 10% U.S. shareholders or result in the Company itself becoming a CFC, and thus trigger adverse tax consequences for those shareholders as described above. We urge shareholders to consult their individual tax advisers for advice regarding the 2017 Act revisions to the U.S. Federal income tax laws applicable to owners of CFCs given the current uncertainty regarding their scope of applicability.

If a U.S. Person is treated as owning at least 10% of our common shares, such holder may be subject to adverse U.S. federal income tax consequences.

If a U.S. person is treated as owning (directly, indirectly, or constructively) at least 10% of the value or voting power of our common shares, such person may be treated as a "U.S. shareholder" with respect to each "controlled foreign corporation" in our group (if any). Because our group includes one or more U.S. subsidiaries, certain of our non-U.S. subsidiaries could be treated as controlled foreign corporations, regardless of whether or not we are treated as a controlled foreign corporation. A U.S. shareholder of a controlled foreign corporation may be required to report annually and include in its U.S. taxable income its pro rata share of "Subpart F income," "global intangible low-taxed income," and investments in U.S. property by controlled foreign corporations, regardless of whether we make any distributions. Failure to comply with these reporting obligations may subject a U.S. shareholder to significant monetary penalties and may prevent the statute of limitations with respect to such shareholder's U.S. federal income tax return for the year for which reporting was due from starting. An individual who is a U.S. shareholder with respect to a controlled foreign corporation generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a U.S. shareholder that is a U.S. corporation. We cannot provide any assurances that we will assist investors in determining whether any of our non-U.S. subsidiaries is treated as a controlled foreign corporation or whether any investor is treated as a U.S. shareholder with respect to any such controlled foreign corporation or furnish to any U.S. shareholders information that may be necessary to comply with the aforementioned reporting and tax paying obligations. A U.S. investor should consult its advisors regarding the potential application of these rules to an investment in our common shares.

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. 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. The operational headquarters of our Company is located at 11700 Katy Freeway, Suite 175, Houston Texas 77079. Our telephone number at this address is 713-334-6662.

Our common shares were listed on the Norwegian OTC List from April 2011 to October 2016 and on the NYSE from November 11, 2011 to September 12, 2017. From September 13, 2017 to November 19, 2018 and from November 20, 2018 to December 17, 2018, our common shares were traded on the over-the-counter market under the ticker symbols "PACDQ" and "PACDD," respectively. Our common shares were relisted on the NYSE on December 18, 2018 and currently trade under the symbol "PACD."

Background—Emergence from Bankruptcy Proceedings

On November 2, 2018, the Bankruptcy Court issued the Confirmation Order approving the Plan and on November 19, 2018, the Plan became effective pursuant to its terms and the Debtors emerged from their Chapter 11 bankruptcy proceedings. The Debtors had filed the Plan with the Bankruptcy Court in connection with their voluntary

petitions for relief under Chapter 11 of Title 11 of the United States Code, initially filed on November 12, 2017, which were jointly administered under the caption *In re Pacific Drilling S.A., et al.*, Case No. 17-13193 (MEW).

The Zonda Debtors are not Debtors under the Plan and filed a separate plan of reorganization, which was confirmed by order of the Bankruptcy Court on January 30, 2019. On the date the plan was confirmed, the Zonda Debtors had \$4.6 million in cash and no other material assets after accounting for post-petition administrative expenses (other than the value of their claims against SHI) for SHI to recover against on account of its claims. The Company expects that the Zonda Debtors will emerge from their separate bankruptcy proceedings after the successful resolution of the Zonda Arbitration. If the Company is unsuccessful in the arbitration, the Company expects to liquidate the Zonda Debtors.

Reorganization Transactions Relating to Capital Structure

Pursuant to the Plan, we raised approximately \$1.5 billion in new capital, before expenses, consisting of approximately \$1.0 billion raised through issuance of our First Lien Notes and Second Lien PIK Notes and \$500.0 million raised through issuance of new common shares pursuant to an equity rights offering and private placement. We used the net proceeds to repay all of our pre-petition indebtedness that was not equitized pursuant to the Plan, to repay post-petition indebtedness incurred under our debtor-in-possession financing, and to pay certain fees and expenses. We intend to use the remaining balance for general corporate purposes. More specifically, pursuant to the Plan, the following principal transactions and events occurred on the Plan Effective Date relating to the Company's capital structure:

- *Completion of \$500.0 Million Offerings of Common Shares*. The Company issued common shares in connection with the completion of a \$460.0 million equity rights offering and \$40.0 million private placement.
- *Issuance of Common Shares to Equitize Undersecured Claims and in Payment of Equity Commitment Fee*. The Company issued common shares to holders of its Term Loan B, 2017 Notes and 2020 Notes, and such indebtedness was extinguished. The Company also issued common shares to members of the Ad Hoc Group in payment of their fee for backstopping the equity rights offering.
- *Assumption of the First Lien Notes and Second Lien PIK Notes; Release of Escrowed Proceeds to the Company*. Bankruptcy-remote subsidiaries of the Company that issued the First Lien Notes and Second Lien PIK Notes, merged into the Company; the Company assumed all of the obligations of such issuers under the First Lien Notes and Second Lien PIK Notes and executed supplemental indentures in connection therewith; certain subsidiaries of the Company guaranteed the Notes as required pursuant to the indentures for the Notes and executed supplemental indentures in connection therewith; the Company and guarantors executed documents providing collateral as required pursuant to the indentures for the Notes; and the net proceeds of the issuance of the Notes were released to the Company.
- *Repayment of Revolving Credit Facility, Senior Secured Credit Facility and DIP Financing*. The Company paid all obligations owed under its pre-petition 2013 Revolving Credit Facility and SSCF, and under its post-petition debtor-in-possession financing, and all such indebtedness was extinguished.
- *Completion of Reverse Stock Split*. Prior to the issuance of the shares described above, the Company effected a 1-for-10,000 Reverse Stock Split.

As a result of the Reverse Stock Split and the issuance of common shares described above, the Company had issued and outstanding on the Plan Effective Date approximately 75.0 million common shares, and approximately 7.5 million shares were reserved for issuance pursuant to the 2018 Stock Incentive Plan. Due to the Reverse Stock Split and issuance of the new common shares under the Plan as described above, the Company's common shares prior to the Plan Effective Date were diluted such that they represented in the aggregate approximately 0.003% of the Company's outstanding common shares on the Plan Effective Date.

Other Reorganization Transactions

Pursuant to the Plan, the following additional principal transactions and events occurred on the Plan Effective Date:

- *Amendment of Articles of Association*. The Company's Articles were amended to, among other things, reflect the new capital structure and establish a classified board of Class A directors and Class B directors.

- *Governance Agreement* . The Company entered into the Governance Agreement with certain holders of its shares, which provides for, among other things, director nomination and board observer rights of the parties, as well as an agreement to increase the Company’s share capital at the request of certain parties.
- *Resignation of Directors and Election of New Directors* . All of the Company’s directors prior to our emergence from bankruptcy resigned from our board of directors and upon our emergence from bankruptcy, W. Matt Ralls (Chairman), David Weinstein and Bernie G. Wolford Jr. joined the board of directors as Class A directors, and Daniel Han, Donald Platner, and Kiran Ramineni joined the board of directors as Class B directors. Subsequent to our emergence from bankruptcy, John V. Simon joined our board of directors as a Class A director.
- *Appointment of Chief Executive Officer* . Bernie G. Wolford Jr. was appointed Chief Executive Officer of the Company.
- *Registration Rights Agreement* . The Company entered into the Registration Rights Agreement with certain holders of its shares, which grants such holders certain registration rights with respect to our common shares.

For additional information, see Item 10.B. “Additional Information - Memorandum and Articles of Association” and Item 6.A. “Directors and Senior Management.”

Zonda Arbitration

In January 2013, our subsidiary PDVIII entered into, and our subsidiary PDSI guaranteed, a contract with SHI for the construction of 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 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) (the “Tribunal”). 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 of approximately \$181.1 million, 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. We own \$75.0 million in purchased equipment for the *Pacific Zonda* , a majority of which remains on board the *Pacific Zonda* . An evidentiary hearing was held in London before the Tribunal from February 5 through March 2, 2018. Written closing submissions and short replies to such submissions were filed with the Tribunal in May 2018. Oral closing submissions were heard by the Tribunal in August 2018. We expect the Tribunal to render its award within the next several months.

Based on our assessment of the facts and circumstances of the rescission, we believe the estimated fair value of our assets related to the Zonda Arbitration was \$204.7 million on the Plan Effective Date. 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.

As part of our “first day” relief sought in the Chapter 11 bankruptcy proceedings, the Bankruptcy Court granted us a modification of the automatic stay provisions of the Bankruptcy Code to allow the arbitration to proceed. In our bankruptcy proceedings, SHI asserted claims against PDVIII and PDSI, secured by the *Pacific Zonda* , for approximately \$387.4 million, for the remaining unpaid purchase price, interest and costs. Subsequent to the initial plan of reorganization filed by the Debtors and the Zonda Debtors with the Bankruptcy Court, the Company filed an amended plan of reorganization that removed the Zonda Debtors from the Plan. The Zonda Debtors are not Debtors under the Plan and filed a separate plan of reorganization that was confirmed by order of the Bankruptcy Court on January 30, 2019. On the date the plan was confirmed, PDVIII and PDSI had \$4.6 million in cash and no other material assets after accounting for post-petition administrative expenses (other than the value of their claims against SHI) for SHI to recover against on account of its claims. The Company expects that the Zonda Debtors will emerge from their separate bankruptcy proceedings after the successful resolution of the arbitration. If the Company is unsuccessful in the arbitration, the Company expects to liquidate the Zonda Debtors.

If the Company is successful in the arbitration and the Zonda Debtors emerge from their separate plan of reorganization, the Zonda Debtors will guarantee the First Lien Notes and Second Lien PIK Notes. In addition, the Company will be required to offer to purchase First Lien Notes at 100.0% of the principal amount thereof, plus accrued and unpaid interest, with any cash proceeds from a settlement or award in connection with the arbitration, with such offer to be for an aggregate principal amount of First Lien Notes equal to the lesser of (x) 50.0% of such cash proceeds and (y) \$75.0 million. The Company will also be required to offer to purchase Second Lien PIK Notes at 100.0% of the principal amount thereof, plus accrued and unpaid interest, with the portion of such cash proceeds, if any, that has been declined by the holders of First Lien Notes.

Capital Expenditures

We have no material commitments for capital expenditures related to the construction of a newbuild drillship. As of December 31, 2018, we had commitments for capital expenditures related to rig enhancements of \$20.8 million. We also 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.”

Available Information

We file annual and special reports and other information with the SEC. The SEC maintains a website at www.sec.gov, which contains reports, proxy and information statements 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.

B. BUSINESS OVERVIEW

We are an international offshore drilling contractor providing offshore drilling services to the oil and gas industry through the use of high-specification floating rigs. Our primary business is to contract our fleet of rigs to drill wells for our clients. We believe we own and operate the only deepwater fleet comprised solely of sixth and seventh generation high-specification drillships, and that our current fleet of seven drillships offers premium technical capabilities to our clients. 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 non-harsh environment drillships delivered in or after 2005 and capable of drilling in water depths of 10,000 feet or more.

Our Business Strategies

Our principal business objective is to be the preferred provider of high-specification, floating rig drilling services to the oil and natural gas industry. Our operating strategy is designed to enable us to provide high quality, safe and cost-competitive services and to maintain and deploy our assets to position us to benefit from an expected increase in demand for deepwater offshore drilling and increase our cash flow and profits. Specifically, we expect to achieve our business objectives through the following strategies:

- *Enhanced focus on safety and operational excellence targeting key markets* . With current decreased demand for offshore drilling services, excelling in safety and operational performance 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 and plan to target a presence in key high-specification, deepwater drilling geographies, including West Africa, U.S. Gulf of Mexico and Brazil. We have built a strong team of experienced professionals that have expertise in diverse areas, such as regulatory and operational affairs, in these key offshore areas.
- *Efficiently manage costs while maintaining optionality and marketability* . With a cost-competitive fleet, we believe we will be able to benefit relatively early in the anticipated market recovery. We have created a well-positioned and well-maintained fleet that we believe is at the low end of the cost of supply curve through the thoughtful reduction of expenses, primarily operations, maintenance and supply chain management. 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. We are also focused on retaining a critical mass of core management and senior rig operations personnel and continuing personnel development programs, while managing cash costs. These efforts to manage costs should enable us to continue to deploy our drillships under contracts with positive rig level cash flows even in the current low dayrate environment.

- *Continued development of strategic relationships with high-quality clients* . Improvement of 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 plan to continue to manage our drillships in such a way as to enable us to nimbly and cost-effectively exploit the anticipated market recovery.

Clients

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

During the years ended December 31, 2018, 2017 and 2016, the percentage of revenues earned from our clients was as follows:

	Successor	Predecessor		
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years Ended December 31,	
			2017	2016
Chevron	82.1 %	84.0 %	81.6 %	77.1 %
Eni	17.9 %	— %	— %	— %
Petronas	— %	14.2 %	— %	— %
Total	— %	— %	— %	22.9 %
Other	— %	1.8 %	18.4 %	— %

Revenues by Geographic Area

During the years ended December 31, 2018, 2017 and 2016, the percentage of revenues earned by geographic area, based on drilling location, is as follows:

	Successor	Predecessor		
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years Ended December 31,	
			2017	2016
United States	82.1 %	84.0 %	81.6 %	56.9 %
Nigeria	17.9 %	1.8 %	11.2 %	43.1 %
Other	— %	14.2 %	7.2 %	— %

Contract Backlog

Our contract backlog includes firm commitments only, which are represented by signed drilling contracts. As of March 1, 2019, our contract backlog was approximately \$238.3 million and was attributable to revenues we expect to generate on (i) the *Pacific Sharav* under the drilling contract with a subsidiary of Chevron Corporation (“Chevron”), (ii) the *Pacific Santa Ana* under the drilling contracts with Total E&P Senegal (“Total”) and PC Mauritania 1 Pty Ltd (“Petronas”) and (iii) the *Pacific Bora* under the drilling contract with Nigerian AGIP Exploration Limited, a subsidiary of Eni S.p.A. (“Eni”). 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, including unplanned downtime and maintenance projects and other 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 \$238.3 million contract backlog as of March 1, 2019, are as follows:

Rig	Contracted Location	Client	Contract Commencement	Expected Contract Duration
<i>Pacific Sharav</i>	U.S. Gulf of Mexico	Chevron	August 2014	5 years
<i>Pacific Sharav</i>	U.S. Gulf of Mexico	Chevron	September 2019	(a)
<i>Pacific Santa Ana</i>	Senegal	Total	April 2019	(b)
<i>Pacific Santa Ana</i>	Mauritania	Petronas	July 2019	(c)
<i>Pacific Bora</i>	Nigeria	Eni	November 2018	(d)

- (a) Extension for one firm well and three additional option wells.
- (b) Contract to operate in Senegal for one firm well and in Mauritania for one option well.
- (c) Contract to perform integrated services for a plug and abandonment project estimated at 360 days.
- (d) Contract for two firm wells with one option well.

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 the Organization of the Petroleum Exporting Countries (“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 deepwater market, but may also compete to provide services at shallower depths than 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 in the near and intermediate term. We believe that our fleet of high-specification drillships provides us with a competitive advantage over many 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 and insurance 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.

In the United States, we must comply with the Oil Pollution Act of 1990, the Outer Continental Shelf Lands Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Federal Water Pollution Control Act (commonly referred to as the Clean Water Act) and the International Convention for the Prevention of Pollution from Ships, as each has been amended from time to time. Numerous governmental agencies, which in the United States include, among others, the U.S. Department of the Interior, Bureau of Ocean Energy Management, Bureau of Safety and Environmental Enforcement, U.S. Coast Guard and U.S. Environmental Protection Agency, issue regulations to implement and enforce environmental laws, which often require difficult and costly compliance measures. We could be subject to substantial administrative, civil and criminal penalties, cleanup obligations, legal damages for pollution or personal injury or injunctive relief for violations of or liabilities under these laws. 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.

As an independent drilling contractor operating in Nigeria, we 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 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 (as defined in the Local Content Act) 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 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 STRUCTURE

We have 37 subsidiaries organized under the laws of various jurisdictions. For a full listing of our subsidiaries, including their jurisdictions of organization, see Exhibit 8.1 to this annual report. All subsidiaries are, indirectly or directly, wholly-owned by Pacific Drilling, S.A., except for Pacific International Drilling West Africa Limited (“PIDWAL”), Pacific Drillship Nigeria Limited (“PDNL”), Pacific Bora Ltd. (“PBL”) and Pacific Scirocco Ltd. (“PSL”).

PSL and PBL, which own the *Pacific Scirocco* and *Pacific Bora*, respectively, are owned 49.9% by our wholly-owned subsidiary Pacific Drilling Limited (“PDL”) and 50.1% by PDNL. PDNL is owned 0.1% by PDL and 99.9% by PIDWAL, which is our Nigerian joint venture with Derotech Offshore Services Limited (“Derotech”). Derotech owns 51% of PIDWAL and PDL, indirectly through another wholly-owned subsidiary, owns 49% of PIDWAL. 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 in our consolidated financial statements.

D. PROPERTY, PLANT AND EQUIPMENT

Our Fleet

The following table sets forth certain information regarding our fleet as of March 1, 2019:

Rig Name	Delivered	Water Depth (in feet)	Drilling Depth (in feet)	Hook Load (tons)	# of Blowout Preventers	Dual Load Path⁽¹⁾
<i>Pacific Bora</i>	2010	10,000	37,500	1,000	2	No
<i>Pacific Mistral</i>	2011	12,000	37,500	1,000	1	No
<i>Pacific Scirocco</i>	2011	12,000	40,000	1,000	1	Yes
<i>Pacific Santa Ana</i>	2011	12,000	40,000	1,000	1	Yes
<i>Pacific Khamsin</i>	2013	12,000	40,000	1,250	2	Yes
<i>Pacific Sharav</i>	2014	12,000	40,000	1,250	2	Yes
<i>Pacific Meltem</i>	2014	12,000	40,000	1,250	2	Yes

- (1) All of our drillships have a dual derrick drilling system and five of our seven drillships are dual load path capable. The dual load path capable drillships can lower pipe and equipment to the seafloor from both drilling stations under the derrick, reducing well construction time by allowing operations to be conducted concurrently, rather than consecutively in series as the process has, due to equipment limitations, traditionally required. The remaining two drillships contain a dual derrick drilling system, but only use the secondary derrick to prepare pipe and equipment for the primary drilling process.

The First Lien Notes are secured by first-priority liens, and the Second Lien PIK Notes are secured by second-priority liens, on substantially all assets of the Company including all of our drillships.

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 a leased office in Nigeria.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with Item 3.A. “Selected Financial Data” and the financial statements in Item 18, “Financial Statements.”

A. OPERATING RESULTS

Predecessor and Successor Reporting

On November 2, 2018, the Bankruptcy Court issued the Confirmation Order approving the Plan and on November 19, 2018, the Plan became effective pursuant to its terms and we emerged from our Chapter 11 bankruptcy proceedings. We had filed the Plan with the Bankruptcy Court in connection with our voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code, initially filed on November 12, 2017, which were jointly administered under the caption *In re Pacific Drilling S.A., et al.*, Case No. 17-13193 (MEW).

On the Plan Effective Date, we adopted and applied the relevant guidance with respect to the accounting and financial reporting for entities that have emerged from bankruptcy proceedings, or “Fresh Start Accounting.” Under Fresh Start Accounting, our balance sheet on the Plan Effective Date reflects all of our assets and liabilities at fair value. Our emergence from bankruptcy and the adoption of Fresh Start Accounting resulted in a new reporting entity, referred to herein as the “Successor,” for financial reporting purposes. To facilitate discussion and analysis of our financial condition and results of operations herein, we refer to the reorganized Debtors as the Successor for periods subsequent to November 19, 2018 and as the “Predecessor” for periods on or prior to November 19, 2018. As a result of the adoption of Fresh Start Accounting and the effects of the implementation of the Plan, our consolidated financial statements subsequent to November 19, 2018 may not be comparable to our consolidated financial statements on or prior to November 19, 2018, and as such, “black-line” financial statements are presented to distinguish between the Predecessor and Successor companies.

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, repairs and maintenance as well as expenses for shore-based support offices and onshore operations support staff.

Depreciation expense is based on the historical cost or, upon the adoption of Fresh Start Accounting, fair value 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. Upon the adoption of Fresh Start Accounting, the estimated useful lives of our drillships and their related equipment generally range from 8 to 33 years.

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.

Interest expense primarily depends on our overall level of indebtedness and interest rates.

Tax expenses reflect current and deferred tax expenses. Our income tax expense generally results from the taxable income on our drillship operations.

Fleet Status

The status of our fleet as of March 1, 2019 and certain historical fleet information for the periods covered by the financial statements included in this annual report follows:

- The *Pacific Sharav* is operating under a five-year contract with a subsidiary of Chevron through August 27, 2019. In February 2019, the *Pacific Sharav* entered into an amendment to extend the contract with Chevron to operate in the U.S. Gulf of Mexico beyond its initial five year term for one firm well and three additional option wells.
- The *Pacific Bora* completed a five-year contract with a subsidiary of Chevron in September 2016. From February 9, 2017 to May 16, 2017, the *Pacific Bora* operated under a contract with Folawiyo AJE Services Limited 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 in Nigeria. On November 30, 2018, the *Pacific Bora* commenced operations with Eni to operate in Nigeria for one firm well with two option wells (each well estimated at approximately 60 days of work). In February 2019, the client exercised the first option.
- The *Pacific Santa Ana* commenced a contract with a subsidiary of Chevron in May 2012 that was completed in January 2017. From December 20, 2017 to May 7, 2018, the *Pacific Santa Ana* operated in Mauritania under a contract with Petronas to perform integrated services under Phase I of a two-phased plug and abandonment project. Petronas exercised its option to contract the *Pacific Santa Ana* for Phase II of the plug and abandonment project in Mauritania expected to commence in the third quarter of 2019 with an estimated 360 days of work. The *Pacific Santa Ana* is currently in Las Palmas undergoing client acceptance testing to operate for Total in Senegal starting April 2019 for one firm well and in Mauritania for one option well.
- The *Pacific Khamsin* is currently transitioning from smart-stacked to hot-stacked status.
- The *Pacific Meltem* is currently idle in Las Palmas while actively seeking a contract.
- The *Pacific Scirocco* operated under a contract with a subsidiary of Total from December 2011 to December 2016. From May 21, 2017 to September 15, 2017, the *Pacific Scirocco* operated under a contract with Hyperdynamics Corporation in the Republic of Guinea. The rig is currently idle in Las Palmas while actively seeking a contract.
- The *Pacific Mistral* completed a three-year contract with Petroleo Brasileiro S.A. in Brazil in February 2015. The *Pacific Mistral* is currently idle in Las Palmas while actively seeking a contract.

From time to time, we are awarded letters of intent or receive letters of award for our drillships. Certain of those letters remain subject to negotiation and execution of definitive contracts and other customary conditions. No assurance can be given as to the terms of any such arrangement, such as the applicable duration or dayrate, until a definitive contract is entered into by the parties, if we are able to finalize a contract at all.

Results of Operations

References to the year ended December 31, 2018 relate to the combined Successor and Predecessor periods for the year ended December 31, 2018.

Year ended December 31, 2018 compared to Year ended December 31, 2017

The following table provides a comparison of our consolidated results of operations for the years ended December 31, 2018 and 2017:

	Successor	Predecessor	
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Year Ended December 31, 2017
(in thousands)			
Revenues			
Contract drilling	\$ 28,489	\$ 236,379	\$ 319,716
Costs and expenses			
Operating expenses	(19,744)	(189,606)	(244,089)
General and administrative expenses	(4,245)	(50,604)	(87,134)
Depreciation and amortization expense	(27,277)	(248,302)	(278,949)
Operating loss	(22,777)	(252,133)	(290,456)
Other income (expense)			
Interest expense	(10,904)	(106,632)	(178,983)
Write-off of deferred financing costs	—	—	(30,846)
Reorganization items	(1,300)	(1,799,664)	(6,474)
Interest income	1,008	3,148	2,717
Equity earnings in unconsolidated subsidiaries	392	—	—
Expenses to unconsolidated subsidiaries, net	(1,198)	—	—
Other income (expense)	526	(1,904)	(8,261)
Loss before income taxes	(34,253)	(2,157,185)	(512,303)
Income tax (expense) benefit	6,769	2,308	(12,863)
Net loss	<u>\$ (27,484)</u>	<u>\$ (2,154,877)</u>	<u>\$ (525,166)</u>

Revenues. During the year ended December 31, 2018, revenues were \$264.9 million. The decrease in revenues for the year ended December 31, 2018, as compared to the year ended December 31, 2017 resulted primarily from lower operating revenues from the *Pacific Bora* working for only a part of the year, the *Pacific Scirocco* being offhire for the entire year and lower amortization of deferred revenue for the *Pacific Santa Ana*.

During the year ended December 31, 2018, we achieved an average revenue efficiency of 97.8%, as compared to 98.3% during the year ended December 31, 2017. 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.

Contract drilling revenue for the years ended December 31, 2018 and 2017 also included amortization of deferred revenue of \$20.2 million and \$46.8 million, respectively, and reimbursable revenues of \$6.5 million and \$6.0 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.

Operating expenses. The following table summarizes operating expenses:

	Successor	Predecessor	
	Period From November 20, 2018 through	Period From January 1, 2018 through November 19, 2018	Year Ended
	December 31, 2018	November 19, 2018	December 31, 2017
(in thousands)			
Direct rig related operating expenses	\$ 17,149	\$ 136,815	\$ 192,918
Integrated services	—	15,529	3,670
Reimbursable costs	647	4,656	4,197
Shore-based and other support costs	1,820	18,724	31,615
Amortization of deferred costs	128	13,882	11,689
Total	\$ 19,744	\$ 189,606	\$ 244,089

During the year ended December 31, 2018, direct rig related operating expenses were \$153.8 million. The decrease in direct rig related operating expenses resulted primarily from the *Pacific Scirocco* being idle in the year ended December 31, 2018 as compared to the year ended December 31, 2017 when the rig incurred higher costs while on standby and then operating for a client.

Integrated services represent costs incurred by the *Pacific Santa Ana* for subcontractors to perform integrated services for Phase I of the plug and abandonment project with Petronas that was completed on May 7, 2018.

The decrease in shore-based and other support costs per day for the year ended December 31, 2018, as compared to the year ended December 31, 2017, was primarily due to lower headcount.

General and administrative expenses. The decrease in general and administrative expenses for the year ended December 31, 2018, as compared to the year ended December 31, 2017, was primarily due to the classification of legal and advisory expenses related to our debt restructuring efforts as reorganization items subsequent to the Petition Date and lower accruals for employee incentive programs.

Depreciation and amortization expense. The decrease in depreciation and amortization expense for the year ended December 31, 2018, as compared to the year ended December 31, 2017, was primarily due to Fresh Start Accounting.

Interest expense. The decrease in interest expense for the year ended December 31, 2018, as compared to the year ended December 31, 2017, was primarily due to no interest accruing on the 2017 Notes, the 2020 Notes and the Term Loan B during the Chapter 11 proceedings as well as the elimination of amortization of deferred financing costs beginning in the fourth quarter of 2017. The decrease was partially offset by accrued default interest on the 2013 Revolving Credit Facility and SSCF that was paid in accordance with our Plan.

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.

Reorganization items. During 2017 after the Petition Date and through the 2018 Predecessor period, 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. 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 14 to our consolidated financial statements. The remaining change was due to currency exchange fluctuations.

Income taxes. During the year ended December 31, 2018, we had an income tax benefit of \$9.1 million, compared to an income tax expense of \$12.9 million for the year ended December 31, 2017. The income tax benefit for the year ended December 31, 2018 was primarily the result of internal restructuring in 2018 allowing us to recognize the tax benefits of net operating losses. Tax expense from ongoing operations for the year ended December 31, 2018 decreased due to a lower level of drilling operations.

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, 2018 and 2017, our effective tax rate was 0.4% and (2.5)%, respectively.

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 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	\$ 192,918	\$ 228,934
Integrated services	3,670	—
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	<u>\$ 244,089</u>	<u>\$ 290,038</u>

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 offshore 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.

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 patent litigation settled in August 2017 and the Zonda Arbitration, 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 2017, as compared to \$16.9 million for 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 2017 was comparable to 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 Notes, the 2020 Notes and Term Loan B, that we believed were 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 8 to our consolidated financial statements.

Gain on debt extinguishment. During the year ended December 31, 2016, we repurchased \$60.6 million of our 2017 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.

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 14 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 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 were generating larger losses in 2017 as compared to 2016 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, receivable from unconsolidated subsidiaries, 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 policies used in the preparation of our consolidated financial statements.

Fresh start accounting . On the Plan Effective Date, we adopted and applied the relevant guidance with respect to the accounting and financial reporting for entities that have emerged from bankruptcy proceedings, or “Fresh Start Accounting.” Under Fresh Start Accounting, our balance sheet on the Plan Effective Date reflects all of our assets and liabilities at fair value. Our emergence from bankruptcy and the adoption of Fresh Start Accounting resulted in a new reporting entity, referred to herein as the “Successor,” for financial reporting purposes. To facilitate discussion and analysis of our financial condition and results of operations herein, we refer to the reorganized Debtors as the Successor for periods subsequent to November 19, 2018 and as the “Predecessor” for periods on or prior to November 19, 2018. As a result of the adoption of Fresh Start Accounting and the effects of the implementation of the Plan, our consolidated financial statements subsequent to November 19, 2018 may not be comparable to our consolidated financial statements on or prior to November 19, 2018, and as such, “black-line” financial statements are presented to distinguish between the Predecessor and Successor companies.

Revenues from contracts with clients . Contract drilling revenues are recognized consistent with the contractual rate invoiced for the services provided during the period. In connection with drilling contracts, we may receive fees for preparation and mobilization of equipment and personnel or for capital improvements to rigs. We record a contract liability for upfront fees received for mobilization, contract preparation and capital upgrade, which are amortized ratably to contract drilling revenue as services are rendered over the initial term of the related drilling contract. Demobilization

revenue expected to be received upon contract completion is estimated as part of the overall transaction price at contract inception. We record demobilization revenue in earnings ratably over the initial term of the contract with an offset to an accretive contract asset. We record reimbursable revenue at the gross amount billed to the client in the period the corresponding goods and services are to be provided.

Property and equipment . As of December 31, 2018, property and equipment was \$1.9 billion, which represented 69.7% of our total assets. The carrying value of our property and equipment consisted primarily of our high-specification drillships that were recorded at cost less accumulated depreciation prior to the adoption of Fresh Start Accounting and at fair value upon the adoption of Fresh Start Accounting.

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. Upon the adoption of Fresh Start Accounting, the estimated useful lives of our drillships and their related equipment generally range from 8 to 33 years. 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.

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

B. LIQUIDITY AND CAPITAL 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 clients on a global basis, which in turn has negatively affected our revenue, profitability and cash flows.

Pursuant to our Plan, we raised approximately \$1.5 billion in additional capital, before expenses, consisting of our First Lien Notes and Second Lien PIK Notes and \$500.0 million of new equity. We used the net proceeds to repay all of our pre-petition indebtedness that was not equitized pursuant to our Plan, to repay the post-petition indebtedness incurred under our debtor-in-possession financing, and to pay certain fees and expenses. We project that we will have sufficient liquidity to meet our obligations as they become due in the ordinary course of business and continue as a going concern. Accordingly, the Company's completion of its restructuring transactions and emergence from its Chapter 11 proceedings have resolved the significant risks and uncertainties that previously raised substantial doubt about the Company's ability to continue as a going concern. For additional information on our First Lien Notes and Second Lien PIK Notes, see Note 8 to our consolidated financial statements.

Primary sources of funds for our short-term liquidity needs are expected to be our existing cash, cash equivalents and restricted cash balances. As of March 1, 2019, we had \$349.0 million of cash and cash equivalents and \$17.2 million of restricted cash.

Share Repurchase Program

On February 22, 2019, our shareholders approved a share repurchase program for a total expenditure of up to \$15.0 million for a two-year period. We may purchase shares in one or several transactions on the open market or otherwise; however, we are not obligated to repurchase any specific number or dollar value of our common shares under the program, and the program may be suspended or discontinued at any time. We anticipate that repurchases will be funded with cash on hand. As of March 1, 2019, we had not purchased any common shares under this program.

Capital Expenditures

We have no material commitments for capital expenditures related to the construction of a newbuild drillship. As of December 31, 2018, we had commitments for capital expenditures related to rig enhancements of \$20.8 million. We also 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, 2018 compared to Year ended December 31, 2017

The following table presents our net cash used in operating activities for the years ended December 31, 2018 and 2017:

	<u>Successor</u>	<u>Predecessor</u>	
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Year Ended December 31, 2017
(in thousands)			
Cash flow from operating activities:			
Net loss	\$ (27,484)	\$ (2,154,877)	\$ (525,166)
Depreciation and amortization expense	27,277	248,302	278,949
Amortization of deferred revenue	—	(20,212)	(46,829)
Amortization of deferred costs	128	13,882	11,689
Amortization of deferred financing costs	—	1,639	24,889
Amortization of debt premium, net	(38)	—	940
Interest paid-in-kind	3,732	4,933	—
Write-off of deferred financing costs	—	—	30,846
Deferred income taxes	(6,507)	4,103	7,409
Share-based compensation expense	599	2,543	6,819
Other-than-temporary impairment of available-for-sale securities	—	—	6,829
Reorganization items	—	1,746,764	5,315
Changes in operating assets and liabilities, net	(39,459)	(27,979)	83,437
Net cash used in operating activities	<u>\$ (41,752)</u>	<u>\$ (180,902)</u>	<u>\$ (114,873)</u>

The decrease in net cash from operating activities in 2018 resulted primarily from cash collections in 2017 on the *Pacific Scirocco* subsequent to completing its contract with Total in December 2016. In addition, the decrease was due to higher legal and advisory costs in 2018 related to our emergence from Chapter 11 proceedings and subcontractor payments made in 2018 in connection with the *Pacific Santa Ana* to perform Phase I of the integrated services project with Petronas.

The following table presents our net cash used in investing activities for the years ended December 31, 2018 and 2017:

	<u>Successor</u>	<u>Predecessor</u>	
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Year Ended December 31, 2017
(in thousands)			
Cash flow from investing activities:			
Capital expenditures	\$ (2,697)	\$ (18,624)	\$ (36,645)
Deconsolidation of Zonda Debtors	—	(4,910)	—
Purchase of available-for-sale securities	—	—	(6,000)
Net cash used in investing activities	<u>\$ (2,697)</u>	<u>\$ (23,534)</u>	<u>\$ (42,645)</u>

The decrease in capital expenditures in 2018 primarily resulted from a final milestone payment of \$16.3 million for a fleet spare blowout preventer in 2017. As a result of deconsolidation of the Zonda Debtors, consolidated cash balances decreased by \$4.9 million. In addition, the change in net cash from investing activities resulted from the \$6.0 million purchase of available-for-sale securities in the prior period.

The following table presents our net cash provided by (used in) financing activities for the years ended December 31, 2018 and 2017:

	<u>Successor</u>	<u>Predecessor</u>	
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Year Ended December 31, 2017
(in thousands)			
Cash flow from financing activities:			
Payments for shares issued under share-based compensation plan	\$ (126)	\$ (4)	\$ (199)
Proceeds from debtor-in-possession financing	—	50,000	—
Payments for debtor-in-possession financing	—	(50,000)	—
Proceeds from long-term debt	—	1,000,000	—
Payments on long-term debt	—	(1,136,478)	(146,473)
Proceeds from equity rights offering	—	500,000	—
Payments for financing costs	(13,525)	(29,355)	(4,530)
Net cash provided by (used in) financing activities	<u>\$ (13,651)</u>	<u>\$ 334,163</u>	<u>\$ (151,202)</u>

During the year ended December 31, 2018, we drew \$50.0 million from debtor-in-possession financing, and issued \$750.0 million of First Lien Notes and \$273.6 million of Second Lien PIK Notes. We also issued \$500.0 million of common shares in an equity rights offering and private placement. In connection with the above transactions, we paid \$42.9 million in financing costs in 2018. Upon our emergence from bankruptcy, we repaid in full the 2013 Revolving Credit Facility of \$475.0 million, the SSCF of \$661.5 million and debtor-in-possession financing of \$50.0 million.

During the year ended December 31, 2017, (i) 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 facility, (ii) we applied cash collateral of \$31.7 million to the principal installments due in May 2017 under the SSCF and (iii) we permanently repaid \$25.0 million under the 2013 Revolving Credit Facility.

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:

	<u>Years Ended December 31,</u>		<u>Change</u>
	<u>2017</u>	<u>2016</u>	
(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	<u>\$ (114,873)</u>	<u>\$ 249,104</u>	<u>\$ (363,977)</u>

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,		Change
	2017	2016	
	(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	<u>\$ (36,645)</u>	<u>\$ (52,625)</u>	<u>\$ 9,980</u>

The decrease in capital expenditures resulted primarily from fleet-wide cost control measures implemented. Capital expenditures for the year ended December 31, 2017 included 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 14 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,		Change
	2017	2016	
	(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	<u>\$ (151,202)</u>	<u>\$ 313,656</u>	<u>\$ (464,858)</u>

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, (i) 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 facility, (ii) we applied the cash collateral of \$31.7 million to the principal installments due in May 2017 under the SSCF, and (iii) 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 Notes for a purchase price of \$23.6 million plus accrued interest.

Description of Indebtedness

See Note 8 to our consolidated financial statements for additional information.

Customs bonds

As of December 31, 2018, we were contingently liable under certain customs bonds totaling approximately \$23.0 million issued as security in the normal course of our business.

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 15 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 capable 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 early 2016. Prices generally rose to levels above \$70 per barrel in the third quarter of 2018 before declining to close at \$50 at the end of 2018. During 2019 prices have generally risen, closing at \$65.07 per barrel on March 1, 2019. Although dayrates and utilization for high-specification 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 rendered many deepwater projects less attractive to our clients and significantly impacted the number of projects available for high-specification drillships. However, over the period from 2015 to today, our clients have managed to reduce their total well construction costs thereby allowing them economic success at lower oil prices and making deepwater projects more attractive.

Drilling Rig Supply

Across the industry, there has been one order placed since April 2014 to build an additional high-specification drillship, and within the last year, there have been several delays in delivery dates for new drillships. We estimate there are approximately 13 high-specification drillships in late stages of construction still to be delivered with only one having a firm contract announced.

Additionally, as a result of significantly reduced contracting activity, a significant number of floating rigs 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 of existing orders for high-specification floating rigs, could continue as the offshore drilling market remains near a cyclical low. The excess supply of high-specification floating rigs is expected to continue in 2019. Although we have visibility into 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 deepwater 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 can be more capital intensive or require more time to first oil than competing alternatives. 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, 2018 saw an improving pace for high-specification floating rig contracting activity with about 32 rig years contracted, compared to 26 rig years in 2017. 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 although we have recently seen some increases. We estimate that through the end of 2019, a significant number of high-specification floating rigs will be available to commence operations. Additionally, several 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 floating assets have lowered the total rig supply, supply of deepwater drilling rigs

continues to exceed demand. We believe that, if the recent improvement in oil prices is sustained, reduction in rig supply continues and breakeven costs for deepwater remain competitive, 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, 2018:

Contractual Obligations	2019	2020-2021	2022-2023	Thereafter	Total
			(in thousands)		
Long-term debt ^(a)	\$ —	\$ —	\$ 750,000	\$ 273,614	\$ 1,023,614
Interest on long-term debt ^(b)	62,813	125,625	109,922	246,243	544,603
Operating leases	1,549	2,971	3,077	1,179	8,776
Purchase obligations ^(c)	26,604	176	—	—	26,780
Total contractual obligations ^(d)	\$ 90,966	\$ 128,772	\$ 862,999	\$ 521,036	\$ 1,603,773

- (a) Amounts are based on the aggregate outstanding principal balances of the First Lien Notes and the Second Lien PIK Notes.
- (b) Interest payments are based on our outstanding borrowings under the First Lien Notes and the Second Lien PIK Notes at their respective interest rates of 8.375% and 12.0%, which assumes the interest on the Second Lien PIK Notes will be paid in-kind. Accrued paid in-kind interest is assumed to be settled in cash at the date of maturity of the Second Lien PIK Notes.
- (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 \$42.5 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, 2018. 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 “Cautionary Note Regarding Forward-Looking Statements” in this annual report for additional information.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Directors

All powers not expressly reserved to the shareholders by law or the Articles fall within the competence of the board of directors, which has full power to carry out and approve all acts and operations consistent with the Company’s corporate object.

Except as otherwise provided by an amendment to our Articles, the total number of directors constituting the board of directors shall be seven directors, who need not be shareholders.

The board of directors is currently divided into two classes, designated Class A and Class B. Our Class A directors are serving for a term ending at the date of the annual general meeting of the shareholders of the Company at which the annual accounts for the 2018 financial year will be approved, and our Class B directors are serving for a term ending at the annual general meeting of the shareholders of the Company at which the annual accounts for the 2019 financial year will be approved. Thereafter, each of the Class A directors and Class B directors will be elected to serve one-year terms. Members of our board of directors may be elected by simple majority of the votes validly cast at any general meeting of shareholders. From and after the Nomination Termination Time (as defined in the Governance Agreement), the board of directors will cease to be classified and each director then in office previously designated as a Class A director or Class B director will remain in office as a director until his or her term expires or until his or her earlier death, resignation or removal by the shareholders. 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. The Governance Agreement provides certain of our shareholders with the right to nominate and replace Class B directors. For additional information, see Item 10.B, “Additional Information - Memorandum and Articles of Association —Governance Agreement.”

Pursuant to the Plan, as of the Plan Effective Date, W. Matt Ralls (Chairman), Bernie G. Wolford Jr. and David Weinstein joined our board of directors as Class A directors, and Daniel Han, Donald Platner, and Kiran Ramineni joined our board of directors as Class B directors. John V. Simon was appointed by our board of directors as a Class A director as of December 14, 2018 to fill the remaining vacancy on our board of directors. Pursuant to the Governance Agreement, Mr. Ramineni was nominated for election as a Class B director by the Avenue Parties, Mr. Han was nominated for election as a Class B director by the SVP Parties, and Mr. Platner was nominated for election as a Class B director by certain of the Other Lenders. Messrs. Ralls, Ramineni, Han and Platner were elected as directors at an extraordinary general meeting of shareholders on November 19, 2018. Messrs. Wolford and Weinstein were appointed by our board of directors on November 19, 2018 to fill vacancies. The business address of the directors is 8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg.

Pacific Drilling’s board of directors consists of the following seven members:

Name	Age	Position
Daniel Han	40	Class B Director
Donald Platner	34	Class B Director
W. Matt Ralls	69	Chairman of the Board and Class A Director
Kiran Ramineni	39	Class B Director
John V. Simon	65	Class A Director
David Weinstein	59	Class A Director
Bernie G. Wolford Jr.	59	Chief Executive Officer and Class A Director

Certain biographical information regarding the directors is summarized below.

Daniel Han . Mr. Han joined our board of directors on the Plan Effective Date. Mr. Han has served as a Managing Director and Co-Head of the North American investment team of Strategic Value Partners LLC, which he joined in 2014. From 2002 to 2014, Mr. Han was with Wellspring Capital Management, most recently as a Principal and a member of Wellspring’s Investment Committee. From 2000 to 2002, Mr. Han was an Investment Banking Analyst in the Mergers and Acquisitions Group at J.P. Morgan. Mr. Han currently serves on the board of Genco Shipping & Trading Limited and has served on the board of directors of several portfolio companies of Strategic Value Partners.

Donald Platner . Mr. Platner joined our board of directors on the Plan Effective Date. Mr. Platner is an Investment Analyst at Abrams Capital, which he joined in 2013. Prior to joining Abrams Capital, he was at Goldman, Sachs & Co. from 2006 to 2013, where he was a vice president in the Americas Special Situations Group. At Goldman Sachs, he was responsible for investments in both the public and private markets, primarily in the energy and industrials sectors. He

previously served as a director of Louis Berger Group (where he served as Chairman of the Compensation Committee and as a member of the Audit Committee). He also previously served as a director of Opal Resources LLC.

W. Matt Ralls . Mr. Ralls joined our board of directors on the Plan Effective Date and serves as Chairman of the board, and of the Nominating and Corporate Governance Committee. Mr. Ralls served as President of the Rowan Companies from January 2009 to March 2013, as Chief Executive Officer from January 2009 to April 2014, as a director from 2009 and as Executive Chairman of the Board from April 2014 until his retirement from the company in April 2016. He served as Executive Vice President and Chief Operating Officer of GlobalSantaFe Corporation from June 2005 until November 2007 and as Senior Vice President and Chief Financial Officer of that company from 2001 to 2005. Mr. Ralls has held various other management and financial roles with other oil drilling and production companies. Mr. Ralls also serves as a director of Superior Energy Services (where he serves as Chairman of the Compensation Committee and a member of the Nominating and Corporate Governance Committee), Cabot Oil and Gas Corporation (where he serves as Chairman of the Corporate Governance and Nominating Committee and as a member of the Compensation Committee) and NCS Multistage Holdings, Inc. (where he serves on the Audit Committee and the Compensation, Nominating and Governance Committee).

Kiran Ramineni . Mr. Ramineni joined our board of directors on the Plan Effective Date. Mr. Ramineni has been a Vice President at Avenue Capital Group since 2014 and is responsible for identifying, analyzing and modeling investment opportunities for Avenue U.S. Strategy, with a focus on energy and utility investments. Prior to joining Avenue Capital Group, Mr. Ramineni was a Senior Vice President of strategy and finance at U.S. Power Generating Company from 2007 to 2014. Previously, Mr. Ramineni worked for Hold Brothers Capital as an Equity Trader. Prior to that, he was an Equity Trader at AJ Capital.

John V. Simon . Mr. Simon joined our board of directors on December 14, 2018 and serves as Chairman of our Compensation Committee. Mr. Simon has over 40 years of experience in the oil and gas industry, specializing in engineering, project management and leadership roles in the U.S. and internationally. From 2013 to 2016 he served as Chief Executive Officer of Bennu Oil and Gas, a company formed to acquire ATP Oil & Gas Corp.'s Gulf of Mexico assets out of bankruptcy. Prior to Bennu, Mr. Simon served in a series of increasingly senior roles at Hess Corporation, most recently as SVP, Global E&P Services (2010-2013) and SVP, Production, Americas and Africa (2007-2010). Mr. Simon began his career as an engineer with Tenneco Oil Co., where he spent 12 years in a variety of engineering roles. Mr. Simon also serves on the board of directors of Nine Point Energy, a private exploration and production company focused on best-in-class development, operation and acquisition of oil and gas assets within the Williston Basin, where he serves as Risk Committee Chair and on the Audit Committee. Mr. Simon was a director of Ocean Rig UDW Inc. from November 2017 until its acquisition on December 5, 2018 by Transocean Ltd.

David Weinstein . Mr. Weinstein joined our board of directors on the Plan Effective Date and serves as Chairman of our Audit Committee. Mr. Weinstein also currently serves as Deputy Chairman of the Board of TORM plc. He has also served on the board of directors of TRU Taj Finance Inc., an operating subsidiary of Toys “R” Us Inc. from August 2017 to January 2019, and as Chairman of the Board of The Oneida Group Inc. from June 2015 through September 2018. From January 2017 through July 2018, Mr. Weinstein served in various executive leadership roles at Seadrill Limited, including as a director and as Chair of Seadrill’s Refinancing Committee. He also served as a director and as Chair of the Compensation Committee of Stone Energy Corporation from March 2017 through May 2018. Mr. Weinstein previously served in various executive leadership roles with Horizon Lines, Inc., from November 2011 until June 2015, including as a director and as Chairman of its board of directors. He has also served on a number of other boards and in executive leadership roles in various private and public companies within, among others, the oil and gas and chemical industries, including most recently as a director of DeepOcean Group Holdings AS from June 2011 until January 2017. From September 2009 through August 2016, Mr. Weinstein served as Chairman of the Finance Committee and as a member of the Compensation Committee of Axiall Corporation. Prior to that, Mr. Weinstein served from March 2007 through August 2008 as Managing Director and Group Head, Debt Capital Markets—High Yield and Leverage Finance at Calyon Securities Inc., and from March 2000 through February 2002 as Managing Director and Head of High Yield Origination and Capital Markets at BNP Paribas. Previously, Mr. Weinstein was a Managing Director and Head of High Yield Capital Markets for BankBoston Securities and Chase Securities, Inc., and head of the Capital Markets Group in the High Yield Department at Lehman Brothers.

Bernie G. Wolford Jr . Mr. Wolford joined our board of directors and was appointed as our Chief Executive Officer on the Plan Effective Date. Prior to joining our Company, from February 3, 2012, Mr. Wolford served as Senior Vice President—Operations at Noble Corporation (“Noble”). He served as Vice President—Operational Excellence of

Noble from March 2010 to February 2012. From January 2003 until March 2010, Mr. Wolford was self-employed. During that time, he provided consulting services to Noble as a contractor on the construction of the *Noble Dave Beard* from March 2009 to December 2009. Mr. Wolford is also a significant shareholder of Mass Technology Corporation, an independent service provider to the downstream refining and storage sector, and he supported the operations of that company from February 2007 to February 2009. Mr. Wolford began his career in the offshore drilling industry with Transworld Drilling in 1981, which was acquired by Noble in 1991. From 1981 through December 2002, he served in various roles in engineering, project management and operations with Transworld and Noble.

Senior Management

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 the board of directors and hold office until a successor is elected and qualified. There are no arrangements or understandings related to the selection of any of our senior management. The business address of our senior management is 8-10, Avenue de la Gare, L-1610 Luxembourg, Grand Duchy of Luxembourg. The current members of our senior management are:

Name	Age	Position
Bernie G. Wolford, Jr.	59	Chief Executive Officer
Michael D. Acuff	48	Senior Vice President, Commercial
Johannes P. Boots	56	Senior Vice President, Chief Financial Officer
Lisa Manget Buchanan	58	Senior Vice President, General Counsel and Secretary
Amy L. Roddy	38	Senior Vice President, Corporate Services
Anthony C. Seeliger	51	Senior Vice President, Operations
Richard E. Tatum	41	Senior Vice President, Chief Accounting Officer

Bernie G. Wolford, Jr. Biographical information about Mr. Wolford appears above under the heading “Directors.”

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.

Johannes P. Boots . Mr. Boots joined Pacific Drilling 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.

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 McIntire School of Commerce, University of Virginia and a Juris Doctorate from the Louisiana State University Law Center.

Amy L. Roddy . Ms. Roddy joined Pacific Drilling in 2011 as our Director of Investor Relations. She subsequently served in management positions in corporate communications and human resources before being appointed SVP Corporate Services in May 2016. Ms. Roddy has more than 15 years of oil and gas industry experience, including time at Transocean, where she held management positions in investor relations and corporate planning. Prior to joining Transocean, Roddy worked as a process engineer for Fluor Corp. Ms. Roddy holds a Bachelor of Science degree in chemical engineering from Texas A&M University and a Master of Engineering Management and an MBA from Northwestern University.

Anthony C. Seeliger . Mr. Seeliger joined Pacific Drilling in 2012 and was named Senior Vice President of Operations in 2015. He was most recently Vice President of the Americas since July 2012. Mr. Seeliger provides overall direction and guidance to the Company's operational, operations excellence and technical support and QHSE functions with the objective of maximizing HSE and operational performance, growth and profitability, as well as day-to-day leadership and management of the global operations activities. Mr. Seeliger brings over 25 years of industry experience, including an extensive background in operations management. Prior to joining Pacific Drilling, he spent nine years with Ensco/Pride, most recently as vice president of Middle East and Africa operations based in Dubai, UE, and previously in similar management positions based in Europe, Brazil and the Gulf of Mexico. Prior to Ensco/Pride, Mr. Seeliger held positions of increasing responsibility at industry-related companies including Santa Fe International and Amerada Hess Corp. Mr. Seeliger holds a Bachelor of Science degree in business administration from the University of Southern California and an MBA from Southern Methodist University.

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 Corp. 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 a Bachelor of Science degree in business administration and a Master of professional accounting degree from the University of Texas at Austin and is a CPA.

B. COMPENSATION

Senior Management

Members of our senior management receive compensation for the services they provide. During the year ended December 31, 2018, the aggregate cash compensation paid to all seven current members of our senior management as a group was approximately \$6.2 million. During the year ended December 31, 2018, we also paid aggregate cash compensation and severance benefits to two former members of senior management of approximately \$5.8 million. Currently, the cash compensation for senior management is comprised of base salary, an annual performance bonus, potential payouts under long term incentive cash awards granted in 2016 and 2017 ("LTIC awards") and potential payments under the 2018 key employee incentive plan (the "KEIP"), which was approved by the Bankruptcy Court on August 30, 2018. Certain members of our senior management also received retention bonus awards prior to their appointment as members of the senior management team.

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 compensation 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. 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

For the period from January 1, 2018 through the Plan Effective Date, we paid our pre-emergence board of directors an aggregate of approximately \$1.7 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, an investment holdings group that controls QP (the "Quantum Pacific Group"). We also paid an aggregate of approximately \$0.7 million in directors' fees to the non-independent members of our board of directors affiliated with the Quantum Pacific Group, which we paid directly to the Quantum Pacific Group. We did not make any awards under our Pacific Drilling S.A. 2011 Omnibus Stock Incentive Plan (as amended and restated on March 4, 2014, the "2011 Stock Plan") to the members of our board of directors in 2018.

Following the Plan Effective Date, our new board of directors approved a compensation program for the new board. Under this program, we paid an aggregate of approximately \$22,500 and issued an aggregate of 165,000 restricted share units to the Class A members of our board of directors. The Class B board of directors will not receive any compensation for their service on our board of directors, and our Chairman will receive compensation solely in the form of equity-based awards. Additionally, 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.

During 2018 prior to the Plan Effective Date, there were no members of our board of directors who were our employees or employees of our subsidiaries. In connection with the reconstitution of our board of directors following our emergence from bankruptcy, our Chief Executive Officer also became a member of our board of directors. We believe that our director fee structure during the year ended December 31, 2018 was 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.

Equity and Long-Term Incentive Compensation Plans

Prior to the adoption of the 2018 Stock Plan, the 2011 Stock Plan provided for the grant of equity-based or equity-related awards to directors, officers, employees and consultants. The Compensation Committee of the board of directors determined the terms and conditions of equity awards made to participants under the 2011 Stock Plan, and also set the terms and conditions of LTIC awards that were granted outside of the 2011 Stock Plan.

On January 1, 2017, the Compensation Committee granted a total of \$7.3 million LTIC awards, \$2.6 million of which were granted to members of senior management, and 0.6 million cash-settled restricted share units under the 2011 Stock Plan, 0.3 million units of which were granted to members of senior management. In connection with our emergence from bankruptcy on November 19, 2018, all equity and equity-based awards granted under the 2011 Stock Plan were cancelled and are no longer outstanding. The remaining unvested portions of the LTIC awards granted during 2016 and 2017, however, remain outstanding and will vest in accordance with their vesting schedules and, if applicable, the meeting of certain performance targets.

In August 2018, the Bankruptcy Court approved the KEIP, pursuant to which members of senior management were granted cash-settled awards that vested in part upon our emergence from bankruptcy, and in part upon the achievement of certain revenue performance targets for 2018, with the remainder of the awards vesting if certain revenue performance targets for 2019 are achieved.

On November 28, 2018, the board of directors approved the 2018 Stock Plan, pursuant to which the Company may issue up to 7.5 million common shares to directors, officers, employees and consultants pursuant to various types of stock-based incentive awards, including stock options, restricted shares, restricted share units ("RSUs") and other equity-based awards. The board of directors, upon recommendations by the Compensation Committee, determines the terms and conditions of equity awards made to participants under the 2018 Stock Plan. Effective December 12, 2018, our board of directors approved the issuance of an aggregate of 39,614 common shares to 269 participants as stock bonus awards, of which 8,061 shares were withheld for the payment of taxes resulting in a net issuance of 31,553 common shares, 706 of which were granted to senior management. On December 20, 2018, our board of directors approved the issuance of an aggregate of 165,000 RSUs to our Class A directors, and 400,000 RSUs to our Chief Executive Officer.

In addition, on February 25, 2019, the board of directors approved the issuance of an aggregate of 1,232,379 RSUs, 1,071,681 of which were granted to 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, 2018, 2017 and 2016, our total employer contributions to both plans amounted to \$2.6 million, \$2.8 million and \$4.1 million, respectively.

During 2018, the Company maintained an annual bonus plan for key employees whose decisions, activities and performance have a significant impact on business results. Target bonus levels were determined on an individual basis and factoring in 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.

Employment Agreement of Chief Executive Officer

On November 19, 2018, the Company entered into an employment agreement with Mr. Wolford. Pursuant to the agreement, Mr. Wolford will remain employed until he resigns or his employment is terminated by the Company in accordance with the terms of the agreement. Under the employment agreement, Mr. Wolford receives an annual base salary and an annual target bonus opportunity of a minimum of 100% of annual base salary, and also received certain sign-on equity awards. The employment agreement includes a 12-month post-employment noncompetition covenant and a 24-month post-employment non-solicitation covenant with respect to employees, contractors, clients and suppliers. Mr. Wolford’s employment agreement provides for severance payments and benefits if the Company terminates his employment other than for cause or he terminates his employment for good reason, as defined in the agreement, subject to Mr. Wolford’s execution and non-revocation of a release of claims in favor of the Company, its subsidiaries and affiliates.

Under the terms of the employment agreement, if Mr. Wolford’s employment is terminated other than for cause (as defined in the employment agreement) or he terminates his employment for good reason (as defined in the employment agreement) other than during the twelve-month period following the date of any change of control (the “Protection Period”), he will be entitled to the following:

- a lump sum payment of (a) \$4.0 million if such termination occurs prior to January 1, 2021, or (b) an amount equal to 1.5 times the sum of: (A) his base salary in effect for the year of the date of termination, and (B) his target bonus established for the year in which the termination occurs, if such termination occurs on or after January 1, 2021; and
- automatic acceleration of the portion of any time-vested RSUs that have been granted to him that are scheduled to vest on the next regularly scheduled vesting date following the date of termination; and
- reimbursement for up to 18 months for the difference between his COBRA premiums and the monthly employee contribution amount that active similarly situated employees of the Company pay for the same or similar coverage.

If Mr. Wolford’s employment is terminated during the Protection Period other than for cause or he terminates his employment for good reason regardless of whether such Protection Period occurs before or after January 1, 2021, he will be entitled to the following:

- a lump sum payment of an amount equal to two times the sum (A) his base salary in effect for the year of the date of termination, and (B) his target bonus established for the year in which the termination occurs; and
- automatic acceleration of all outstanding time-vested RSUs that have been granted to him and acceleration of the payout of any earned performance-vested RSUs; and

- reimbursement for up to 18 months for the difference between his COBRA premiums and the monthly employee contribution amount that active similarly situated employees of the Company pay for the same or similar coverage.

Severance Agreements

We have severance and change of control agreements with each member of the Company's senior management listed in Item 6.A., "Directors and Senior Management" other than Mr. Wolford (the "Severance Agreements"). In connection with our Chapter 11 bankruptcy proceedings, each such member of senior management waived his or her right to claim that our emergence from bankruptcy triggered a change of control of the Company (as defined in the Severance Agreements.) Other than as subject to the waivers, under the terms of the Severance Agreements and the applicable award agreements, if at any time prior to a change of control of the Company (as defined in the Severance Agreements), the Company terminates the member of senior management's employment other than for cause (as defined in the Severance Agreements) or the member of senior management terminates his or her employment for good reason (as defined in the Severance Agreements), the member of senior management will be entitled to the following:

- a lump sum payment equal to the sum of: (i) an amount equal to one year of the member of senior management'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 member of senior management 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
- retention of the LTIC awards and awards under the KEIP, which awards will pay out a pro-rated portion if and when the applicable performance conditions are satisfied; and
- automatic acceleration of the vesting of any stock options, restricted stock, or RSUs that may be granted to the member of senior management 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 member of senior management's employment other than for cause, or the member of senior management terminates his or her employment for good reason, during the eighteen-month period following the date of the change of control, the member of senior management will be entitled to the following:

- a lump sum payment of (i) an amount equal to two times the sum of: (A) the member of senior management's base salary in effect for the year of the date of termination, and (B) the target bonus established for the member of senior management 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, RSUs, LTIC awards or target awards under the KEIP that were granted to the member of senior management.

The Severance Agreements also include standard non-competition and non-solicitation language for a period of six months 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 90 days prior to the end of the applicable term.

Indemnity Agreements

We have indemnity agreements with each of the Company's directors and senior management. The indemnity agreements supplement the indemnification rights for the directors and members of senior management under our 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 members of senior management 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 PRACTICES

The board of directors is currently divided into two classes, designated Class A and Class B. Our Class A directors are serving for a term ending at the date of the annual general meeting of the shareholders of the Company at which the annual accounts for the 2018 financial year will be approved, and our Class B directors are serving for a term ending at the annual general meeting of the shareholders of the Company at which the annual accounts for the 2019 financial year will be approved. Thereafter, each of the Class A directors and Class B directors will be elected to serve one-year terms. Members of our board of directors may be elected by simple majority of the votes validly cast at any general meeting of shareholders. From and after the Nomination Termination Time (as defined in the Governance Agreement), the board of directors will cease to be classified and each director then in office previously designated as a Class A director or Class B director will remain in office as a director until his or her term expires or until his or her earlier death, resignation or removal by the shareholders. 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. The Governance Agreement provides certain of our shareholders with the right to nominate and replace Class B directors. For additional information, see Item 10.B. "Additional Information - Memorandum and Articles of Association—Governance Agreement."

On May 22, 2018, at our annual general meeting of shareholders (the "2018 AGM"), each of our then current directors (Messrs. Asher, Bonnier, Charney, Ducau, Fine, Iskander, Samuels, and Schwed) was re-appointed for an additional one-year term until our next annual general meeting scheduled to be held on June 4, 2019 (the "2019 AGM"). In connection with our emergence from our bankruptcy proceedings, on the Plan Effective Date, all of the members of our pre-emergence board of directors resigned from our board and the new board was appointed. See Item 6.A. "Directors and Senior Management."

There are no service contracts between us and any of our current directors providing for benefits upon termination of their service except pursuant to Mr. Wolford's employment agreement.

Committees of the Board of Directors

Our board of directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance 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. Weinstein (as Chairman), Ralls and Simon. 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. Weinstein is an audit committee “financial expert,” as defined by the SEC.

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. Simon (as Chairman), Ralls, and Weinstein. The primary purpose of this committee is to oversee the discharge of the responsibilities of our board of directors relating to compensation of our executive officers and directors. 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 and Corporate Governance Committee

Our board of directors has established a Nominating and Corporate Governance Committee, the members of which are Messrs. Ralls (as Chairman), Simon and Weinstein.

The primary purpose of the Nominating and Corporate Governance 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 Nominating and Corporate Governance Committee has adopted a charter defining the committee’s primary duties in a manner consistent with the rules of the SEC and the NYSE.

D. EMPLOYEES

As of December 31, 2018, we had a total of 722 employees and 1 subcontractor, consisting of:

- 600 in operations; and
- 123 in finance, strategy and business development, sales and marketing and other administrative functions.

As of December 31, 2018, approximately 336 of our workforce were located in the United States and 98 were located in Nigeria. The remainder were in various other locations around the world. Four of our international employees in Nigeria are represented by unions.

As of December 31, 2017, we had a total of 768 employees and 5 subcontractors, consisting of:

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

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

As of December 31, 2016, we had a total of 843 employees and 5 subcontractors, consisting of:

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

As of December 31, 2016, approximately 553 of our workforce were located in the United States and 207 were located in Nigeria. The remainder 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 members of senior management as a group as of March 1, 2019. There are no stock options or RSUs awarded to our directors and members of senior management under the 2018 Stock Plan that are exercisable or vest within 60 days. Common shares do not differ in voting rights. See Item 6.B. “Compensation – Equity Compensation Plans” for a description of the 2018 Stock Plan.

Directors and Senior Management	Beneficial Interest in Common Shares	
	Number of shares	Percentage ^(a)
Directors		
Daniel Han	*	*
Donald Platner	*	*
W. Matt Ralls	*	*
Kiran Ramineni	*	*
John V. Simon	*	*
David Weinstein	*	*
Bernie G. Wolford Jr.	*	*
Senior Management ^(b)		
Michael D. Acuff	*	*
Johannes P. Boots	*	*
Lisa Manget Buchanan	*	*
Amy L. Roddy	*	*
Anthony C. Seeliger	*	*
Richard E. Tatum	*	*
All officers and directors as a group (13 persons)	706	*

* Less than 1%.

(a) Based on issued and outstanding shares of 75,031,380 as of March 1, 2019.

(b) Information for Mr. Wolford appears above under “Directors.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth information as of March 1, 2019 for each person known to us to beneficially own five percent or more of our outstanding common shares. Each common share entitles the holder thereof to one vote at a general meeting of our shareholders; common shares do not differ in voting rights:

Name	Beneficial Interest in Common Shares	
	Number of shares	Percentage ⁽¹⁾
Strategic Value Partners, LLC (2)	19,323,914	25.8 %
Avenue Capital Management II, L.P. (3)	18,702,188	24.9
Abrams Capital Management, L.P. (4)	7,414,537	9.9
FMR LLC (5)	5,723,510	7.6
Whitebox Advisors LLC (6)	5,153,448	6.9
Tor Asia Credit Master Fund LP (7)	4,146,930	5.5
Quantum Pacific (Gibraltar) Limited (8)	3,842,729	5.1

(1) Based on issued and outstanding shares of 75,031,380 as of March 1, 2019.

(2) (a) Based on a Schedule 13G Report dated February 14, 2019 that this investor filed with the SEC and information provided to the Company by this investor. This investor indicated that it shares voting and dispositive power with respect to all of the above-listed shares. In addition, in this report, the investor indicated that the above-listed shares consist of: (i) 2,569,633 shares directly held by Kings Forest S.à r.l., (ii) 5,320,616 shares directly held by Queens Gate S.à r.l., (iii) 5,491,427 shares directly held by Rathgar S.à r.l., (iv) 1,181,630 shares directly held by Ringsend S.à r.l., (v) 4,285,739 shares directly held by Yellow Sapphire S.à r.l., (vi) 167,817 shares directly held by Strategic Value Master Fund Ltd., (vii) 81,945 shares directly held by Strategic Value Opportunities Fund, LP, (viii) 174,542 shares directly held by Strategic Value Special Situations Master Fund III, LP and (ix) 50,565 shares directly held by Strategic Value Special Situation Master Fund IV, LP (each an “SVP Fund” and collectively, the “SVP Funds”).

(b) In addition, the report indicates: (i) Strategic Value Partners, LLC is the investment manager of, and exercises investment discretion over Strategic Value Master Fund, Ltd., a Cayman Islands exempted company, which has an ownership interest in Field Point (Europe) II, LLC, a Delaware limited liability company, which has an ownership interest in Field Point IV, S.à r.l., a Luxembourg limited liability company, which has an ownership interest in Queens Gate, S.à r.l., a Luxembourg limited liability company, and Strategic Value Partners, LLC is indirectly majority owned and controlled by Mr. Khosla; (ii) SVP Special Situations III LLC (“Special Situations III”) is the investment manager of, and exercises investment discretion over Strategic Value Special Situations Master Fund III, LP, a Cayman Islands exempted limited partnership, which has an ownership interest in Blue Sapphire, S.à r.l., a Luxembourg limited liability company, which has an ownership interest in Yellow Sapphire, S.à r.l., a Luxembourg limited liability company, which has an ownership interest in Ringsend, S.à r.l., a Luxembourg limited liability company, and Strategic Value Partners, LLC is the managing member of Special Situations III, and Strategic Value Partners, LLC and Special Situations III are both indirectly majority owned and controlled by Mr. Khosla; (iii) SVP Special Situations IV LLC (“Special Situations IV”) is the investment manager of, and exercises investment discretion over Strategic Value Special Situation Master Fund IV, LP, a Cayman Islands exempted limited partnership, which has an ownership interest in Ranelagh, S.à r.l., a Luxembourg limited liability company, which has an ownership interest in Rathgar, S.à r.l., a Luxembourg limited liability company, and Strategic Value Partners, LLC is the managing member of Special Situations IV, and Strategic Value Partners, LLC and Special Situations IV are both indirectly majority owned and controlled by Mr. Khosla; and (iv) SVP Special Situations III-A LLC (“Special Situations III-A”) is the investment manager of, and exercises investment discretion over Strategic Value Opportunities Fund, LP, a Cayman Islands exempted limited partnership, which has an ownership interest in Kings Valley, S.à r.l., a Luxembourg limited liability company, which has an ownership interest in Kings Forest, S.à r.l., a Luxembourg limited liability company, and Strategic Value Partners, LLC is the managing member of Special Situations III-A, and Strategic Value Partners, LLC and Special Situations III-A are both indirectly majority owned and controlled by Mr. Khosla.

(c) Except for Mr. Khosla, each “Reporting Person” listed in the report disclaimed beneficial ownership of all common shares owned directly by the SVP Funds. Mr. Khosla is the sole member of Midwood Holdings, LLC, which is the managing member of Strategic Value Partners, LLC and is also the indirect majority owner and control person of Strategic Value Partners, LLC, Special Situations III, Special Situations IV and Special Situations III-A. Mr. Khosla is also the Chief Investment Officer of Strategic Value Partners, LLC. As such, he may be deemed to control the voting and dispositive decisions with respect to the above-listed common shares made by Strategic Value Partners, LLC, Special Situations III, Special Situations IV and Special Situations III-A and may therefore be deemed to be the beneficial owner of the common shares reported above.

(d) Pursuant to the Governance Agreement, the SVP Funds and certain funds affiliated with Avenue Capital Group LLC (the “Avenue Holders”) have agreed with one another to vote their common shares to elect members of the Pacific Drilling board of directors as set forth therein. Because of the relationship between the SVP Funds and the Avenue Holders as a result of the Governance Agreement, Strategic Value Partners, LLC, Special Situations III, Special Situations IV, Special Situations III-A and Mr. Khosla may be deemed pursuant to Rule 13d-3 under the Exchange Act to beneficially own 38,026,102 Pacific Drilling common shares (inclusive of the above-reported shares for Strategic Value Partners, LLC), which represents 50.7% of the total number of outstanding common shares of Pacific Drilling as of March 1, 2019. The address for each of the foregoing entities is c/o Strategic Value Partners, LLC, 100 West Putnam Avenue, Greenwich, CT 06830.

- (3) (a) Based on a Schedule 13G Report dated February 14, 2019 that this investor filed with the SEC. In this report, this investor indicated that it shared voting and dispositive power with respect to all of the above-listed shares. In addition, in this report, this investor indicated that the above-listed shares are held directly by: (i) Avenue Energy Opportunities Fund II, L.P., Avenue PPF Opportunities Fund, L.P., Avenue Energy Opportunities Fund, L.P., Avenue Special Opportunities Fund II, L.P. and Avenue Strategic Opportunities Fund, L.P. (the “U.S. Funds”) and (ii) Avenue-ASRS Europe Opportunities Fund, L.P., Avenue Europe Special Situations Fund III (U.S.), L.P., Avenue Europe Special Situations Fund III (Euro), L.P. and Avenue Europe Opportunities Master Fund, L.P. (the “Europe Funds” and together with the U.S. Funds, the “Avenue Funds”).

(b) Avenue Capital Management II, L.P. is the investment manager of the U.S. Funds and may be deemed to have voting and dispositive power over the 13,649,683 common shares owned by such entities. Avenue Europe International Management, L.P. is the investment manager of Europe Funds and may be deemed to have voting and dispositive power over the 5,052,505 common shares owned by such entities. Avenue Capital Management II GenPar LLC is the general partner of Avenue Capital Management II, L.P., and Avenue Europe International Management GenPar, LLC is the general partner of Avenue Europe International Management, L.P. Mr. Marc Lasry is the managing member of Avenue Capital Management II GenPar LLC and Avenue Europe International Management GenPar, LLC. In this report, except for Mr. Lasry, each “Reporting Person” disclaimed beneficial ownership of all common shares owned directly by the Avenue Funds. Mr. Lasry is deemed to be the indirect beneficial owner of the shares reported by the Avenue Funds by reason of his ability to direct the vote and/or disposition of such securities, and his pecuniary interest in such shares (within the meaning of Rule 16a-1(a)(2) under the Exchange Act) is a fractional interest in such amount.

(c) Pursuant to the Governance Agreement, the Avenue Funds and certain funds affiliated with Strategic Value Partners, LLC (the “SVP Funds”) have agreed with one another to vote their common shares to elect members of the Pacific Drilling board of directors as set forth therein. Because of the relationship between the Avenue Funds and the SVP Funds as a result of the Governance Agreement, Avenue Capital Management II, L.P., Avenue Capital Management II GenPar LLC, Avenue Europe International Management, L.P., Avenue Europe International Management GenPar, LLC and Marc Lasry may be deemed pursuant to Rule 13d-3 under the Exchange Act to beneficially own 38,026,102 Pacific Drilling common shares (inclusive of the above-reported shares for Avenue Capital Management II, L.P.), which represents 50.7% of the total number of outstanding common shares of Pacific Drilling as of March 1, 2019. The address of each of the foregoing entities is c/o Avenue Capital Management II, L.P., 399 Park Avenue, 6th Floor, New York, NY 10022.

- (4) (a) Based on a Schedule 13G Report dated February 14, 2019 that Abrams Capital Management, L.P. (“Abrams CM LP”) filed with the SEC. In this report, Abrams CM LP indicated that it: (i) shared voting and dispositive power with respect to all of the above-listed shares with each of Mr. David Abrams and Abrams Capital Management, LLC (“Abrams CM LLC”), (ii) shared voting and dispositive power with respect to 5,974,140 shares

with Abrams Capital Partners II, L.P. (“ACP II”), and (iii) shared voting and dispositive power with respect to 7,019,436 shares with Abrams Capital, LLC (“Abrams Capital”).

(b) Shares reported herein for Abrams Capital represent shares beneficially owned by ACP II and other private investment funds for which Abrams Capital serves as general partner. Shares reported herein for Abrams CM LP and Abrams CM LLC represent the above-referenced shares beneficially owned by ACPII and shares beneficially owned by other private investment funds, for which Abrams CM LP serves as investment manager. Abrams CM LLC is the general partner of Abrams CM LP. Shares reported herein for Mr. Abrams represent the above referenced shares reported for Abrams Capital and Abrams CM LLC. Mr. Abrams is the managing member of Abrams Capital and Abrams CM, LLC. In this report, each “Reporting Person” disclaimed beneficial ownership of the common shares reported, except to the extent of its or his pecuniary interest therein. The address for each of the foregoing entities is c/o Abrams Capital Management, L.P., 222 Berkeley Street, 21st Floor, Boston, MA 02116.

- (5) Based on a Schedule 13G Report dated February 13, 2019 that this investor filed with the SEC. In this report, this investor indicated that it held sole voting power with respect to 2,162,337 of the common shares reported, and sole dispositive power with respect to all of the above-listed shares. Ms. Abigail P. Johnson is a Director, the Chairman and the Chief Executive Officer of FMR LLC. Members of the Johnson family, including Abigail P. Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders’ voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders’ voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Abigail P. Johnson has the sole power to vote or direct the voting of the shares owned directly by the various investment companies registered under the Investment Company Act (“Fidelity Funds”) advised by Fidelity Management & Research Company (“FMR Co”), a wholly owned subsidiary of FMR LLC, which power resides with the Fidelity Funds’ Boards of Trustees. FMR Co carries out the voting of the shares under written guidelines established by the Fidelity Funds’ Boards of Trustees. The address of FMR LLC is 245 Summer Street, Boston, MA 02210.
- (6) Based on a Schedule 13G Report dated as of February 14, 2019 that this investor filed with the SEC and information provided to the Company by this investor. In the Schedule 13G Report, the investor indicated that, as of December 31, 2018, all of the above-listed common shares reported for Whitebox Advisors LLC were held in the accounts of Whitebox Advisors LLC’s clients, none of which individually own more than 5% of the Company’s common shares. In addition, as of December 31, 2018, Whitebox Advisors LLC shared with Whitebox General Partner LLC voting and dispositive power with respect to all of the above-listed shares. The address of each of the foregoing entities is 3033 Excelsior Boulevard, Suite 300, Minneapolis, MN 55416.
- (7) Based on a Schedule 13G Report dated as of February 13, 2019 that this investor filed with the SEC. In this report, the investor indicated that Tor Investment Management (Hong Kong) Limited (“Tor”) may be deemed the beneficial owner of the shares held by Tor Asia Credit Master Fund LP (the “Master Fund”). In addition, Messrs. Patrik Lennart Edsparr and Christopher Louis Mikosh are the majority owners of Tor. By virtue of their relationship with Tor, Messrs. Edsparr and Mikosh may be deemed to beneficially own the common shares owned directly by the Master Fund. In this report, the investor further indicated that, as of December 31, 2018, Tor, the Master Fund and Messrs. Edsparr and Mikosh share voting and dispositive power with respect to all of the above-listed shares. The address of the Master Fund is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The address of Tor and Messrs. Edsparr and Mikosh is Henley Building 19/F, 5 Queen’s Road Central, Hong Kong.
- (8) Based on a Schedule 13G Report dated as of January 17, 2019 that this investor filed with the SEC. In this report, the investor indicated that, as of December 31, 2018, it shared voting and dispositive power with respect to all of the above-listed shares. Quantum Pacific (Gibraltar) Limited is a Gibraltar company and wholly-owned indirect subsidiary of Quantum Pacific International Limited, the indirect ultimate owner of which is a discretionary trust in which Mr. Idan Ofer is the beneficiary. The address for Quantum Pacific (Gibraltar) Limited is 57/63 Line Wall Road, Gibraltar GX11 1AA and for Quantum Pacific International Limited is c/o Quantum Pacific Monaco SARL, 7 Avenue de Grande Bretagne, MC 98000, Monaco.

As of March 1, 2019, the Company had 50 record holders in the United States, representing substantially all of the total issued and outstanding common shares of the Company.

To our knowledge, as of March 1, 2019, there were no arrangements the operation of which may at a subsequent date result in a change of control of the Company. Pursuant to our Articles, any two Class B directors may enter into Acquisition Contracts (as defined in the Articles) on behalf of the Company, subject to certain conditions. For additional information, see Item 10.B. “Additional Information - Memorandum and Articles of Association.”

Prior to the Company’s emergence from its Chapter 11 bankruptcy proceedings, QP, the indirect ultimate owner of which is a discretionary trust in which Mr. Idan Ofer is the beneficiary, owned approximately 70.3% of the Company’s outstanding common shares. In accordance with the Plan and the issuances of common shares in connection with the Company’s emergence from the Chapter 11 bankruptcy proceedings, the current beneficial ownership of the Company’s common shares is reflected in the table above. Except for the foregoing, to the Company’s knowledge, there has been no other significant change in the percentage ownership of our common shares held by any of our major shareholders during the past three years.

B. RELATED PARTY TRANSACTIONS

For information regarding related party transactions, see the discussion of our Governance Agreement and Registration Rights Agreement in Item 10.B. “Additional Information - Memorandum and Articles of Association” and Note 23 to our consolidated financial statements.

In addition, the SVP Parties and the Avenue Parties are parties to that certain Equity Commitment Agreement, dated September 27, 2018, by and among the Company, certain of its subsidiaries and the other parties named therein, pursuant to which the Company issued common shares to the SVP Parties, the Avenue Parties and certain other members of the Ad Hoc Group for payment of their fee for backstopping the equity rights offering .

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 17 to our consolidated financial statements.

Distribution Policy

We do not expect to pay dividends on our common shares for the foreseeable future. The payment of any future dividends to our shareholders will depend on decisions that will be made by our board of directors and will depend on then-existing conditions, including our operating results, financial condition, business prospects, Luxembourg corporate law restrictions, and restrictions under the indentures governing our Notes and under any future debt agreements or contracts.

Share Repurchase Program

On February 22, 2019, our shareholders approved a share repurchase program for a total expenditure of up to \$15.0 million for a two-year period. We may purchase shares in one or several transactions on the open market or otherwise; however, we are not obligated to repurchase any dollar amount or specific number of common shares under the program. We anticipate that repurchases will be funded with cash on hand. As of March 1, 2019, we had not repurchased any common shares under this program.

B. SIGNIFICANT CHANGES

See item 4.A. "History and Development of the Company" and Note 2 to our consolidated financial statements.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our common shares are traded on the NYSE under the symbol "PACD."

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our common shares were listed on the Norwegian OTC List from April 2011 to October 2016 and on the NYSE from November 11, 2011 to September 12, 2017. From September 13, 2017 to November 19, 2018 and from November 20, 2018 to December 17, 2018, our common shares were traded on the over-the-counter market under the ticker symbol "PACDQ" and "PACDD," respectively. Our common shares were relisted on the NYSE on December 18, 2018, and currently trade under the symbol "PACD."

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 December 20, 2018, are filed as Exhibit 1.1 to this Annual Report on Form 20-F.

General

Pacific Drilling S.A. is registered with the Luxembourg Registry of Trade and Companies under the Number B159658. Our Company is formed for an unlimited period and is not to be dissolved by reason of the death, suspension of civil rights, incapacity, insolvency, bankruptcy or any similar event affecting one or more shareholders.

Our corporate purpose, as stated in Article 3 (Corporate object) of our Articles, is as follows:

- Our object is buying and selling, the chartering in and the chartering out, and the management of seagoing ships, as well as the financial and commercial operations that relate directly or indirectly to such activities.
- We may also charter, hold, lease, operate and provide vessels and equipment used in contract drilling services in oil and gas drilling operations; acquire, hold, manage, sell or dispose of any such related equipment, and enter into, assist or participate in financial, commercial and other transactions relating to contract drilling services.
- In addition, we may acquire participations, in Luxembourg or abroad, in any company or enterprise in any form whatsoever, and the management of those participations. We 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. We may participate in the creation, development, management and control of any company or enterprise. Further, we may invest in the acquisition and management of a portfolio of patents or other intellectual property rights of any nature or origin.
- 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 carry out any regulated financial sector activities without having obtained the requisite authorization.
- We may use any techniques, legal means and instruments to manage our investments efficiently and 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.

Share Capital

We are authorized to issue up to 82.5 million common shares (including those shares which have already been issued), par value of \$0.01 per share, and our share capital is \$825,000. As of March 1, 2019, an aggregate of 82.5 million common shares were issued, of which approximately 75.0 million shares were outstanding, and approximately 7.5 million shares are reserved for issuance under the 2018 Stock Plan and held by one of our wholly-owned subsidiaries.

Our Articles provide that we may not issue non-voting equity securities (which shall not be deemed to include any warrants or options to purchase our shares). Our Articles also provide that no fractional shares may be issued. Holders of our common shares have no conversion or redemption rights, and there are no sinking fund provisions applicable to our common shares. We cannot subscribe for our own shares. We may redeem our own shares using a method approved by our board of directors which is in accordance with Luxembourg law and the rules of any stock exchange(s) on which our shares are listed from time to time.

All issued shares are fully paid. A shareholder in a Luxembourg société anonyme holding fully paid shares is not liable, solely because of his, her or its shareholder status, for additional payments to us or our creditors.

To our knowledge, as of March 1, 2019 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. For information regarding the rights of certain shareholders to nominate directors, see "Governance Agreement," below.

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 common shares are issued in registered form only and are freely transferable, subject to any restrictions in our Articles and pursuant to applicable securities laws. 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; Capital Increase/Reduction

Our Articles provide that the share capital may be increased or reduced, subject to the approval by the shareholders at a general meeting acting in accordance with the conditions prescribed for the amendment of our Articles.

Pursuant to Luxembourg law, our shareholders may approve an authorized share capital and authorize our board of directors to issue shares up to the maximum amount of such approved share capital for a maximum period of five years from the date of publication in the Luxembourg official gazette of the amendments of the Articles or 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.

Under Luxembourg law, existing shareholders benefit from a preferential subscription right on the issuance of common shares. When authorizing the board of directors to issue common shares out of the authorized capital, the shareholders may also authorize the board of directors to withdraw or limit the preferential subscription right, subject to compliance with certain notice and information requirements under Luxembourg law.

Our Articles provide that the board of directors was authorized, for a period of five years from November 19, 2018, without prejudice to any renewals, to: (a) increase the share capital once or more up to \$825,000 (such amount including the current share capital of the Company) by the issue of new shares having the same rights as the existing shares, or without any such issue; (b) determine the conditions of any such capital increase including through contributions in cash or in kind, by the incorporation of reserves, issue/share premiums or retained earnings, with or without issue of new shares to current shareholders or third parties (non-shareholders) or following the issue of any instrument convertible into common shares or any other instrument carrying an entitlement to, or the right to subscribe for, common shares; (c) limit or withdraw the shareholders' preferential subscription rights to the new common shares, if any, and determine the persons who are authorized to subscribe to the new common shares; and (d) record each share capital increase by way of a notarial deed and amend the share register accordingly. The board of directors was expressly authorized to increase the Company's share capital by incorporation of reserves, issue/share premiums or retained earnings and to issue the additional common shares resulting from such capital increase to a beneficiary under any stock incentive plan as agreed by the Company (such beneficiary being a shareholder of the Company or not, or, to an entity appointed by the Company as an administrator in connection with such plan) or under any equity rights offering, private placements or backstop fees. The Company reserved the right to place transfer and other restrictions on such common shares as determined by the Company pursuant to such stock incentive plan from time to time.

As of March 1, 2019, given that the available authorized capital has been completely used pursuant to Article 5.3 of our Articles, our board of directors is not authorized to increase our share capital without further authorization of our shareholders. See "Governance Agreement" below for a discussion of certain circumstances under which our authorized share capital may be increased.

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.

Under our Articles, the annual general meeting of our shareholders is held in Luxembourg, on the fourth Tuesday of May of each year, at 10:00 a.m. (Luxembourg time). If that day is a public 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. 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 of the request, 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. Such a request must be made by registered mail sent to our registered office at least five days prior to 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. Neither Luxembourg law nor our Articles contain any restrictions as to the voting of our common shares by non-Luxembourg residents.

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

Ordinary General Meetings of Shareholders. Ordinary general meetings of our shareholders may be convened, and a vote may be held, without a quorum requirement. Resolutions brought before such ordinary general meetings of our shareholders require the approval of a simple majority of the votes validly cast, irrespective of the number of shares present or represented. Abstentions will not be counted as “votes” at ordinary general meetings of our shareholders.

Extraordinary General Meetings of Shareholders. Extraordinary general meetings of our shareholders may be convened to amend our Articles and to address 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 statutory 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 one half 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 a quorum is not reached, the extraordinary general meeting of shareholders may be reconvened at a later date, pursuant to appropriate notification procedures, which reconvened meeting shall not require a quorum. Abstentions will not be counted as “votes” at extraordinary general meetings of our shareholders.

Appointment and Removal of Directors; Vacancies. Members of our board of directors may be elected by simple majority of the votes validly cast at any general meeting of shareholders. 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 remaining directors, acting by simple majority, may fill such vacancy on a provisional basis until a new director is elected at the next general meeting of shareholders. See “Governance Agreement” below for a discussion of certain provisions pursuant to which our Class B directors are nominated prior to the Nomination Termination Time (as defined therein).

Minority Action Right . Luxembourg law provides that the shareholders holding in the aggregate 10% of the issued share capital who have a right to vote at the general meeting may act on our behalf to discharge the members of the board of directors for misconduct against our interests, a violation of the law, or a violation of our Articles.

Board of Directors

All powers not expressly reserved to the shareholder(s) by law or the Articles fall within the competence of the board of directors, which has full power to carry out and approve all acts and operations consistent with the Company's corporate object.

The board of directors is authorized to delegate the day-to-day management and the power to represent the Company in this respect, to one or more directors, officers, managers or other agents, whether shareholders or not, acting either individually or jointly, provided that, prior to the Nomination Termination Time (as defined in the Governance Agreement) any appointment, delegation or power-of-attorney granted in respect of any Acquisition Proposal Matters (as defined below), or any revocation of the foregoing, shall only be effective if a Class B Majority (as defined below) votes in favor of such appointment, delegation or power-of-attorney, or revocation of the foregoing, as the case may be.

Except as otherwise provided by an amendment to our Articles, the total number of directors constituting the board of directors shall be seven directors, who need not be shareholders.

From and after the Plan Effective Date until the occurrence of the Nomination Termination Time (as defined in the Governance Agreement described below), the board of directors shall be divided into two classes, designated Class A (composed of four directors) and Class B (composed of three directors), with all Class A directors and Class B directors elected to terms of one year in length; provided, that the initial term of office of the Class A directors following the Plan Effective Date shall expire at the general meeting of the shareholders of the Company at which the annual accounts for the 2018 financial year will be approved and the initial term of office of the Class B directors following the Plan Effective Date shall expire at the general meeting of the shareholders of the Company at which the annual accounts for the 2019 financial year will be approved. All directors, whether assigned to Class A or Class B, shall be elected by the shareholders at the general meeting in accordance with law and shall have one vote each at all meetings of the board of directors. From and after the Nomination Termination Time (as defined in the Governance Agreement), the board of directors shall cease to be classified and each director then in office previously designated as a Class A director or Class B director shall remain in office as a director until his or her term expires or until his or her earlier death, resignation or removal by the shareholders.

The board of directors meets at the request of the chairperson or the majority of the board of directors. A director may grant another director a power of attorney in order to be represented at any meeting of the board of directors. A quorum of the board of directors is a majority of its members present or represented and resolutions are adopted by a majority of the members of the board of directors voting in their favor, except as otherwise provided in the Articles. In the event of a tie vote, the chairman has the right to cast the deciding vote. The board of directors may also act by means of resolutions in writing signed by all directors. There is no mandatory retirement age for directors under Luxembourg law.

A director who has a financial interest in a transaction carried out other than in the ordinary course of business which conflicts with the interests of the Company must advise the board of directors accordingly and have the statement recorded in the minutes of the meeting. The director concerned may not take part in the deliberations concerning that transaction. A special report on the relevant transaction is submitted to the shareholders at the next general meeting, before any vote on the matter.

Authority of Class B Directors Regarding Acquisition Proposals Prior to Nomination Termination Time

Until the Nomination Termination Time (as defined in the Governance Agreement described below), the following provisions of our Articles apply, and after the Nomination Termination Time, these provisions shall have no further force or effect:

- (1) *Representative Authority of the Class B Directors Regarding Acquisition Proposals* . Any two Class B directors acting in their capacities as such (a "Class B Majority") shall have the authority to act on the Company's behalf (including to bind the Company with respect to clauses (e) through (g)) with respect to the following matters: (a) to review and evaluate the terms and conditions of any Acquisition Proposal, (b) to negotiate with any party the Class B Majority deems appropriate with respect to any Acquisition Proposal; (c) to solicit prospective Acquisition Proposals and/or explore the ability to obtain on behalf of the Company prospective Acquisition Proposals, (d) to determine whether any Acquisition Proposal is beneficial to the

Company and its shareholders, (e) to make recommendations to the board of directors and shareholders as to what actions, if any, should be taken with respect to any Acquisition, Acquisition Contract or Acquisition Proposal, including to recommend that the board of directors or the shareholders, as applicable, approve any Acquisition, Acquisition Contract or Acquisition Proposal, (f) to retain, at the Company's expense, such consultants, legal counsel and other advisors as a Class B Majority may from time to time deem appropriate to assist the Class B directors in the performance of their duties with respect to Acquisition Proposals, (g) subject to paragraph (2) below, to execute and deliver on behalf of the Company definitive documentation providing for the consummation of an Acquisition (an "Acquisition Contract") and (h) to take, or to cause the Company to take, any and all actions ancillary or related to any actual or prospective Acquisition Proposal or the other matters referred to in the preceding clauses (a)-(g), including without limitation to authorize and enter into contracts of any nature (other than an Acquisition Contract except in accordance with paragraph (2) below) (the foregoing clauses (a)-(h), "Acquisition Proposal Matters"). As used in our Articles: (x) "Acquisition Proposal" means a proposal received by the Company, any of its subsidiaries, or any of its or their respective directors, officers or outside consultants, counsel or other advisors providing for an Acquisition; and (y) "Acquisition" means a transaction or series of related transactions resulting in the acquisition (whether by merger, consolidation, sale or transfer of the Company's shares, other equity interests or assets or otherwise) by any natural or legal person or group of such persons, directly or indirectly, (i) of a majority of (A) the outstanding shares of the Company or (B) the assets of the Company and its subsidiaries determined on a consolidated basis and (ii) upon the consummation of which, the shareholders of the Company immediately prior to such acquisition collectively do not own (beneficially or of record) a majority of the voting power of such person or the ultimate parent entity of such person (or, in the case of a group of such persons, a majority of the voting power of the largest member of such group, determined by reference to the respective equity financing contributions of such members, or ultimate parent entity of such largest member).

- (2) *Approval of Acquisition Contracts.* No Class B director, acting singularly or with any one or more other Class B directors, shall have the power to cause the Company to enter into any Acquisition Contract or otherwise consummate an Acquisition unless such Acquisition Contract (a) provides by its terms that consummation of the Acquisition that is the subject thereof is conditioned upon either (I) the shareholder vote, under the conditions of quorum and vote, required by law or other provision of the Articles for such Acquisition or (II) shareholder approval by the vote of a majority of the outstanding share capital, whichever voting standard in the foregoing clauses (I) or (II) is higher (such condition, as applicable, a "Shareholder Approval Condition") and (b) does not impose any obligations or penalties on the Company if the Shareholder Approval Condition is not obtained by the conclusion of the general meeting or extraordinary general meeting, as applicable, convened to vote on such Acquisition Contract or Acquisition other than reimbursement of the reasonable expenses incurred by the counterparty thereto (provided, that, for avoidance of doubt, this clause (b) shall not preclude the imposition of any obligation or penalty on the Company due to any cause or event other than the failure in and of itself to satisfy the Shareholder Approval Condition at such general meeting or extraordinary general meeting). If a proposed Acquisition Contract satisfies clauses (a) and (b) of the immediately preceding sentence, then a Class B Majority shall be authorized to represent the Company by executing and delivering, or causing any person authorized by the Class B Majority to execute and deliver, on the Company's behalf, such Acquisition Contract, to convene a general meeting or an extraordinary general meeting, as applicable, to seek shareholder approval of the Acquisition in accordance with the Shareholder Approval Condition, and, if such shareholder approval is obtained, to carry out all other powers vested under paragraph (1) above with respect to such Acquisition Contract (including to cause the Company to consummate the Acquisition and the other transactions contemplated thereby or, subject to the terms of the Acquisition Contract, terminate such Acquisition Contract and abandon such Acquisition).
- (3) *Limitation on Representative Authority of the Class A Directors Regarding Acquisition Proposals.* No Class A director, acting singularly or with any one or more other directors, in his or her capacity as such, shall have any representative authority to bind the Company or otherwise act on the Company's behalf, nor shall the board of directors take any action, in either case with respect to any Acquisition, Acquisition Contract or Acquisition Proposal Matters, except with the prior approval of a Class B Majority. Notwithstanding the immediately prior sentence, this paragraph (3) shall not be interpreted to limit the rights of the Class A directors to attend meetings of the Class B directors, receive information received by the Class B directors or to provide ongoing input to the Class B directors, in each case, regarding Acquisitions, Acquisition Contracts,

Acquisition Proposals or other Acquisition Proposal Matters, and the Class B directors shall so extend such rights to the Class A directors.

- (4) *Amendments* . The board of directors shall not propose to the shareholders or recommend that the shareholders approve any amendment to provisions to the Articles described in this section “Authority of Class B Directors Regarding Acquisition Proposals Prior to Nomination Termination Time” and/or any other provisions of the Articles directly or indirectly amending or limiting the application of the provisions described in this section, without the favorable vote of a Class B Majority.

Committees of the Board of Directors

Under our Articles, our board of directors may establish committees for certain specific purposes, which may include, but are not limited to, an audit committee and a compensation committee. As of the date of this registration statement, our board of directors has established an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee.

Amendment to our Articles

Under Luxembourg law, we are required to convene an extraordinary general meeting of shareholders to amend our Articles. The proposed amendments to our Articles must be included in the agenda of the extraordinary general meeting of shareholders. 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

Our shareholders must approve any merger by absorption involving the Company at an extraordinary general meeting of shareholders, which must be held before a notary. Similarly, the de-merger of the Company is generally subject to the approval of our shareholders at 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 shareholders out of funds legally available for such purposes. Pursuant to our Articles, at a general meeting, our shareholders may 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 will not bear interest. Under Luxembourg law, claims for unpaid distributions will lapse in our favor five years after the date such distribution is declared.

Limitation of Liability; Indemnification

Pursuant to our Articles, the members of our board of directors cannot be held personally liable by reason of their mandate for any commitment validly made in the Company’s name, provided such commitments comply with the Articles and Luxembourg law.

Pursuant to our Articles, we must, to the fullest extent permitted by Luxembourg law, indemnify any director or officer, as well as any former director or officer, against any damages and/or compensation to be paid and any costs, charges and expenses, reasonably incurred by him in connection with the defense or settlement of any civil, criminal or administrative action, suit or proceeding to which he may be made a party by reason of his being or having been a director or officer of the Company, if (a) he acted honestly and in good faith, and (b) in the case of criminal or administrative proceedings, he had reasonable grounds for believing that conduct was lawful. Notwithstanding the foregoing, the current or former director or officer will not be entitled to indemnification in case of an action, suit or proceeding brought against him by the Company or in case he shall be finally adjudged in an action, suit or proceeding to be liable for gross negligence, willful misconduct, fraud, dishonesty or any other criminal offense.

Furthermore, in case of settlement, the current or former director or officer will only be entitled to indemnification under our Articles, provided that (a) the board of directors shall have determined in good faith that the defendant's actions did not constitute willful and deliberate violations of the law and shall have obtained the relevant legal advice to that effect; and (b) notice of the intention of settlement of such action, suit or proceeding is given to us at least 10 business days prior to such settlement.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Annual Accounts; Auditors

Our Articles provide that our financial year begins on January 1 and ends on December 31 each year. Each year our board of directors must prepare annual accounts of the Company, 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.

Luxembourg law requires that the operation of the Company be supervised by one or more statutory auditors. The general meeting of shareholders must appoint the statutory auditor(s) and determine the term of their office, which may not exceed six years, without prejudice to any renewals. However, because the Company has exceeded certain thresholds, it is required to have its accounts audited by an independent auditor, which is responsible for advising whether the management report is in line with the financial statements for the year and has been prepared in accordance with legal requirements. The appointment of the independent auditor follows the same rules as the appointment of the statutory auditor, and a statutory auditor is no longer required if an independent auditor has been appointed. KPMG LLP is the independent auditor duly appointed by the annual general meeting of shareholders as of May 22, 2018 for a one-year mandate.

After approval by the shareholders at an annual general meeting, the annual accounts must be filed within one month after their approval or seven months of the close of the financial year with the Luxembourg Registry of Trade and Companies.

Information Rights

Luxembourg law gives shareholders limited rights to inspect certain corporate records eight 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 eight 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.

Governance Agreement

The Company has entered into a Governance Agreement dated as of November 19, 2018 with certain holders of its shares, defined therein as the Avenue Parties, the SVP Parties, and the Other Lenders.

Nomination Provisions . Pursuant to the Governance Agreement, until the Nomination Termination Time, defined below, the Avenue Parties have the right to nominate one Class B Director, the SVP Parties have the right to nominate one Class B Director and the Other Lenders have the right to nominate one Class B Director. Each of such parties also has the right to fill a vacancy with respect to its Class B Director nominee.

The “Nomination Termination Time” means the first such time that it becomes known to the Company that any of (i) the Avenue Parties (collectively and in the aggregate with each other), (ii) the SVP Parties (collectively and in the aggregate with each other) or (iii) the Other Lenders (collectively and in the aggregate with each other), hold, beneficially or of record, and have the power to vote or direct the voting of, 10% or less (the “Ownership Threshold”) of the then issued and outstanding shares of the Company. Whichever of the Avenue Parties, SVP Parties or Other Lenders, as applicable, whose holdings of shares of the Company first becomes known to the Company to cease to exceed the Ownership Threshold is referred to as the “Triggering Party.”

During the period beginning at the Nomination Termination Time and ending at the convening of the first general meeting after the Nomination Termination Time, if the board of directors requests in writing the resignation of the former Class B Director who was nominated by the Triggering Party, then each of the Avenue Parties, SVP Parties and Other Lenders has agreed to take all necessary actions to cause such director to resign or otherwise be removed from office as a director.

Each of the Avenue Parties and the SVP Parties agreed with one another to cooperate in facilitating the actions and rights in the Governance Agreement, including voting their Company common shares in favor of their respective Class B Director nominees. The Company agreed to cooperate in facilitating the actions and rights in the Governance Agreement, including providing the highest level of support for the election of the Class B Director nominees as it provides to any other individual standing for election as part of the Company's slate of directors.

Board Observer Rights . The parties to the Governance Agreement (each, an “Observer Shareholder”) each have the right to designate a board of directors observer until the first such time that it becomes known to the Company that an Observer Shareholder (together with its Permitted Transferees as defined in the agreement) ceases to hold beneficially or of record, and have the power to vote or direct the voting of, at least such Observer Shareholder’s Original Percentage Threshold. “Original Percentage Threshold” means, with respect to any Observer Shareholder, the lesser of (a) five percent (5%) of the issued and outstanding shares of the Company or (b) fifty percent (50%) of the shares of the Company such Observer Shareholder together with its Permitted Transferees collectively held, beneficially or of record, and had the power to vote or direct the voting of, at the close of business on the date of the Governance Agreement.

Additional Share Capital Authorization . Each of the Company, the Avenue Parties and the SVP Parties has agreed with one another that it will take all necessary actions to cause the Articles to be amended as promptly as practicable, following a request therefor by any of the Company, the Avenue Parties or the SVP Parties, to provide for the authority of the board of directors to increase the Company’s then current share capital once or more up to \$1.0 million (represented by up to an aggregate of 100.0 million authorized shares) (such amount including the current share capital of the Company of \$825,000) by the issue of new shares having the same rights as the existing shares, or without any such issue.

Waiver of Corporate Opportunity . The agreement contains a broad corporate opportunity waiver by the Company in favor of the shareholders party to the agreement and certain related persons as described in the agreement.

Confidential Information . The Class B Directors and Observers may, upon request of the party that designated them, share Company confidential information with the designating party, subject to the designating party entering into a confidentiality agreement with the Company.

The foregoing description of the Governance Agreement is only a summary, does not purport to be complete, and is qualified in its entirety by reference to the Governance Agreement, which is incorporated by reference as an Exhibit to this annual report.

Registration Rights Agreement

The Company entered into a Registration Rights Agreement, dated as of November 19, 2018 with QP and the shareholders party to the Governance Agreement, with respect to the Registrable Securities (as defined in the Registration Rights Agreement). Pursuant to the agreement, the Company filed a registration statement, declared effective on December 26, 2018, and included in it the Registrable Securities of each holder who requested inclusion therein of some or all of such holder's Registrable Securities. The shelf registration statement may be amended, among other things, under the circumstances specified in the agreement, to register Registrable Securities that were not previously included in the shelf registration statement and must be amended or replaced by an automatic shelf registration statement if and after the Company becomes eligible to use one. The Company will use its reasonable best efforts to keep the shelf registration statement continuously effective. The agreement also contains provisions permitting underwritten shelf resale transactions with an anticipated aggregate offering price to the public of at least \$150.0 million.

In addition, the agreement grants certain demand registration rights to parties beneficially owning at least 10% of the Company's shares, provided that the anticipated aggregate offering price to the public is at least \$150.0 million or at least 20% of the then-outstanding Registrable Securities (for the party exercising the demand registration right along with other holders entitled to have their shares registered along with the initiating holder). The agreement also contains customary "piggyback" registration rights if the Company proposes to file a registration statement with respect to an offering of its shares.

The agreement contains customary conditions, restrictions, suspension periods, blackout periods and ancillary requirements and customary indemnification and contribution provisions. The Company will generally pay all registration expenses other than underwriting fees, discounts, commissions, transfer taxes or similar taxes or charges. Upon the Company becoming aware that it fails to qualify as a foreign private issuer on the last business day of a second fiscal quarter, the Company must so notify the holders no later than 10 business days thereafter. The agreement terminates with respect to any holder when the holder ceases to hold Registrable Securities (except with respect to certain indemnification and information rights).

The foregoing description of the Registration Rights Agreement is only a summary, does not purport to be complete, and is qualified in its entirety by reference to the Registration Rights Agreement, which is incorporated by reference as an Exhibit to this annual report.

C. MATERIAL CONTRACTS

We have no material contracts other than those entered into in the ordinary course of business, the Governance Agreement, the Registration Rights Agreement and those described in our description of indebtedness. See Note 8 to our consolidated financial statements in this annual report for a more detailed description of the terms of our debt financings. For a description of the Governance Agreement and Registration Rights Agreement, see Item 10.B. "Additional Information – Memorandum and Articles of Association."

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 our common 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 our common shares.

E. TAXATION

Luxembourg Tax Considerations

The following is a summary discussion of certain Luxembourg tax considerations that may be applicable to U.S. Holders (defined below) 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. Holders 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 (Vermögenssteuergesetz), and the Law of October 16, 1934 on the valuation of assets (Bewertungsgesetz) (the "Valuation Law"), 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 prospectus 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 ("U.S.") 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 the Company is a Luxembourg resident within the meaning of Article 4 of 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 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 under certain conditions 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, among other things, (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 6.0 million 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 at least 10% 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 or a permanent representation 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 U.S. Holders (subject to the exceptions discussed under “—Exemption from Luxembourg Withholding Tax” and “—Reduction of Luxembourg Withholding Tax” below). Absent an exception, we will be required to withhold at such rate from distributions to U.S. Holders 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 under certain conditions be exempt from Luxembourg dividend withholding tax including, among other things, if: (a) 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 €1.2 million (or its equivalent amount in a foreign currency); and (b) 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 a collective entity fully subject to a tax in the U.S. 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 U.S. Holders 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 to U.S. Holders may not be subject to Luxembourg withholding tax.

Reduction of Luxembourg Withholding Tax . Corporate U.S. Holders may claim application of a reduced Luxembourg dividend withholding tax at a rate of 5% under Article 10(2)(a)(i) of the Treaty, if such U.S. Holders beneficially own at least 10% of our voting stock without any minimum holding period.

Net Wealth Tax

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 Valuation Law.

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, her or its tax advisor as to the particular consequences that may apply to such shareholder.

U.S. Federal Income Tax Considerations

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 of this prospectus, 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 (defined below) 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 U.S.;*

- a corporation, or any other entity taxable as a corporation, created or organized in or under the laws of the U.S. 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 U.S. is able to exercise primary supervision over its administration and one or more U.S. 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; Generally. 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 as of the date of this prospectus, 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. However, this involves a facts and circumstances analysis and it is possible that the IRS would not agree with this conclusion. Further, 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.

Our position that we will not be treated as a PFIC is premised on the conclusion that income from our drilling contracts should not constitute passive income for purposes of the relevant PFIC rules. However, this conclusion is not free from doubt. While there is legal authority supporting this conclusion, including IRS pronouncements concerning the characterization of income derived from time charters as services income, the United States Court of Appeals for the Fifth Circuit (the “Fifth Circuit”) held in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), that income derived from certain timechartering activities should be treated as rental income rather than services income for purposes of a provision of the Code relating to foreign sales corporations. In that case, the Fifth Circuit did not address the definition of passive income or the PFIC rules; however, the reasoning of the case could have implications as to how the income from our drilling contracts would be classified under such rules. If the reasoning of this case were extended to our drilling contracts in a PFIC context, the gross income we derive or are deemed to derive from such drilling contracts may be treated as rental income, and we could potentially be treated as a PFIC. In published (but non-precedential) guidance, the IRS has stated that it disagreed with the holding in *Tidewater* and specified that time charters similar to those at issue in the case should be treated as service contracts.

There is no legal authority under the PFIC rules addressing our specific method of operation, and any determination as to whether our method of operation and the composition of our assets generates nonpassive services income must be based on all applicable facts and circumstances. Conclusions in this area therefore remain matters of interpretation. We are not seeking a ruling from the IRS on the treatment of income generated from our drilling operations. Thus, it is possible that the IRS or a court could disagree with this position.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different U.S. federal income taxation rules depending on whether the U.S. Holder makes an election to treat us as a “Qualified Electing Fund,” which election we refer to as a “QEF election.” As an alternative to making a QEF election, a U.S. Holder may be able to make a “mark-to-market” election with respect to our common shares, as discussed below. In addition, if we were to be treated as a PFIC for any taxable year a U.S. Holder would be required to file an annual report with the IRS for that year with respect to such U.S. Holder’s common shares.

Passive Foreign Investment Company Rules; Taxation of U.S. Holders Making and Maintaining a Timely QEF Election . If a U.S. Holder makes and maintains a timely QEF election, which U.S. Holder we refer to as an “Electing Holder,” the Electing Holder must report each year for U.S. federal income tax purposes his pro rata share of our ordinary earnings and our net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. The Electing Holder’s adjusted tax basis in the common shares would be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that have been previously taxed can result in a corresponding reduction in the adjusted tax basis in the common shares and would not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale or other taxable disposition of our common shares, computed as discussed above using such Electing Holder’s tax basis in our shares, as adjusted. A U.S. Holder can make a QEF election with respect to any taxable year during which we are a PFIC by filing a valid IRS Form 8621 in accordance with the relevant instructions and related U.S. Treasury Regulations with such U.S. Holder’s U.S. federal income tax return for the taxable year, which requires access to certain information from us. If we were aware that we or any of our subsidiaries were to be treated as a PFIC for any taxable year, we may or may not provide each U.S. Holder with all necessary information in order to make the QEF election described above. If we were to be treated as a PFIC, a U.S. Holder would be treated as owning his proportionate share of stock in each of our subsidiaries which is treated as a PFIC and a separate QEF election would be necessary with respect to each subsidiary. It should be noted that we may not be able to provide such information if we did not become aware of our status as a PFIC in a timely manner.

Passive Foreign Investment Company Rules; Taxation of U.S. Holders Making a “Mark-to-Market” Election . Alternatively, if we were to be treated as a PFIC for any taxable year and our common shares are treated as “marketable stock” for purposes of these rules (*i.e.* , because our common shares may be considered regularly traded on a national securities exchange registered with the SEC (including the NYSE) or other qualifying exchange or market in accordance with applicable U.S. Treasury Regulations), a U.S. Holder would be allowed to make a “mark-to-market” election with respect to our common shares, provided the U.S. Holder completes and files a valid IRS Form 8621 in accordance with the relevant instructions and related U.S. Treasury Regulations. The “mark-to-market” election will not be available for any of our subsidiaries. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common shares at the end of the taxable year over such holder’s adjusted tax basis in the common shares. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder’s adjusted tax basis in the common shares over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder’s tax basis in his common shares would be adjusted to reflect any such income or loss amount. Gain realized on the sale or other taxable disposition of our common shares would be treated as ordinary income, and any loss realized on the sale or other taxable disposition of the common shares would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included as ordinary income by the U.S. Holder.

Passive Foreign Investment Company Rules; Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election . Finally, if we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF election or a “mark-to-market” election for that year, whom we refer to as a “Non-Electing Holder,” would be subject to special rules with respect to (1) any excess distribution (*i.e.* , the portion of any distributions received by the Non-Electing Holder on our common shares in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder’s

holding period for the common shares), and (2) any gain realized on the sale or other taxable disposition of our common shares. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holders' aggregate holding period for the common shares;
- the amount allocated to the current taxable year and any taxable year before we became a PFIC would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a pension or profit-sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of our common shares. If a Non-Electing Holder who is an individual dies while owning our common shares, such Non-Electing Holder's successor generally would not receive a step-up in tax basis with respect to such common shares.

U.S. Holders should consult their own tax adviser about the potential application of the PFIC rules to an investment in the common shares. 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 U.S. If our common shares are traded on an established securities market (such as the NYSE) or Pacific Drilling S.A. is eligible for the benefits of a comprehensive income tax treaty with the U.S., we will be 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. The determination of whether we are a qualified foreign corporation will be made at the time of the dividend payment and will be made based on the facts and circumstances at that time. There is no guarantee that we will be treated as a qualified foreign corporation at the time of paying dividends and that dividends will be subject to preferential tax rates for non-corporate U.S. Holders. 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 below under "—Luxembourg Tax Considerations—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 U.S. 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.

Foreign Account Tax Compliance Act . Pursuant to the Foreign Account Tax Compliance Act ("FATCA"), a 30% withholding tax will be imposed on certain payments to U.S. Holders (or to certain foreign financial institutions, investment funds, and other non-U.S. persons receiving such payments on a U.S. Holder's behalf) and certain non-U.S. financial institutions that fail to comply with certain information-reporting, account identification, withholding, certification and other FATCA-related requirements in respect of their direct and indirect U.S. shareholders and/or U.S. accountholders. Amounts that a U.S. Holder receives could be subject to withholding under FATCA if such U.S. Holder holds the common shares through another person (*e.g.*, a foreign bank or broker) that is subject to withholding under FATCA because it fails to comply with these requirements (even if such U.S. Holder would not otherwise have been subject to withholding).

To avoid becoming subject to FATCA withholding, we and other non-U.S. financial institutions may be required to report information to the IRS regarding the holders of our common shares and to withhold on a portion of payments under the common shares to certain holders that fail to comply with the relevant information reporting requirements (or the holders of the common shares directly or indirectly through certain non-compliant intermediaries).

Withholding under FATCA would not apply to payments made with respect to our common shares before January 1, 2019.

Prospective investors should consult their tax advisors regarding the potential impact of FATCA, the Luxembourg Intergovernmental Agreement and any non-U.S. legislation implementing FATCA on the investment in our common shares.

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 U.S. and, if required by an applicable income tax treaty, the dividends are attributable to a permanent establishment

maintained by the holder in the U.S. 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 U.S. 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 U.S. (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 U.S.), 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 U.S. 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 U.S.); 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 U.S. 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. The SEC 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 . Following our emergence from bankruptcy on November 19, 2018, we have no variable interest debt as of December 31, 2018. The fair value of our fixed rate debt will fluctuate based on changes in market expectations for interest rates and perceptions of our credit risk.

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

None.

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

For information regarding amendments to our Articles and the Governance Agreement entered into in connection with our emergence from bankruptcy, see Item 10.B. “Additional Information – Memorandum and Articles of Association.”

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, 2018. 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, 2018, 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 David Weinstein, 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. Weinstein’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,	
	2018	2017
	(in thousands)	
Audit fees ^(a)	\$ 2,146	\$ 935
Audit-related fees ^(b)	—	—
Tax fees ^(c)	—	—
All other fees ^(d)	—	—
Total	\$ 2,146	\$ 935

- (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, 2018, 2017 and 2016 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, 2018	Total number of shares purchased	Average price paid per share (\$)	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
January	—	—	—	—
February	—	—	—	—
March	—	—	—	—
April	—	—	—	—
May	—	—	—	—
June	—	—	—	—
July	—	—	—	—
August	—	—	—	—
September	—	—	—	—
October	—	—	—	—
November	—	—	—	—
December	8,061 ⁽¹⁾	15.11	—	—
Total	8,061	15.11	—	—

(1) Represents shares withheld to cover payroll taxes related to stock bonus awards granted in December 2018 by our board of directors to certain key employees.

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

[Consolidated Statements of Operations](#)

F-2

[Consolidated Statements of Comprehensive Income \(Loss\)](#)

F-3

[Consolidated Balance Sheets](#)

F-4

[Consolidated Statements of Shareholders' Equity](#)

F-5

[Consolidated Statements of Cash Flows](#)

F-6

[Notes to Consolidated Financial Statements](#)

F-7

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1*	<u>Coordinated Articles of Association of Pacific Drilling S.A., dated December 20, 2018.</u>
2.1	<u>Governance Agreement by and among Pacific Drilling S.A. and certain shareholders party thereto dated as of November 19, 2018 (incorporated by reference to Exhibit 2.1 to the Company's Report on Form 6-K filed November 20, 2018, File No. 001-35345).</u>
2.2	<u>Registration Rights Agreement dated as of November 19, 2018 by and among the Company and the shareholders party thereto (incorporated by reference to Exhibit 2.2 to the Company's Report on Form 6-K filed November 20, 2018, File No. 001-35345).</u>
2.3	<u>Indenture, dated September 26, 2018, between Pacific Drilling First Lien Escrow Issuer Limited and Wilmington Trust, National Association as Trustee and Collateral Agent relating to the Company's 8.375% First Lien Notes due 2023 (incorporated by reference to Exhibit 99.1 to the Company's Report on Form 6-K filed on September 28, 2018, File No. 001-35345).</u>
2.4	<u>Form of 8.375% First Lien Note due 2023 (incorporated by reference to Exhibit 1 to Appendix of Exhibit 99.1 of the Company's Report on Form 6-K filed on September 28, 2018, File No. 001-35345).</u>
2.5	<u>First Supplemental Indenture, dated November 19, 2018, between Pacific Drilling S.A. and Wilmington Trust, National Association as Trustee and Collateral Agent relating to the Company's 8.375% First Lien Notes due 2023 (incorporated by reference to Exhibit 2.3 to the Company's Report on Form 6-K filed on November 20, 2018, File No. 001-35345).</u>
2.6	<u>Second Supplemental Indenture, dated November 19, 2018, between Pacific Drilling S.A., the Guarantors named therein and Wilmington Trust, National Association as Trustee and Collateral Agent relating to the Company's 8.375% First Lien Notes due 2023 (incorporated by reference to Exhibit 2.4 to the Company's Report on Form 6-K filed on November 20, 2018, File No. 001-35345).</u>
2.7	<u>Indenture, dated September 26, 2018, between Pacific Drilling Second Lien Escrow Issuer Limited and Wilmington Trust, National Association as Trustee and Junior Lien Collateral Agent relating to the Company's 11.000% / 12.000% Second Lien PIK Notes due 2024 (incorporated by reference to Exhibit 99.3 to the Company's Report on Form 6-K filed on September 28, 2018, File No. 001-35345).</u>
2.8	<u>Form of 11.000% / 12.000% Second Lien PIK Note due 2024 (incorporated by reference to Exhibit 1 to Appendix of Exhibit 99.3 of the Company's Report on Form 6-K filed on September 28, 2018, File No. 001-35345).</u>
2.9	<u>First Supplemental Indenture, dated November 19, 2018, between Pacific Drilling S.A. and Wilmington Trust, National Association as Trustee and Junior Lien Collateral Agent relating to the Company's 11.000% / 12.000% Second Lien PIK Notes due 2024 (incorporated by reference to Exhibit 2.5 to the Company's Report on Form 6-K filed on November 20, 2018, File No. 001-35345).</u>
2.10	<u>Second Supplemental Indenture, dated November 19, 2018, between Pacific Drilling S.A., the Guarantors named therein and Wilmington Trust, National Association as Trustee and Junior Lien Collateral Agent relating to the Company's 11.000% / 12.000% Second Lien PIK Notes due 2024 (incorporated by reference to Exhibit 2.6 to the Company's Report on Form 6-K filed on November 20, 2018, File No. 001-35345).</u>
2.11	<u>Intercreditor Agreement, dated as of November 19, 2018, between Wilmington Trust, National Association, in its capacity as First Lien Collateral Agent, and Wilmington Trust, National Association, in its capacity as Junior Lien Collateral Agent, and acknowledged and agreed to by the Company and the Grantors named therein (incorporated by reference to Exhibit 2.7 to the Company's Report on Form 6-K filed on November 20, 2018, File No. 001-35345).</u>
4.1	<u>Commitment Agreement (Equity), dated as of September 27, 2018, among Pacific Drilling S.A., the Commitment Parties party thereto, the Reserve Parties party thereto, and Quantum Pacific (Gibraltar) Limited (incorporated by reference to Exhibit 99.3 to the Company's Report on Form 6-K filed on October 1, 2018, File No. 001-35345).</u>

Exhibit Number	Description
4.2	Pacific Drilling S.A. 2018 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed on November 28, 2018, File No. 333-228582).
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.
15.2	Modified Fourth Amended Joint Plan of Reorganization for Pacific Drilling S.A. and Certain of Its Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 746], dated October 31, 2018 (incorporated by reference to Exhibit 99.1 of the Company's Report on Form 6-K filed on November 5, 2018, File No. 001-35345).
15.3	Order Confirming the Debtors' Modified Fourth Amended Joint Plan of Reorganization, as entered by the Bankruptcy Court on November 2, 2018 [Docket No. 746] (incorporated by reference to Exhibit 99.2 of the Company's Report on Form 6-K filed on November 5, 2018, File No. 001-35345).
15.4*	Amended Joint Plan of Liquidation/Reorganization for Pacific Drilling Services, Inc. and Pacific Drilling VIII Limited Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 30], dated as of January 22, 2019.
15.5*	Order Confirming the Debtors' Amended Joint Plan of Liquidation/Reorganization, as entered by the Bankruptcy Court on January 30, 2019 [Docket No. 881].
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.

* 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/ Bernie G. Wolford, Jr.

Name: Bernie G. Wolford, Jr.

Title: Chief Executive Officer

Date: March 12, 2019

Report of Independent Registered Public 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. and subsidiaries (the Company) as of December 31, 2018 (Successor) and 2017 (Predecessor), the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the periods of November 20, 2018 to December 31, 2018 (Successor), January 1, 2018 to November 19, 2018 (Predecessor), and for the years ended December 31, 2017 and 2016 (Predecessor), 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, 2018 (Successor) and 2017 (Predecessor), and the results of its operations and its cash flows for the periods of November 20, 2018 to December 31, 2018 (Successor), January 1, 2018 to November 19, 2018 (Predecessor) and for the years ended December 31, 2017 and 2016 (Predecessor), in conformity with U.S. generally accepted accounting principles.

New Basis of Presentation

As discussed in Note 2 to the consolidated financial statements, on November 2, 2018, the United States Bankruptcy Court for the Southern District of New York entered an order confirming the Company's plan for reorganization under Chapter 11, which became effective on November 19, 2018. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Accounting Standards Codification 852-10, *Reorganizations*, for the Successor as a new entity with assets, liabilities and a capital structure having carrying amounts not comparable with prior periods as described in Note 3.

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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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
March 12, 2019

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

	Successor	Predecessor		
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years Ended December 31,	
			2017	2016
Revenues				
Contract drilling	\$ 28,489	\$ 236,379	\$ 319,716	\$ 769,472
Costs and expenses				
Operating expenses	(19,744)	(189,606)	(244,089)	(290,038)
General and administrative expenses	(4,245)	(50,604)	(87,134)	(63,379)
Depreciation and amortization expense	(27,277)	(248,302)	(278,949)	(275,901)
	(51,266)	(488,512)	(610,172)	(629,318)
Operating income (loss)	(22,777)	(252,133)	(290,456)	140,154
Other income (expense)				
Interest expense	(10,904)	(106,632)	(178,983)	(189,044)
Write-off of deferred financing costs	—	—	(30,846)	—
Gain on debt extinguishment	—	—	—	36,233
Reorganization items	(1,300)	(1,799,664)	(6,474)	—
Interest income	1,008	3,148	2,717	362
Equity earnings in unconsolidated subsidiaries	392	—	—	—
Expenses to unconsolidated subsidiaries, net	(1,198)	—	—	—
Other income (expense)	526	(1,904)	(8,261)	(2,755)
Loss before income taxes	(34,253)	(2,157,185)	(512,303)	(15,050)
Income tax (expense) benefit	6,769	2,308	(12,863)	(22,107)
Net loss	\$ (27,484)	\$ (2,154,877)	\$ (525,166)	\$ (37,157)
Loss per common share, basic	\$ (0.37)	\$ (100.89)	\$ (24.64)	\$ (1.76)
Weighted-average number of common shares, basic	75,010	21,359	21,315	21,167
Loss per common share, diluted	\$ (0.37)	\$ (100.89)	\$ (24.64)	\$ (1.76)
Weighted-average number of common shares, diluted	75,010	21,359	21,315	21,167

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Period From</u> <u>November 20, 2018</u> <u>through</u> <u>December 31, 2018</u>	<u>Period From</u> <u>January 1, 2018</u> <u>through</u> <u>November 19, 2018</u>	<u>Years Ended December 31,</u>	
			<u>2017</u>	<u>2016</u>
Net loss	\$ (27,484)	\$ (2,154,877)	\$ (525,166)	\$ (37,157)
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)
Reclassification adjustment for loss on derivative instruments realized in net income	—	643	5,265	8,798
Reclassification adjustment for loss on derivative instruments realized in property and equipment	—	—	—	1,789
Total other comprehensive income	—	643	4,700	4,297
Total comprehensive loss	<u>\$ (27,484)</u>	<u>\$ (2,154,234)</u>	<u>\$ (520,466)</u>	<u>\$ (32,860)</u>

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except par value)

	<u>Successor</u> <u>December 31,</u> <u>2018</u>	<u>Predecessor</u> <u>December 31,</u> <u>2017</u>
Assets:		
Cash and cash equivalents	\$ 367,577	\$ 308,948
Restricted cash	21,498	8,500
Accounts receivable, net	40,549	40,909
Other receivable	28,000	—
Materials and supplies	40,429	87,332
Deferred costs, current	482	14,892
Prepaid expenses and other current assets	8,667	14,774
Total current assets	<u>507,202</u>	<u>475,355</u>
Property and equipment, net	1,915,172	4,652,001
Long-term receivable	—	202,575
Receivable from unconsolidated subsidiaries	204,790	—
Intangible asset	85,053	—
Investment in unconsolidated subsidiaries	11,876	—
Other assets	24,120	33,030
Total assets	<u>\$ 2,748,213</u>	<u>\$ 5,362,961</u>
Liabilities and shareholders' equity:		
Accounts payable	\$ 14,941	\$ 11,959
Accrued expenses	25,744	36,174
Accrued interest	16,576	6,088
Deferred revenue, current	—	23,966
Total current liabilities	<u>57,261</u>	<u>78,187</u>
Long-term debt, net of current maturities	1,039,335	—
Payable to unconsolidated subsidiaries	4,400	—
Deferred revenue	—	12,973
Other long-term liabilities	28,259	32,323
Total liabilities not subject to compromise	<u>1,129,255</u>	<u>123,483</u>
Liabilities subject to compromise	—	3,087,677
Commitments and contingencies		
Shareholders' equity:		
Common shares, \$0.01 par value per share, 82,500 and 5,000,000 shares authorized, 82,500 and 22,551 shares issued and 75,031 and 21,339 shares outstanding as of December 31, 2018 and December 31, 2017, respectively	750	213
Additional paid-in capital	1,645,692	2,366,464
Accumulated other comprehensive loss	—	(14,493)
Accumulated deficit	(27,484)	(200,383)
Total shareholders' equity	<u>1,618,958</u>	<u>2,151,801</u>
Total liabilities and shareholders' equity	<u>\$ 2,748,213</u>	<u>\$ 5,362,961</u>

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. 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			
Predecessor								
Balance at January 1, 2016	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
Shares issued under share-based compensation plan	29	1	(5)	(29)	—	—	—	(4)
Share-based compensation	—	—	2,543	—	—	—	—	2,543
Other comprehensive income	—	—	—	—	—	643	—	643
Net loss	—	—	—	—	—	—	(2,154,877)	(2,154,877)
Balance at November 19, 2018 (Predecessor)	21,368	214	2,369,002	1,183	—	(13,850)	(2,355,260)	106
Reverse stock split	(21,366)	(214)	214	(1,183)	—	—	—	—
Elimination of Predecessor equity balances	—	—	(2,369,110)	—	—	13,850	2,355,260	—
Equity conversion	24,416	244	1,152,199	—	—	—	—	1,152,443
Equity offerings	50,582	506	492,914	—	—	—	—	493,420
Issuance of shares reserved for share-based compensation plan	—	—	—	7,500	—	—	—	—
Balance at November 20, 2018 (Successor)	75,000	750	1,645,219	7,500	—	—	—	1,645,969
Successor								
Shares issued under share-based compensation plan	31	—	(126)	(31)	—	—	—	(126)
Share-based compensation	—	—	599	—	—	—	—	599
Net loss	—	—	—	—	—	—	(27,484)	(27,484)
Balance at December 31, 2018 (Successor)	75,031	\$ 750	\$ 1,645,692	7,469	\$ —	\$ —	(27,484)	\$ 1,618,958

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(in thousands)

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Period From November 20, 2018 through December 31, 2018</u>	<u>Period From January 1, 2018 through November 19, 2018</u>	<u>Years Ended December 31,</u>	
			<u>2017</u>	<u>2016</u>
Cash flow from operating activities:				
Net loss	\$ (27,484)	\$ (2,154,877)	\$ (525,166)	\$ (37,157)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization expense	27,277	248,302	278,949	275,901
Amortization of deferred revenue	—	(20,212)	(46,829)	(67,053)
Amortization of deferred costs	128	13,882	11,689	13,945
Amortization of deferred financing costs	—	1,639	24,889	18,786
Amortization of debt premium, net	(38)	—	940	1,279
Interest paid-in-kind	3,732	4,933	—	—
Write-off of deferred financing costs	—	—	30,846	—
Deferred income taxes	(6,507)	4,103	7,409	15,494
Share-based compensation expense	599	2,543	6,819	7,094
Gain on debt extinguishment	—	—	—	(36,233)
Other-than-temporary impairment of available-for-sale securities	—	—	6,829	—
Reorganization items	—	1,746,764	5,315	—
Changes in operating assets and liabilities:				
Accounts receivable	(11,670)	12,028	53,713	73,428
Materials and supplies	(122)	3,532	6,187	2,564
Prepaid expenses and other assets	(11,177)	(32,962)	(20,457)	(29,276)
Accounts payable and accrued expenses	(16,490)	(10,096)	38,214	(24,843)
Deferred revenue	—	(481)	5,780	35,175
Net cash provided by (used in) operating activities	<u>(41,752)</u>	<u>(180,902)</u>	<u>(114,873)</u>	<u>249,104</u>
Cash flow from investing activities:				
Capital expenditures	(2,697)	(18,624)	(36,645)	(52,625)
Deconsolidation of Zonda Debtors	—	(4,910)	—	—
Purchase of available-for-sale securities	—	—	(6,000)	—
Net cash used in investing activities	<u>(2,697)</u>	<u>(23,534)</u>	<u>(42,645)</u>	<u>(52,625)</u>
Cash flow from financing activities:				
Payments for shares issued under share-based compensation plan	(126)	(4)	(199)	(89)
Proceeds from debtor-in-possession financing	—	50,000	—	—
Payments for debtor-in-possession financing	—	(50,000)	—	—
Proceeds from long-term debt	—	1,000,000	—	450,000
Payments on long-term debt	—	(1,136,478)	(146,473)	(110,832)
Proceeds from equity offerings	—	500,000	—	—
Payments for financing costs	(13,525)	(29,355)	(4,530)	(25,423)
Net cash provided by (used in) financing activities	<u>(13,651)</u>	<u>334,163</u>	<u>(151,202)</u>	<u>313,656</u>
Increase (decrease) in cash and cash equivalents	(58,100)	129,727	(308,720)	510,135
Cash, cash equivalents and restricted cash, beginning of period	447,175	317,448	626,168	116,033
Cash, cash equivalents and restricted cash, end of period	<u>\$ 389,075</u>	<u>\$ 447,175</u>	<u>\$ 317,448</u>	<u>\$ 626,168</u>

See accompanying notes to consolidated financial statements.

PACIFIC DRILLING S.A. AND SUBSIDIARIES

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—Emergence from Bankruptcy Proceedings

By order entered on November 2, 2018, the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) confirmed the Company’s Modified Fourth Amended Joint Plan of Reorganization, dated October 31, 2018 (the “Plan”) that had been filed with the Bankruptcy Court in connection with the filing by the Company and certain of its subsidiaries (the “Initial Debtors”) of petitions (the “Bankruptcy Petitions”) on November 12, 2017 (the “Petition Date”) with the Bankruptcy Court seeking relief under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”). On November 19, 2018 (the “Plan Effective Date”), the Company and the Initial Debtors other than the Zonda Debtors (described below) (the “Debtors”) emerged from bankruptcy after successfully completing their reorganization pursuant to the Plan. The Company’s two subsidiaries involved in the arbitration with Samsung Heavy Industries Co. Ltd. (“SHI”) related to the *Pacific Zonda*, Pacific Drilling VIII Limited and Pacific Drilling Services, Inc. (together, the “Zonda Debtors”), filed a separate plan of reorganization that was confirmed by order of the Bankruptcy Court on January 30, 2019 and are not Debtors under the Plan.

During the bankruptcy proceedings, the Debtors operated as “debtors-in-possession” in accordance with applicable provisions of the Bankruptcy Code.

Upon emergence of the Company from bankruptcy on November 19, 2018 in accordance with the Plan:

- The Company’s pre-petition 2013 Revolving Credit Facility and SSCF (both as defined below in Note 8), and post-petition debtor-in-possession financing were repaid in full;
- Holders of the Company’s Term Loan B, 2017 Notes and 2020 Notes (each term as defined below in Note 8) received an aggregate of 24,416,442 common shares (or, approximately 32.6% of the outstanding shares) in exchange for their claims;
- The Company issued an aggregate of 44,174,136 common shares (or, approximately 58.9% of the outstanding shares) to holders of Term Loan B, 2017 Notes and 2020 Notes who subscribed in the Company’s \$460.0 million equity rights offering;
- The Company issued 3,841,229 common shares (or, approximately 5.1% of the outstanding shares) to Quantum Pacific Gibraltar Limited (“QP”) in a \$40.0 million private placement;
- The Company issued 2,566,056 common shares (or, approximately 3.4% of the outstanding shares) to members of an ad hoc group of holders of the Term Loan B, 2017 Notes and 2020 Notes (the “Ad Hoc Group”) in payment of their fee for backstopping the equity rights offering;
- The Company issued approximately 7.5 million common shares to Pacific Drilling Administrator Limited, a wholly owned subsidiary of the Company that serves as administrator of the Company’s 2018 Omnibus Stock Incentive Plan (the “2018 Stock Plan”), adopted by the board of directors, and which shares were reserved for issuance under the 2018 Stock Plan;
- Existing holders of the Company’s common shares received no recovery and were diluted by the issuances of common shares under the Plan such that they held in the aggregate less than 0.003% of the Company’s common shares outstanding upon emergence from bankruptcy; and
- The undisputed claims of other unsecured creditors such as clients, employees and vendors, will be paid in full in the ordinary course of business.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

On the Plan Effective Date, as a result of the issuances of common shares described above, the Company had issued and outstanding 75.0 million common shares, and 7.5 million shares reserved for issuance pursuant to the 2018 Stock Plan.

In addition, pursuant to the Plan, on September 26, 2018 bankruptcy-remote subsidiaries of the Company issued, and on November 19, 2018 such subsidiaries merged with the Company and the Company assumed (the “Notes Assumption”):

- \$750.0 million in aggregate principal amount of 8.375% First Lien Notes due 2023, secured by first-priority liens on substantially all assets of the Debtors (the “First Lien Notes”); and
- \$273.6 million in aggregate principal amount of 11.0% / 12.0% Second Lien PIK Notes due 2024, secured by second-priority liens on substantially all assets of the Debtors (the “Second Lien PIK Notes”). Approximately \$23.6 million aggregate principal amount was issued as a commitment fee to the Ad Hoc Group for their agreement to backstop the issuance of the Second Lien PIK Notes.

Concurrent with the Notes Assumption, all of the Company’s subsidiaries other than the Zonda Debtors, certain immaterial subsidiaries and Pacific International Drilling West Africa Limited (“PIDWAL,” a Nigerian limited liability company indirectly 49% owned by the Company) guaranteed on a senior secured basis the First Lien Notes and Second Lien PIK Notes. It is expected that the Zonda Debtors will guarantee the First Lien Notes and Second Lien PIK Notes upon their emergence from bankruptcy pursuant to their separate plan of reorganization after the successful resolution of the arbitration proceeding involving the *Pacific Zonda*. See Note 17 for further discussion. If the Company is unsuccessful in the arbitration, the Company expects to liquidate the Zonda Debtors and the Zonda Debtors would not guarantee the First Lien Notes and Second Lien PIK Notes.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

We have segregated liabilities and obligations whose treatment and satisfaction were dependent on the outcome of the Chapter 11 proceedings and have classified these items as liabilities subject to compromise on our consolidated balance sheets. The components of liabilities subject to compromise are as follows:

	Successor	Predecessor
	December 31, 2018	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 8 for further discussion.

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:

	Successor	Predecessor	
	Period From	Period From	
	November 20, 2018	January 1, 2018	Year Ended
	through	through	December 31, 2017
	December 31, 2018	November 19, 2018	December 31, 2017
(in thousands)			
Professional fees	\$ 1,300	\$ 82,787	\$ 6,447
Gain on the settlement of liabilities subject to compromise	—	(794,218)	—
Discharge of claims upon emergence from bankruptcy	—	(80)	—
Revision of estimated claims	—	—	27
Escrow interest income	—	(2,940)	—
Fresh start accounting adjustments	—	2,514,115	—
Total reorganization items	\$ 1,300	\$ 1,799,664	\$ 6,474

Note 3—Fresh Start Accounting

Fresh Start Accounting

Upon the Company's emergence from Chapter 11 bankruptcy, we adopted fresh start accounting ("Fresh Start Accounting") in accordance with the provisions of Accounting Standards Codification ("ASC") 852, *Reorganizations*, ("ASC 852") issued by the Financial Accounting Standards Board ("FASB"), which resulted in the Company becoming a new entity for financial reporting purposes. In accordance with ASC 852, the Company was required to adopt Fresh Start Accounting upon its emergence from Chapter 11 because (i) the holders of the then existing common shares of the Predecessor received less than 50% of the new common shares of the Successor outstanding upon emergence and (ii) the reorganization value of the Company's assets immediately prior to confirmation of the Plan was less than the total of all postpetition liabilities and allowed claims.

Upon adoption of Fresh Start Accounting, the reorganization value derived from the enterprise value as disclosed in the Plan was allocated to the Company's assets and liabilities based on their fair values (except for deferred income taxes) in accordance with ASC 805, *Business Combinations*. The amount of deferred income taxes recorded was determined in accordance with ASC 740, *Income Taxes*.

The Plan Effective Date fair values of the Company's assets and liabilities differed materially from their recorded values as reflected on the historical balance sheet. The effects of the Plan and the application of Fresh Start Accounting

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

were reflected on the consolidated balance sheet as of November 19, 2018 and the related adjustments thereto were recorded in the consolidated statements of operations for the period January 1, 2018 through November 19, 2018.

As a result of the adoption of Fresh Start Accounting and the effects of the implementation of the Plan, the Company's consolidated financial statements subsequent to November 19, 2018, are not comparable to its consolidated financial statements on and prior to November 19, 2018. References to "Successor" relate to the financial position and results of operations of the reorganized Company as of and subsequent to November 19, 2018. References to "Predecessor" relate to the financial position of the Company prior to, and results of operations through and including, November 19, 2018.

The Company's consolidated financial statements and related footnotes are presented with a "black line" division, which delineates the lack of comparability between amounts presented after November 19, 2018 and amounts presented on or prior to November 19, 2018. The Company's financial results for future periods following the application of Fresh Start Accounting will be different from historical trends and the differences may be material.

Reorganization Value

Under ASC 852, the Successor determined a value to be assigned to the equity of the emerging entity as of the date of adoption of Fresh Start Accounting. The Plan confirmed by the Bankruptcy Court estimated a range of enterprise values between \$1,650 million and \$2,500 million, with a midpoint of \$2,075 million plus the fair value of assets associated with the arbitration with SHI related to the *Pacific Zonda*. The Company deemed it appropriate to use the midpoint between the low end and high end of the range to determine the final enterprise value of \$2,075 million plus the estimated fair value of the assets associated with the arbitration with SHI of \$204.7 million for Fresh Start Accounting.

The following table reconciles the enterprise value to the estimated fair value of our Successor common shares as of the Plan Effective Date (in thousands):

Enterprise value	\$ 2,075,000
Plus: Cash and cash equivalents (excludes funds held in professional fee escrow of \$50.2 million)	401,910
Plus: Estimated fair value of the assets associated with the Zonda Arbitration	204,700
Less: Fair value of debt	(1,035,641)
Fair value of Successor common shares	<u>\$ 1,645,969</u>

The following table reconciles the enterprise value to the reorganization value of the Successor's assets to be allocated to the Company's individual assets as of the Plan Effective Date (in thousands):

Enterprise value	\$ 2,075,000
Plus: Cash and cash equivalents (excludes funds held in professional fee escrow of \$50.2 million)	401,910
Plus: Estimated fair value of the assets associated with the Zonda Arbitration	204,700
Plus: Current liabilities	83,663
Plus: Non-current liabilities excluding long-term debt	29,266
Reorganization value of Successor's assets to be allocated	<u>\$ 2,794,539</u>

With the assistance of financial advisors, we determined the enterprise and corresponding equity value of the Successor using various valuation methods, including: (i) a calculation of the present value of future cash flows based on our financial projections, and (ii) a peer group trading analysis with peer values evaluated on a dollar value per drillship basis. The enterprise value and corresponding equity value are dependent upon achieving the future financial results set forth in our valuations, as well as the realization of certain other assumptions. All estimates, assumptions, valuations and financial projections, including the fair value adjustments, the financial projections, the enterprise value and equity value projections, are inherently subject to significant uncertainties and the resolution of contingencies beyond our control. Accordingly, we cannot assure you that the estimates, assumptions, valuations or financial projections will be realized, and actual results could vary materially.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

Valuation Process

The fair values of the Company's principal assets, drillships and related equipment, were estimated with the assistance of third party valuation advisors. The reorganization value was allocated to the Company's individual assets and liabilities based on their fair values as described further as follows:

Drillships and related equipment

The fair value of the drillships and related equipment was determined using a combination of the discounted cash flow method (income approach), that we discounted at a rate of approximately 14%, and the cost approach. The income approach was utilized to estimate the fair value of drillships that generated positive returns on projected cash flows over the remaining economic useful life of the drillships and compared to the fair value utilizing the cost approach, adjusted as needed for asset type, age, physical deterioration and obsolescence.

Materials and Supplies

The fair value of the materials and supplies were determined by the direct and indirect cost approaches. They were analyzed on a line-by-line basis and each asset was adjusted for age, physical depreciation and obsolescence.

Intangible Asset

We applied the income approach to estimate the value of the client-related intangible asset of our drilling contracts. We determined the value by comparing the contractual day rates to the estimated comparable market day rates, and applying a discount rate of 2.9% to the amounts by which contractual revenue exceeded market. The discount rate reflects the corresponding credit rating of the customer related to the contract and the remaining term.

Assets associated with the Zonda Arbitration

We applied a probability weighted approach to estimate the value of assets associated with the Zonda Arbitration, which was presented within receivable from unconsolidated subsidiaries upon the deconsolidation of the Zonda Debtors. The analysis included estimating probabilities of success for the various outcomes and expected cash flows associated with each outcome. The probability weighted cash flows were discounted to the balance sheet date using market data. The analysis utilized certain unobservable inputs that require significant judgment for which there is little or no market data, which represent Level 3 fair value measurements. These included, but were not limited to, probability and timing of successfully recovering the advance payments and purchased equipment. See Note 7.

Long-term Debt

The fair value of the debt was estimated using quoted market prices to the extent available and significant other observable inputs, which represent Level 2 fair value measurements.

See below under "Fresh Start Adjustments" for additional information regarding assumptions used in the valuation of the Company's various other significant assets and liabilities.

Consolidated Balance Sheet

The adjustments included in the following fresh start consolidated balance sheet reflect the effects of the transactions contemplated by the Plan and executed by the Company on the Plan Effective Date (reflected in the column "Reorganization Adjustments"), the deconsolidation of Zonda Debtors (reflected in the column "Deconsolidation of Zonda Debtors") and fair value and other required accounting adjustments resulting from the adoption of Fresh Start Accounting (reflected in the column "Fresh Start Adjustments"). The explanatory notes provide additional information with regard to the adjustments recorded, the methods used to determine the fair values and significant assumptions.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

As of November 19, 2018

	Predecessor	Reorganization Adjustments (1)	Deconsolidation of Zonda Debtors (14)	Fresh Start Accounting Adjustments	Successor
Assets:					
Cash and cash equivalents	\$ 154,238	\$ 239,172 (2)	\$ (4,910)	\$ —	\$ 388,500
Restricted cash	1,034,470	(975,795)(3)	—	—	58,675
Accounts receivable, net	28,881	—	(2)	—	28,879
Other receivable	28,000	—	—	—	28,000
Materials and supplies	83,800	—	—	(43,493)(15)	40,307
Deferred costs, current	11,371	—	—	(11,371)(16)	—
Prepaid expenses and other current assets	13,281	(958)(4)	(815)	(693)(17)	10,815
Total current assets	1,354,041	(737,581)	(5,727)	(55,557)	555,176
Property and equipment, net	4,422,709	—	(68,102)	(2,434,133)(18)	1,920,474
Long-term receivable	202,575	—	(202,575)	—	—
Receivable from unconsolidated subsidiaries	—	—	262,925	(58,135)(19)	204,790
Intangible asset	—	—	—	100,000 (20)	100,000
Investment in unconsolidated subsidiaries	—	—	5,774	(742)(19)	5,032
Other assets	27,279	(1,356)(5)	(1,845)	(15,011)(21)	9,067
Total assets	<u>\$ 6,006,604</u>	<u>\$ (738,937)</u>	<u>\$ (9,550)</u>	<u>\$ (2,463,578)</u>	<u>\$ 2,794,539</u>
Liabilities and shareholders' equity:					
Accounts payable	\$ 14,161	\$ 1,247 (6)	\$ (3,261)	\$ —	\$ 12,147
Accrued expenses	56,817	11,264 (7)	(5,987)	—	62,094
Debtor-in-possession financing	50,000	(50,000)(2)	—	—	—
Accrued interest	45,770	(36,348)(8)	—	—	9,422
Deferred revenue, current	16,246	—	—	(16,246)(22)	—
Total current liabilities	182,994	(73,837)	(9,248)	(16,246)	83,663
Long-term debt	969,158	—	—	66,483 (23)	1,035,641
Payable to unconsolidated subsidiaries	—	—	1,725	—	1,725
Other long-term liabilities	30,253	1,782 (9)	(1,539)	(2,955)(24)	27,541
Total liabilities not subject to compromise	1,182,405	(72,055)	(9,062)	47,282	1,148,570
Liabilities subject to compromise	3,084,874	(3,084,386)(10)	(488)	—	—
Commitments and contingencies					
Shareholders' equity:					
Common shares	214	536 (11)	—	—	750
Additional paid-in capital	2,368,232	1,646,097 (12)	—	(2,369,110)(25)	1,645,219
Accumulated other comprehensive loss	(13,850)	—	—	13,850 (25)	—
Accumulated deficit	(615,271)	770,871 (13)	—	(155,600)(25)	—
Total shareholders' equity	1,739,325	2,417,504	—	(2,510,860)	1,645,969
Total liabilities and shareholders' equity	<u>\$ 6,006,604</u>	<u>\$ (738,937)</u>	<u>\$ (9,550)</u>	<u>\$ (2,463,578)</u>	<u>\$ 2,794,539</u>

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

Reorganization Adjustments

- (1) Represent amounts recorded as of the Plan Effective Date for the implementation of the Plan, including, among other items, settlement of the Predecessor's liabilities subject to compromise, repayment of certain of the Predecessor's debt, issuances of the Successor's common shares, proceeds received from the Successor's equity offerings and transfer of restricted cash for the issuance of the Successor's debt.

- (2) Changes in cash and cash equivalents include the following (in thousands):

Transfer of restricted cash - escrow funds from the issuance of the First Lien Notes	\$ 767,578
Transfer of restricted cash - escrow funds from the issuance of the Second Lien PIK Notes	258,160
Proceeds from the equity offerings	500,000
Payment of 2013 Revolving Credit Facility	(475,000)
Payment of SSCF	(661,478)
Payment of debtor-in-possession financing (including \$354 of accrued interest)	(50,354)
Payment of accrued interest on 2013 Revolving Credit Facility and SSCF	(35,994)
Funding of professional fee escrow	(50,175)
Payment of professional fees	(13,557)
Payment of bank fees	(8)
Net change in cash and cash equivalents	<u>\$ 239,172</u>

- (3) Changes in restricted cash includes the following (in thousands):

Transfer of restricted cash - escrow funds from the issuance of the First Lien Notes	\$ (767,578)
Transfer of restricted cash - escrow funds from the issuance of the Second Lien PIK Notes	(258,160)
Funding of professional fee escrow	50,175
Payment of bank fees	(232)
Net change in restricted cash	<u>\$ (975,795)</u>

- (4) Reflects the elimination of prepaid directors and officers insurance policies related to the Predecessor.

- (5) Reflects the elimination of deferred tax asset related to the implementation of the Plan.

- (6) Reflects the reinstatement of liabilities subject to compromise to be paid.

- (7) Changes in accrued expenses includes the following (in thousands):

Accrual of professional fees	\$ 9,450
Accrual of equity issuance costs	6,580
Accrual of other fees	1,593
Payment of professional fees	(6,342)
Reduction in income taxes related to the implementation of the Plan	(17)
Net change in accrued expenses	<u>\$ 11,264</u>

- (8) Reflects the payment of accrued interest (in thousands):

Payment of accrued interest on 2013 Revolving Credit Facility and SSCF	\$ (35,994)
Payment of accrued interest on debtor-in-possession financing	(354)
Net change in accrued interest	<u>\$ (36,348)</u>

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

(9) Reflects the recognition of a deferred tax liability related to the implementation of the Plan.

(10) Liabilities subject to compromise settled in accordance with the Plan and the resulting gain were determined as follows (in thousands):

Liabilities subject to compromise	\$ 3,084,874
Less liabilities subject to compromise related to unconsolidated subsidiaries remaining in bankruptcy	(488)
Payment of 2013 Revolving Credit Facility	(475,000)
Payment of SSCF	(661,478)
Reinstatement of claims that are expected to be paid	(1,247)
Issuance of Successor common shares to the holders of the 2017 Notes, Term Loan B and the 2020 Notes	(1,152,443)
Gain on settlement of liabilities subject to compromise	<u>\$ 794,218</u>

(11) The increase in common shares reflects (in thousands):

Issuance of Successor common shares to the holders of the 2017 Notes, Term Loan B and the 2020 Notes at par	\$ 244
Equity offerings at par	506
Reduction of share capital for reverse stock split	(214)
Net change in common shares	<u>\$ 536</u>

(12) The increase in additional paid-in capital reflects (in thousands):

Issuance of Successor common shares to the holders of the 2017 Notes, Term Loan B and the 2020 Notes	\$ 1,152,199
Equity offerings - additional paid-in capital	499,494
Reduction of share capital for reverse stock split	214
Cancellation of Predecessor share based compensation awards	770
Accrual of equity issuance costs	(6,580)
Net change in additional paid-in-capital	<u>\$ 1,646,097</u>

(13) The decrease in accumulated deficit reflects (in thousands):

Gain on settlement of liabilities subject to compromise	\$ 794,218
Accrued professional fees	(9,450)
Accrued other fees	(1,593)
Elimination of prepaid directors and officers insurance policies related to the Predecessor	(958)
Cancellation of predecessor share based compensation awards	(770)
Professional and success fees paid on Plan Effective Date	(7,215)
Payment of bank fees	(240)
Elimination of deferred tax asset related to the implementation of the Plan	(1,356)
Recognition of a deferred tax liability related to the implementation of the Plan	(1,782)
Reduction in income tax related to the implementation of the Plan	17
Net change in accumulated deficit	<u>\$ 770,871</u>

Deconsolidation of Zonda Debtors

(14) Represents the deconsolidation of Zonda Debtors as of November 19, 2018. The Zonda Debtors filed a separate plan of reorganization and did not emerge from bankruptcy on the Plan Effective Date. Therefore, the Zonda Debtors were deconsolidated as of November 19, 2018.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

Fresh Start Adjustments

- (15) Reflects the fair value adjustment of \$43.5 million to the Company's materials and supplies due to the adoption of Fresh Start Accounting.
- (16) Reflects the elimination of current deferred costs of \$11.4 million due to the adoption of Fresh Start Accounting.
- (17) Reflects the fair value adjustment to the Company's prepaid fuel due to the adoption of Fresh Start Accounting.
- (18) Reflects the fair value adjustment to the Company's property and equipment, net due to the adoption of Fresh Start Accounting (in thousands):

	Successor	Predecessor
Drillships and related equipment	\$ 1,919,791	\$ 5,928,887
Other property and equipment	683	20,737
Total property and equipment	1,920,474	5,949,624
Accumulated depreciation	—	(1,526,915)
Property and equipment, net	\$ 1,920,474	\$ 4,422,709

- (19) Reflects fair value adjustment to receivable from unconsolidated subsidiaries due to asset revaluation of the Zonda Debtors.
- (20) Reflects the recognition of an asset for the fair value of the client-related intangible asset of our drilling contracts, where contract rates are in excess of current market rates.
- (21) Reflects the elimination of deferred costs of \$15.1 million, offset by an increase in deferred tax balances of \$0.1 million due to the adoption of Fresh Start Accounting.
- (22) Reflects the elimination of deferred revenue due to the adoption of Fresh Start Accounting.
- (23) Reflects the elimination of unamortized deferred financing costs \$59.4 million and fair value adjustment of \$7.1 million to the Company's debt due to the adoption of Fresh Start Accounting.
- (24) Represents the adjustment to deferred tax balances of \$3.0 million as a result of adopting Fresh Start Accounting.
- (25) Reflects the cumulative impact of Fresh Start Accounting adjustments discussed above and the elimination of Predecessor accumulated other comprehensive loss and accumulated deficit.

Note 4—Significant Accounting Policies

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 we own 49% of PIDWAL. Pacific Scirocco Ltd. (“PSL”) and Pacific Bora Ltd. (“PBL”), which own the *Pacific Scirocco* and *Pacific Bora*, respectively, are owned 49.9% by our wholly-owned subsidiary Pacific Drilling Limited (“PDL”) and 50.1% by Pacific Drillship Nigeria Limited (“PDNL”). PDNL is owned 0.1% by PDL and 99.9% by PIDWAL. 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

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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 in our consolidated financial statements and no portion of their operating results is allocated to the noncontrolling interest. See Note 20.

Our consolidated financial statements as of December 31, 2018 and for the Successor period in 2018 exclude the Zonda Debtors, our wholly-owned subsidiaries, which filed a separate plan of reorganization. We account for our investment in the Zonda Debtors using the equity method of accounting.

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, 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.

Revenue from Contracts with Clients —We earn revenue primarily by (i) providing our drillship, work crews, related equipment, services and supplies necessary to operate the rig, (ii) delivering the rig by mobilizing to and demobilizing from the drill location and (iii) performing certain pre-operating activities, including rig preparation activities or equipment modifications required for the contract.

Dayrate Drilling Revenue. Our drilling contracts provide for payment on a dayrate basis, with higher rates for periods when the drillship is operating and lower rates or zero rates for periods when drilling operations are interrupted or restricted. The dayrate invoices billed to the client are determined based on the varying rates applicable to the specific activities performed on an hourly basis. Such dayrate consideration is attributed to the distinct hourly increment to which it relates within the contract term. Therefore, we record dayrate drilling revenue consistent with the contractual rate invoiced for the services provided during the respective period.

Mobilization/Demobilization Revenue. We may receive fees for the mobilization and demobilization of our rigs. These activities are not considered to be distinct within the context of the contract and therefore, the associated revenue is allocated to the overall performance obligation and recognized ratably over the initial term of the related drilling contract. We record a contract liability for mobilization fees received, which is amortized ratably to contract drilling revenue as services are rendered over the initial term of the related drilling contract. Demobilization revenue expected to be received upon contract completion is estimated as part of the overall transaction price at contract inception. We record demobilization revenue in earnings ratably over the initial term of the contract with an offset to an accretive contract asset.

Contract Preparation Revenue. Some of our drilling contracts require downtime before the start of the contract to prepare the rig to meet client requirements. At times, we may be compensated by the client for such work. These activities are not considered to be distinct within the context of the contract. We record a contract liability for contract preparation fees received, which is amortized ratably to contract drilling revenue over the initial term of the related drilling contract.

Capital Upgrade Revenue. From time to time, we may receive fees from our clients for capital improvements or upgrades to our rigs to meet contractual requirements. These activities are not considered to be distinct within the context of our contracts. We record a contract liability for such fees and recognize them ratably as contract drilling revenue over the initial term of the related drilling contract.

Revenues Related to Reimbursable Expenses. We generally receive reimbursements from our clients for the purchase of supplies, equipment, personnel services and other services provided at their request in accordance with a drilling contract or other agreement. Such reimbursable revenue is variable and subject to uncertainty, as the amounts received and timing thereof are highly dependent on factors outside of our control. Accordingly, reimbursable revenue is not included in the total transaction price until the uncertainty is resolved, which typically occurs when the related costs

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

are incurred on behalf of a client. We are generally considered a principal in such transactions. Therefore, we record the associated revenue at the gross amount billed to the client in the period the corresponding goods and services are to be provided.

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, 2018 and 2017, 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. In addition, as of December 31, 2018, \$13.0 million of our restricted cash balance were escrow funds remaining to settle professional fees incurred upon or prior to our emergence from our Chapter 11 proceedings.

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.

Other Receivable—As of December 31, 2018, other receivable on our consolidated balance sheets was \$28.0 million of cash collateral held in the name of a financial institution as credit support for customs bonds issued in favor of a subsidiary of the Company.

Materials and Supplies—Materials and supplies held for consumption are carried at average cost if acquired after the adoption of Fresh Start Accounting or at fair value if already outstanding upon the adoption of Fresh Start Accounting. Materials and supplies balances were presented net of allowances for excess or obsolete materials and supplies of \$0 and \$11.1 million as of December 31, 2018 and 2017, respectively.

Property and Equipment—Upon the adoption of Fresh Start Accounting, high-specification drillships and other property and equipment consisting of purchased software systems, furniture, fixtures and other equipment are recorded at fair value. Capital expenditures made subsequent to the adoption of Fresh Start Accounting, including any major capital improvements, are recorded at cost. Ongoing maintenance, routine repairs and minor replacements are expensed as incurred.

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:

	<u>Years</u>
Drillships and related equipment (Successor)	8-32
Other property and equipment (Successor)	1-6
Drillships and related equipment (Predecessor)	15-35
Other property and equipment (Predecessor)	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, cold stacking of rigs 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 the Successor period in 2018 and the Predecessor periods in 2018, 2017 and 2016, there were no long-lived asset impairments.

Intangible Asset—We amortize our client-related intangible asset to depreciation and amortization expense within our consolidated statements of operations over its remaining drilling contract term on a straight-line basis.

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.

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

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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 the Successor period in 2018, foreign exchange losses were \$0.1 million and recorded in other expense in our consolidated statements of operations. During the Predecessor periods in 2018, 2017 and 2016, foreign exchange losses were \$0.1 million, \$0.7 million and \$0.5 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. 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.

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 ultimately recognized is based on the number of awards that do meet the vesting conditions at the vesting date. For the Successor, any adjustments to the compensation cost recognized in our consolidated statement of operations for awards that are forfeited are recognized in the period in which the forfeitures occur. For the Predecessor, 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.

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. 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 the Predecessor, other comprehensive income was released to earnings as the asset was depreciated over its useful life for interest rate hedges related to interest capitalized in the construction of fixed assets. For all other interest rate hedges, other comprehensive income was released to earnings as interest expense was 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. We recognize legal fees related to loss contingencies as incurred.

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

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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.

Reclassifications — Certain reclassifications of previously reported information have been made to conform to the current year presentation.

Recently Adopted Accounting Standards

Revenue from Contracts with Customers — In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in ASU Topic 605, *Revenue Recognition*. Under the new guidance, revenue is recognized when a client obtains control of promised goods or services and in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. We adopted ASU 2014-09 and its related amendments, or collectively, Topic 606, effective January 1, 2018 using the modified retrospective approach. Accordingly, we have applied the five-step method outlined in Topic 606 for determining when and how revenue is recognized for all contracts that were not completed as of the date of adoption. Revenues for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported under the previous revenue recognition guidance. For contracts that were modified before the effective date, we have considered the modification guidance within the new standard and determined that the revenue recognized and contract balances recorded prior to adoption for such contracts were not impacted. While Topic 606 requires additional disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with clients, its adoption did not have a material effect on our financial position, results of operations and cash flows. See Note 10.

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.

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 with no impact to our consolidated financial statements.

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

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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 with no impact to our consolidated financial statements.

Recently Issued Accounting Standards

Leases — On February 25, 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires lessees to recognize a right-of-use asset and liability for virtually all leases and 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. We expect to adopt the standard using the modified retrospective approach. For transactions in which we are considered a lessee, we expect to recognize a lease liability and a right-of-use asset of approximately \$7.0 million based on our portfolio of leases upon adoption. Additionally, we believe that our drilling contracts contain a lease component. On July 30, 2018, the FASB issued ASU 2018-11 to provide certain practical expedients, which allow a new transition method to apply the new lease requirements at the effective date using a cumulative catch-up approach and allow lessors to not separate lease and non-lease components when the non-lease component is the predominant element of the combined component. The lessor practical expedient is limited to circumstances in which the lease, if accounted for separately, would be classified as an operating lease under Topic 842. We believe the non-lease component of our drilling contracts is the predominant element and that the lease component, if accounted for separately, would be classified as an operating lease. Accordingly, we expect that all of our drilling contracts will qualify for, and we expect to elect, the practical expedient in ASU 2018-11 to account for the combined component as a single component under Topic 606. We do not expect our adoption to have a material impact on revenue recognition of current or prior periods as compared to previous guidance nor do we expect a material impact to our pattern of revenue recognition in future periods.

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: (i) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (ii) loan commitments and certain other off-balance sheet credit exposures, (iii) debt securities and other financial assets measured at fair value through other comprehensive income and (iv) 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.

Changes to Fair Value Disclosure Requirements — On August 28, 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for annual and interim periods beginning after January 1, 2020, with early adoption permitted. We are currently evaluating the effect the standard may have on our consolidated financial statement disclosures.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

Note 5—Property and Equipment

Property and equipment consists of the following:

(in thousands)	<u>Successor</u> <u>December 31, 2018</u>	<u>Predecessor</u> <u>December 31, 2017</u>
Drillships and related equipment	\$ 1,926,773	\$ 5,911,792
Other property and equipment	682	20,566
Property and equipment, cost	<u>1,927,455</u>	<u>5,932,358</u>
Accumulated depreciation	(12,283)	(1,280,357)
Property and equipment, net	<u>\$ 1,915,172</u>	<u>\$ 4,652,001</u>

During the Successor period in 2018 and the Predecessor periods in 2018, 2017 and 2016, depreciation expense was \$12.3 million, \$247.7 million, \$278.2 million and \$275.1 million, respectively.

Note 6—Intangible Asset

Intangible asset consists of the following:

(in thousands)	<u>Successor</u> <u>December 31, 2018</u>	<u>Predecessor</u> <u>December 31, 2017</u>
Client-related intangible asset	\$ 100,000	\$ —
Accumulated amortization	(14,947)	—
Intangible asset, net	<u>\$ 85,053</u>	<u>\$ —</u>

During the Successor period in 2018, amortization expense of intangible asset was \$14.9 million, based on an amortization period of 0.8 year. As of December 31, 2018, the estimated 2019 amortization expense is \$85.1 million.

Note 7—Receivable related to Zonda Arbitration

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.

The Zonda Debtors owned \$75.0 million in purchased equipment for the *Pacific Zonda*, a majority of which remains on board the *Pacific Zonda* subject to return to us by SHI.

On November 19, 2018, the Debtors emerged from bankruptcy after successfully completing their reorganization pursuant to the Plan. As of that date, we deconsolidated the Zonda Debtors, which filed a separate plan of reorganization and are not Debtors under the Plan. See Note 3.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

As a result of adopting Fresh Start Accounting, we estimated the receivable related to the Zonda Arbitration at \$204.7 million, included within receivable from unconsolidated subsidiaries on our consolidated balance sheet. As of December 31, 2017, the carrying amount of the receivable related to the advance payments and accrued interest was \$202.6 million, presented as a long-term receivable, while the purchased equipment was included in our property and equipment, net on our consolidated balance sheet. See Note 17.

Note 8—Debt

Debt, net of debt premium (discount), consists of the following:

(in thousands)	<u>Successor</u> <u>December 31, 2018</u>	<u>Predecessor</u> <u>December 31, 2017</u>
Debt Obligations:		
2017 Senior Secured Notes ^{(b)(c)}	\$ —	\$ 439,364
2018 Senior Secured Term Loan B ^{(b)(c)}	—	718,125
2013 Revolving Credit Facility ^{(a)(b)}	—	475,000
Senior Secured Credit Facility ^{(a)(b)}	—	661,478
2020 Senior Secured Notes ^{(b)(c)}	—	750,000
First Lien Notes	747,400	—
Second Lien PIK Notes	291,935	—
Total debt	1,039,335	3,043,967
Less: liabilities subject to compromise	—	(3,043,967)
Total long-term debt	\$ 1,039,335	\$ —

- (a) Repaid upon our emergence from our Chapter 11 proceedings.
- (b) Included in liabilities subject to compromise at December 31, 2017.
- (c) Exchanged for common shares upon our emergence from our Chapter 11 proceedings.

Pre-Petition Secured Debt

On November 12, 2017, the Debtors filed the Bankruptcy Petitions for relief under Chapter 11 of the Bankruptcy Code. Prior to the Petition Date, the Company had outstanding its 2017 Notes, Term Loan B, 2013 Revolving Credit Facility, SSCF and 2020 Notes (collectively, the “Pre-Petition Secured Debt”). For a description of the Pre-Petition Secured Debt, see below.

The filing of the Bankruptcy Petitions constituted an event of default with respect to the Pre-Petition Secured Debt. As a result, the corresponding Pre-Petition Debt 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 was classified as liabilities subject to compromise on our consolidated balance sheets.

On November 19, 2018, the Company emerged from the Chapter 11 proceedings, and repaid in full the 2013 Revolving Credit Facility and SSCF, and issued common shares in satisfaction of the claims under the 2017 Notes, Term Loan B and 2020 Notes. As a result, the Pre-Petition Secured Debt is no longer outstanding.

First Lien Notes and Second Lien PIK Notes

In connection with its emergence from the Chapter 11 proceedings, the Company assumed all obligations under the \$750.0 million First Lien Notes and the \$273.6 million Second Lien PIK Notes.

First Lien Notes

On September 26, 2018, Pacific Drilling First Lien Escrow Issuer Limited (the “First Lien Escrow Issuer”), a private company limited by shares incorporated in the British Virgin Islands and wholly owned subsidiary of the Company, entered into an indenture (the “First Lien Notes Indenture”) with Wilmington Trust, National Association, as trustee (the “Trustee”) and collateral agent, relating to the issuance by the First Lien Escrow Issuer of \$750.0 million aggregate principal amount of 8.375% First Lien Notes due 2023 (the “First Lien Notes”).

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

The First Lien Notes were sold in a private transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), and were offered and sold under Rule 144A of the Securities Act, and to non-U.S. persons in transactions outside the United States under Regulation S of the Securities Act. The First Lien Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws.

Upon the emergence of the Company from the Chapter 11 proceedings on November 19, 2018, the First Lien Escrow Issuer merged into the Company and the Company assumed all obligations of the First Lien Escrow Issuer under the First Lien Notes Indenture.

The First Lien Notes accrue interest at a rate of 8.375% per annum, payable semi-annually in arrears on April 1 and October 1 of each year beginning on April 1, 2019. The First Lien Notes will mature on October 1, 2023, unless earlier redeemed or repurchased.

The First Lien Notes are jointly and severally and fully and unconditionally guaranteed on a senior secured basis by all of the Company’s subsidiaries other than the Zonda Debtors, certain immaterial subsidiaries and PIDWAL. It is expected that the Zonda Debtors will guarantee the First Lien Notes and Second Lien PIK Notes upon their emergence from bankruptcy pursuant to their separate plan of reorganization after the successful resolution of the arbitration proceeding involving the *Pacific Zonda*. See Note 17 for further discussion. If the Company is unsuccessful in the arbitration, the Company expects to liquidate the Zonda Debtors and the Zonda Debtors would not guarantee the First Lien Notes and Second Lien PIK Notes.

The First Lien Notes are secured by first-priority liens on substantially all assets of the Company and the guarantors (other than certain excluded property), including (i) vessels, (ii) books and records, (iii) certain deposit accounts and the amounts contained therein, (iv) assignments of proceeds of hull and machinery and loss of hire insurance, (v) assignments of earnings from drilling contracts, and (vi) equity interests owned by the Company and the guarantors, in each case, subject to certain exceptions, including that such first-priority liens will be subject to payment priority in favor of future holders, if any, of certain superpriority first lien debt of up to \$50.0 million.

The First Lien Notes Indenture contains covenants limiting the ability of the Company, and any restricted subsidiary to, among other things, (i) incur or guarantee additional indebtedness and issue preferred stock, (ii) pay dividends on or redeem or repurchase capital stock, make certain investments, make certain payments on or with respect to subordinated and junior debt (including making cash interest or principal payments on the Second Lien PIK Notes (as defined below)), (iii) create or incur certain liens, (iv) impose restrictions on the ability of restricted subsidiaries to pay dividends, (v) merge or consolidate with other entities, (vi) enter into certain transactions with affiliates, (vii) impair the security interests in the collateral for the First Lien Notes, and (viii) engage in certain lines of business. These covenants are subject to a number of important exceptions and qualifications and certain of them will be suspended with respect to the First Lien Notes in the event that the First Lien Notes obtain an investment grade rating.

The Company may be required to offer to purchase the First Lien Notes at 101.0% percent of the principal amount thereof, plus accrued and unpaid interest, upon the occurrence of a Change of Control (as defined in the First Lien Notes Indenture), and at 100.0% of the principal amount, plus accrued and unpaid interest, under certain other circumstances. In addition, the Company will be required to offer to purchase First Lien Notes at 100.0% of the principal amount thereof, plus accrued and unpaid interest, with any cash proceeds from a settlement or award in connection with the arbitration relating to the *Pacific Zonda* with such offer to be for an aggregate principal amount of First Lien Notes equal to the lesser of (x) 50.0% of such cash proceeds and (y) \$75.0 million.

At any time prior to October 1, 2020, (i) the Company may redeem the First Lien Notes, in whole or in part, at a redemption price equal to 100.0% of the principal amount thereof, plus a “make-whole” premium, (ii) the Company may redeem up to 35.0% of the original principal amount of the First Lien Notes with proceeds from certain equity offerings at a redemption price equal to 108.375% of the principal amount thereof, and (iii) not more than once in any twelve-month period, the Company may redeem up to 10.0% of the original principal amount of the First Lien Notes at a redemption price equal to 103.0% of the principal amount thereof, in each case plus accrued and unpaid interest.

At any time on or after October 1, 2020, the Company may redeem the First Lien Notes, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount), plus accrued and unpaid interest,

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

during the twelve-month period beginning on October 1 of the years indicated: 2020 – 104.188%; 2021 – 102.094%; 2022 and thereafter – 100.000%.

The First Lien Notes Indenture contains customary events of default, including, among other things, (i) failure to make required payments; (ii) failure to comply with certain agreements or covenants; (iii) failure to pay certain other indebtedness; (iv) certain events of bankruptcy and insolvency; and (v) failure to pay certain judgments. An event of default under the First Lien Notes Indenture will allow either the Trustee or the holders of at least 25% in aggregate principal amount of the then-outstanding First Lien Notes to accelerate, or in certain cases will automatically cause the acceleration of, the amounts due under the First Lien Notes.

Intercreditor Agreement

The relationship between holders of First Lien Notes (and any future first lien debt), on the one hand, and Second Lien PIK Notes (and any future junior lien debt), on the other hand, is governed by an intercreditor agreement. Pursuant to the intercreditor agreement, the liens securing first lien debt are effectively senior in priority to the liens securing junior lien debt. If the Company incurs any future first lien debt, the relationship between holders of such debt and First Lien Notes will be governed by a collateral agency agreement. Such agreements will allow for payment priority in favor of holders of up to \$50.0 million of future superpriority first lien debt.

Second Lien PIK Notes

On September 26, 2018, Pacific Drilling Second Lien Escrow Issuer Limited (the “Second Lien Escrow Issuer”), a private company limited by shares incorporated in the British Virgin Islands and wholly owned subsidiary of the Company, entered into an indenture (the “Second Lien PIK Notes Indenture”) with the Trustee, as trustee and junior lien collateral agent, relating to the issuance by the Second Lien Escrow Issuer of approximately \$273.6 million aggregate principal amount of 11.0% / 12.0% Second Lien PIK Notes due 2024 (the “Second Lien PIK Notes”), of which (i) \$250.0 million aggregate principal amount was issued pursuant to the Second Lien PIK Notes Offering (as defined below), and (ii) approximately \$23.6 million aggregate principal amount was issued as a commitment fee to the Ad Hoc Group for their agreement to backstop the issuance of the Second Lien PIK Notes.

The Second Lien PIK Notes were sold in a private transaction exempt from the registration requirements of the Securities Act and were offered and sold under Rule 144A of the Securities Act, and to non-U.S. persons in transactions outside the United States under Regulation S of the Securities Act (the “Second Lien PIK Notes Offering”). The Second Lien PIK Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws.

Upon the emergence of the Company from the Chapter 11 proceedings on November 19, 2018, the Second Lien Escrow Issuer merged into the Company and the Company assumed all obligations of the Second Lien Escrow Issuer under the Second Lien PIK Notes Indenture.

For each interest period, interest is payable, at the option of the Company, (i) entirely in cash (“Cash Interest”), (ii) entirely through the issuance of additional Second Lien PIK Notes having the same terms and conditions as the Second Lien PIK Notes issued in the Second Lien PIK Notes Offering in a principal amount equal to the amount of interest then due and payable or by increasing the then outstanding aggregate principal amount of Second Lien PIK Notes (“PIK Interest”) or (iii) 50% as Cash Interest and 50% as PIK Interest. If the Company elects to pay interest for an interest period entirely in the form of Cash Interest, interest will accrue at a rate of 11.0% per annum for such interest period. If the Company elects to pay interest for an interest period entirely in the form of PIK Interest, interest will accrue at a rate of 12.0% per annum for such interest period. If the Company elects to pay 50% in Cash Interest and 50% in PIK Interest for an interest period, (i) interest in respect of the Cash Interest portion will accrue at 11.0% and (ii) interest in respect of the PIK Interest portion will accrue at 12.0% for such interest period.

Interest on the Second Lien PIK Notes will be payable semi-annually in arrears on April 1 and October 1 of each year beginning on April 1, 2019. The Second Lien PIK Notes will mature on April 1, 2024, unless earlier redeemed or repurchased.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

The Second Lien PIK Notes are jointly and severally and fully and unconditionally guaranteed on a senior secured basis by all of the Company’s subsidiaries that guarantee the Company’s First Lien Notes and are secured by second-priority liens on all of the assets of the Company and the guarantors that also serve as collateral for the Company’s First Lien Notes.

The Second Lien PIK Notes Indenture contains covenants limiting the ability of the Company, and any restricted subsidiary to, among other things, (i) incur or guarantee additional indebtedness and issue preferred stock, (ii) pay dividends on or redeem or repurchase capital stock, make certain investments, make certain payments on or with respect to subordinated and junior debt, (iii) create or incur certain liens, (iv) impose restrictions on the ability of restricted subsidiaries to pay dividends, (v) merge or consolidate with other entities, (vi) enter into certain transactions with affiliates, (vii) impair the security interests in the collateral for the Second Lien PIK Notes, and (viii) engage in certain lines of business. These covenants are subject to a number of important exceptions and qualifications and certain of them will be suspended with respect to the Second Lien PIK Notes in the event that the Second Lien PIK Notes obtain an investment grade rating.

The Company may be required to offer to purchase the Second Lien PIK Notes at 101.0% percent of the principal amount thereof, plus accrued and unpaid interest, upon the occurrence of a Change of Control (as defined in the Second Lien PIK Notes Indenture) (a “Change of Control Offer”), and at 100.0% of the principal amount, plus accrued and unpaid interest, under certain other circumstances. In addition, the Company will be required to offer to purchase Second Lien PIK Notes at 100.0% of the principal amount thereof, plus accrued and unpaid interest, with the cash proceeds, if any, from a settlement or award in connection with the arbitration with SHI related to the *Pacific Zonda*, with such offer to be for an aggregate principal amount of the Second Lien PIK Notes equal to the lesser of (x) 50.0% of such cash proceeds and (y) \$75.0 million, provided, that if the Company is required to offer to purchase the First Lien Notes with such cash proceeds, the Company shall only be required to offer to purchase the Second Lien PIK Notes with the portion thereof that has been declined by the holders of First Lien Notes.

At any time prior to April 1, 2020, (i) the Company may redeem the Second Lien PIK Notes, in whole or in part, at a redemption price equal to 100.0% of the principal amount thereof, plus a “make-whole” premium, and (ii) the Company may redeem up to 35.0% of the original principal amount of the Second Lien PIK Notes with the proceeds from certain equity offerings at a redemption price equal to 112.0%, in each case plus accrued and unpaid interest.

At any time on or after April 1, 2020, the Company may redeem the Second Lien PIK Notes, in whole or in part, at the following redemption prices (expressed as a percentage of principal amount), plus any accrued and unpaid interest, during the six-month period beginning on the dates indicated below:

Date	Price
April 1, 2020	112.0%
October 1, 2020	109.0%
April 1, 2021	106.0%
October 1, 2021	103.0%
April 1, 2022 and thereafter	100.0%

At any time a Change of Control occurs, the Company may redeem all, but not less than all, of the Second Lien PIK Notes at the following redemption prices (expressed as a percentage of principal amount), plus any accrued and unpaid interest, during the six-month period beginning on the dates indicated below:

Date	Price
April 1, 2020	106.0%
October 1, 2020	109.0%
April 1, 2021	106.0%
October 1, 2021	103.0%
April 1, 2022 and thereafter	100.0%

If the Company exercises this Change of Control redemption right, it may elect not to make the Change of Control Offer described above.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

The Second Lien PIK Notes Indenture contains customary events of default, including, among other things, (i) failure to make required payments; (ii) failure to comply with certain agreements or covenants; (iii) failure to pay certain other indebtedness; (iv) certain events of bankruptcy and insolvency; and (v) failure to pay certain judgments. An event of default under the Second Lien PIK Notes Indenture will allow either the Trustee or the holders of at least 25.0% in aggregate principal amount of the then-outstanding Second Lien PIK Notes to accelerate, or in certain cases, will automatically cause the acceleration of, the amounts due under the Second Lien PIK Notes.

Description of Pre-Petition Secured Debt

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 Notes”). The 2017 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 Notes were 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 Notes.

Effective November 19, 2018, we issued common shares in satisfaction of the 2017 Notes, and thus they are no longer outstanding.

Senior Secured Credit Facility

In February 2013, Pacific Sharav S.à r.l. and Pacific Drilling VII Limited (together, 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 was 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 Eksporkreditt (“GIEK”) Tranche of \$492.5 million guaranteed by GIEK, comprised of two sub-tranches: (x) an Eksporkreditt 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 bore interest at London Interbank Offered Rate (“LIBOR”) plus a margin of 3.75%, (B) the EKN sub-tranche bore interest, at our option, at (i) LIBOR plus a margin of 1.5% (which margin could be reset on May 31, 2019) or (ii) at a Commercial Interest Reference Rate of 2.37% and (C) the bank sub-tranche bore interest at LIBOR plus a margin of 1.5%. Borrowings under both sub-tranches were also subject to a guarantee fee of 2% per annum. Interest was payable quarterly.

The Commercial Tranche had a scheduled maturity on May 31, 2019. Loans made with respect to the *Pacific Sharav* under the GIEK Tranche had a scheduled maturity on May 12, 2026. Loans made with respect to the *Pacific Meltem* under the GIEK Tranche had a scheduled maturity on November 24, 2026. The GIEK Tranche contained a put option exercisable if the Commercial Tranche was not refinanced or renewed on or before February 28, 2019 requiring each SSCF Borrower to 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 required semiannual amortization payments of \$39.9 million; however, we did not make these payments during the pendency of our Chapter 11 proceedings.

Effective November 19, 2018, pursuant to the Plan, we repaid the SSCF in full and thus it is no longer outstanding.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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 Notes”).

The 2020 Senior Secured Notes bore 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 were 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 by certain other future subsidiaries.

The 2020 Senior Secured Notes were 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 “Pre-Petition 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”).

Effective November 19, 2018, pursuant to the Plan, we issued common shares in satisfaction of the 2020 Notes and thus they are no longer outstanding.

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 “Term Loan B”). The Term Loan B bore interest, at our election, at either (1) LIBOR, which would 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 was the highest rate in each case plus a margin of 2.5% per annum. Interest was payable quarterly. The Term Loan B required quarterly amortization payments of \$1.9 million and had a scheduled maturity on June 3, 2018; however, we did not make these payments during the pendency of our Chapter 11 proceedings.

Term Loan B was secured by the Shared Collateral and subject to the terms and provisions of the Pre-Petition Intercreditor Agreement.

Effective November 19, 2018, pursuant to the Plan, we issued common shares in satisfaction of Term Loan B and thus it is no longer outstanding.

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 was secured by the Shared Collateral and subject to the provisions of the Pre-Petition 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 bore 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 was 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 accrued a fee ranging from 1.3% to 1.5% per annum based on our leverage ratio. Interest was payable quarterly. Outstanding but undrawn letters of credit accrued a fee at a rate equal to the margin on LIBOR loans minus 1%.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

Effective November 19, 2018, pursuant to the Plan, we repaid the 2013 Revolving Credit Facility in full and thus it is no longer outstanding.

Maturities of Long-Term Debt

As of December 31, 2018, the aggregate maturities of our debt, excluding any PIK interest and net unamortized premium of \$7.1 million, were as follows:

	(in thousands)
Years ending December 31,	
2019	\$ —
2020	—
2021	—
2022	—
2023	750,000
Thereafter	273,614
Total	\$ 1,023,614

Note 9—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 26.0% for the year ended December 31, 2018, 27.1% for the year ended December 31, 2017, and 29.2% for the year ended December 31, 2016. 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, the Company 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.

Under the Plan, the Term Loan B, 2020 Notes, and 2017 Notes were cancelled and extinguished in exchange for common shares of Pacific Drilling S.A., resulting in cancellation of debt income (“CODI”) for Pacific Drilling S.A. of \$863.1 million as calculated under Luxembourg accounting and tax principles. Article 52 of Luxembourg Income Tax Law generally provides for an exemption from income tax for CODI that remains after the utilization of net operating losses. As part of the Plan, certain intercompany debt was extinguished, resulting in bad debt losses for Pacific Drilling S.A., which together with its available net operating losses, is sufficient to fully offset CODI of Pacific Drilling S.A. that resulted from the Plan.

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.

Loss before income taxes consists of the following:

	Successor	Predecessor		
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years ended December 31,	
			2017	2016
(in thousands)				
Luxembourg	\$ (9,738)	\$ (500,317)	\$ 349	\$ 190,849
United States	3,558	(10,467)	1,301	3,855
Other jurisdictions	(28,073)	(1,646,401)	(513,953)	(209,754)
Loss before income taxes	\$ (34,253)	\$ (2,157,185)	\$ (512,303)	\$ (15,050)

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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

	Successor		Predecessor			
	Period From November 20, 2018 through December 31, 2018		Period From January 1, 2018 through November 19, 2018		Years ended December 31,	
					2017	2016
(in thousands)						
Current income tax benefit (expense):						
Luxembourg	\$ 292	\$ (866)	\$ (2,287)	\$ 53		
United States	(90)	(641)	(3,202)	(1,874)		
Other foreign	60	(288)	35	(4,792)		
Total current	\$ 262	\$ (1,795)	\$ (5,454)	\$ (6,613)		
Deferred tax benefit (expense):						
Luxembourg	\$ 6,454	\$ 6,924	\$ 321	\$ (2,893)		
United States	(15)	(1,902)	(6,145)	(448)		
Other foreign	68	(919)	(1,585)	(12,153)		
Total deferred	\$ 6,507	\$ 4,103	\$ (7,409)	\$ (15,494)		
Income tax expense	\$ 6,769	\$ 2,308	\$ (12,863)	\$ (22,107)		

A reconciliation between the Luxembourg statutory rate of 26.0% for the year ended December 31, 2018, 27.1% for the year ended December 31, 2017 and 29.2% for the year ended December 31, 2016 and our effective tax rate is as follows:

	Successor		Predecessor			
	Period From November 20, 2018 through December 31, 2018		Period From January 1, 2018 through November 19, 2018		Years ended December 31,	
					2017	2016
Statutory rate	26.0 %	26.0 %	27.1 %	29.2 %		
Effect of tax rates different from the Luxembourg statutory tax rate	(25.3)%	(18.7)%	(19.2)%	(13.2)%		
Change in valuation allowance	18.7 %	(4.3)%	(8.0)%	(85.1)%		
Changes in unrecognized tax benefits	(1.0)%	(0.2)%	(0.8)%	(75.9)%		
Equity based compensation shortfall	— %	(0.1)%	(1.2)%	(7.0)%		
Change in enacted statutory tax rates	— %	— %	(0.5)%	— %		
Adjustments related to prior years	1.3 %	— %	0.1 %	5.1 %		
Fresh start accounting	— %	(2.6)%	— %	— %		
Effective tax rate	19.7 %	0.1 %	(2.5)%	(146.9)%		

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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

(in thousands)	<u>Successor</u> <u>December 31, 2018</u>	<u>Predecessor</u> <u>December 31, 2017</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 549,107	\$ 52,568
Depreciation and amortization	188,161	35,873
Accrued payroll expenses	2,307	4,595
Deferred revenue	42	2,189
Other	307	1,119
Deferred tax assets	<u>739,924</u>	<u>96,344</u>
Less: valuation allowance	(701,727)	(86,495)
Total deferred tax assets	<u>\$ 38,197</u>	<u>\$ 9,849</u>
Deferred tax liabilities:		
Depreciation and amortization	\$ (22,134)	\$ (6,505)
Deferred expenses	—	(1,459)
Other	(5)	(88)
Total deferred tax liabilities	<u>\$ (22,139)</u>	<u>\$ (8,052)</u>
Net deferred tax assets	<u>\$ 16,058</u>	<u>\$ 1,797</u>

As of December 31, 2018 and 2017, the Company had gross deferred tax assets of \$549.1 million and \$52.6 million, respectively, related to loss carry forwards in various worldwide tax jurisdictions. The majority of the loss carry forwards are in Luxembourg and have a related gross deferred tax asset of \$504.2 million that expires in 2034. The remaining 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, 2018 and 2017, the valuation allowance for deferred tax assets was \$701.7 million and \$86.5 million, respectively.

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, 2018, the amount of indefinitely reinvested earnings was approximately \$20.0 million, and if all of these indefinitely reinvested earnings were distributed, we would be subject to estimated taxes of approximately \$1.0 million.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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, 2018, we had \$42.5 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 amounts of unrecognized tax benefits for the Successor period in 2018 and for the Predecessor periods in 2018 and 2017 is as follows:

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Period From November 20, 2018 through December 31, 2018</u>	<u>Period From January 1, 2018 through November 19, 2018</u>	<u>Year Ended December 31, 2017</u>
(in thousands)			
Balance, beginning of period	\$ 41,831	\$ 38,860	\$ 34,027
Increases in unrecognized tax benefits as a result of tax positions taken during current year	626	2,971	4,833
Balance, end of period	<u>\$ 42,457</u>	<u>\$ 41,831</u>	<u>\$ 38,860</u>

As of December 31, 2018 and 2017, we have no accrued interest and penalties related to uncertain tax positions on our balance sheet as such payments would not be required by law.

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, 2018, the Company has ongoing tax audits in Nigeria and Brazil.

Note 10—Revenue from Contracts with Clients

Contract Assets and Liabilities

Accounts receivable are recognized when the right to consideration becomes unconditional based upon contractual billing schedules. Payment terms on invoiced amounts are typically 30 days. As of December 31, 2018 and 2017, accounts receivable on our consolidated balance sheets were presented net of allowance for doubtful accounts of \$0.0 and \$2.6 million, respectively.

Contract assets consist of demobilization revenue that we expect to receive and is recognized ratably throughout the contract term but invoiced upon completion of the demobilization activities. Once the demobilization revenue is invoiced, the corresponding contract asset is transferred to accounts receivable.

Contract liabilities include payments received for mobilization, contract preparation and capital upgrade activities, which are allocated to the overall performance obligation and recognized ratably over the initial term of the contract.

Contract assets and liabilities are netted at a contract level, such that deferred revenue for mobilization, contract preparation and capital upgrade (contract liabilities) is netted with any accrued demobilization revenue (contract asset) for each applicable contract. Net current contract asset and liability balances are included in “Prepaid expenses and other current assets” and “Deferred revenue, current,” respectively, and net noncurrent contract asset and liability balances are included in “Other assets” and “Deferred revenue,” respectively, on our consolidated balance sheets.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

The following table provides information about trade receivables, contract assets and contract liabilities:

(in thousands)	<u>Successor</u> <u>December 31,</u> <u>2018</u>	<u>Predecessor</u> <u>January 1,</u> <u>2018</u>
Trade receivables, net	\$ 40,144	\$ 40,398
Current contract liabilities (deferred revenue)	—	23,966
Noncurrent contract liabilities (deferred revenue)	—	12,973

Significant changes in contract assets and contract liabilities for the Predecessor period in 2018 are as follows:

	<u>Contract Assets</u>	<u>Contract Liabilities</u>
	(in thousands)	
Balance at January 1, 2018	\$ —	\$ (36,939)
Decrease due to amortization of deferred revenue	—	20,212
Decrease due to completion of prepaid services	—	2,305
Increase due to cash received, excluding amounts recognized as revenue	—	(1,824)
Decrease due to fresh start accounting adjustments (Note 3)	—	16,246
Balance at November 19, 2018 (Predecessor)	\$ —	\$ —

There were no material activities for the Successor period in 2018.

Contract Fulfillment Costs

Certain direct and incremental costs incurred for upfront preparation and initial mobilization of contracted rigs represent costs of fulfilling a contract as they relate directly to a contract, enhance resources that will be used to satisfy our performance obligations in the future and are expected to be recovered. Such costs are deferred as a current or noncurrent asset depending on the length of the initial contract term and amortized ratably to operating expenses as services are rendered over the initial term of the related drilling contract. As of December 31, 2018, these contract fulfillment costs were \$0.4 million and reported in “Deferred costs, current” on our consolidated balance sheets. During the Successor and Predecessor periods in 2018, amortization of such costs was \$0.1 million and \$7.5 million respectively, and there was no impairment of deferred contract costs.

Costs incurred for the demobilization of rigs at contract completion are recognized as incurred during the demobilization process. Costs incurred for capital upgrades for a contract are capitalized as property and equipment and depreciated over the estimated useful life of the asset.

Future Amortization of Contract Liabilities

As of December 31, 2018, there is no revenue expected to be recognized in the future related to unsatisfied performance obligations. We have applied the optional exemption in Topic 606 and have not disclosed the variable consideration related to our estimated future dayrate revenue.

Note 11—Shareholders’ Equity

In 2016, we cancelled 0.7 million treasury shares repurchased under a 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 accordance with the Plan, effective November 19, 2018, by shareholder approval at an Extraordinary General Meeting, the Company effectuated, among other things, a 1-for-10,000 reverse stock split of its existing common shares (the “Reverse Stock Split”). On the effective date of the Reverse Stock Split, the Company’s shareholders received one new common share for every 10,000 common shares they owned. No fractional shares were issued in connection with the Reverse Stock Split; instead, holders of fractional shares were paid in cash, which amount was not material in the aggregate.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

In addition, at an Extraordinary General Meeting, the Company's shareholders approved the increase in the Company's share capital to \$825,000, or 82.5 million shares, of which approximately 75.0 million shares were issued and are outstanding in connection with emergence and the remaining approximately 7.5 million authorized shares were issued to Pacific Drilling Administrators Limited and reserved for issuance pursuant to the 2018 Stock Plan.

As of December 31, 2018, the Company's share capital consisted of 82.5 million common shares authorized, \$0.01 par value per share, of which 75.0 million common shares were issued and outstanding.

Note 12—Share-Based Compensation

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

	Successor	Predecessor		
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years Ended December 31,	
			2017	2016
(in thousands)				
Operating expenses	\$ —	\$ 177	\$ 416	\$ 658
General and administrative expenses	599	2,366	6,403	6,436
Share-based compensation expense	599	2,543	6,819	7,094
Tax benefit ^(a)	(126)	—	(1,147)	(2,011)
Total	\$ 473	\$ 2,543	\$ 5,672	\$ 5,083

- (a) The effects of tax benefits from share-based compensation expense are included within income tax expense in our consolidated statements of operations. As a result of the cancellation of all equity and equity-based awards granted under the Pacific Drilling S.A. 2011 Omnibus Stock Incentive Plan (the "2011 Stock Plan"), we do not expect any tax benefit from share-based compensation expense during the Predecessor period in 2018.

On November 28, 2018, the board of directors approved the 2018 Stock Plan pursuant to which the Company may issue up to 7.5 million common shares to 2018 Stock Plan participants using various types of stock-based incentive awards, including stock options, restricted shares, restricted share units and other equity-based awards. The Compensation Committee of the board of directors determines the terms and conditions of equity awards made to participants under the 2018 Stock Plan.

Prior to the adoption of the 2018 Stock Plan, the 2011 Stock Plan provided for the grant of equity-based or equity-related awards to directors, officers, employees and consultants. In connection with our emergence from bankruptcy on November 19, 2018, all equity and equity-based awards granted under the 2011 Stock Plan were cancelled and are no longer outstanding.

Stock Options

During the Predecessor periods in 2018, 2017 and 2016, there were no options granted or exercised. A summary of option activity under the 2011 Stock Plan in the Predecessor period of 2018 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, 2018 (Predecessor)	279	\$ 64.76		
Granted	—			
Exercised	—			
Cancelled or forfeited	(279)	64.76		
Outstanding — November 19, 2018 (Predecessor)	—	\$ —	—	\$ —
Exercisable — November 19, 2018 (Predecessor)	—	\$ —	—	\$ —

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

During the Successor period in 2018, no options were granted under the 2018 Stock Plan.

Restricted Share Units (“RSUs”)

Pursuant to the 2011 Stock Plan, the Company granted restricted share units to certain members of our board of directors, executives and employees to be settled in shares of our stock. In 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.

Pursuant to the 2018 Stock Plan, in December 2018, the board of directors granted an aggregate of 565,000 restricted share units to our Chairman of the Board, our Chief Executive Officer and our two other Class A directors. The fair value of restricted share units is determined using the market value of our shares on the date of grant. The restricted share units granted to our Chairman of the Board and Chief Executive Officer were 50% time-vested RSUs and 50% performance-based RSUs. The time-vested RSUs vest one-third on the second anniversary of the grant date, one-third on the third anniversary of the grant date, and one-third on the fourth anniversary of the grant date, with accelerated vesting upon a change of control of the Company. The performance-based RSUs vest only upon the satisfaction of performance conditions. The RSUs granted to the other Class A directors are time-vested RSUs that vest in equal annual installments on each of the first and second anniversary of the grant date, with accelerated vesting upon a change of control of the Company.

A summary of RSUs activity for the year ended December 31, 2018 is as follows:

	Number of Restricted Stock Units <small>(in thousands)</small>	Weighted- Average Grant-Date Fair Value <small>(per share)</small>
Nonvested — January 1, 2018 (Predecessor)	70	\$ 45.28
Granted	—	—
Vested	(37)	54.25
Cancelled or forfeited	(33)	33.63
Nonvested — November 19, 2018 (Predecessor)	—	\$ —
Nonvested — November 20, 2018 (Successor)	—	\$ —
Granted	565	13.00
Vested	—	—
Cancelled or forfeited	—	—
Nonvested — December 31, 2018 (Successor)	565	\$ 13.00

No RSUs were granted for the year ended December 31, 2017. The total grant-date fair value of the RSUs vested was \$2.0 million, \$5.2 million and \$4.8 million for the Predecessor periods in 2018, 2017 and 2016, respectively.

As of December 31, 2018, total compensation costs related to nonvested time-based RSUs not yet recognized was \$3.8 million and is expected to be recognized over a weighted-average period of 2.9 years.

Stock Bonus Awards

In December 2018, our board of directors approved the issuance of an aggregate of 39,614 common shares to 269 participants as stock bonus awards under the 2018 Stock Plan, of which 8,061 shares were withheld for the payment of taxes resulting in a net issuance of 31,553 common shares.

Cash-Settled Restricted Share Units

Pursuant to the 2011 Stock Plan, the Company granted cash-settled restricted share units to certain of our executives and employees. The value of cash-settled restricted share units was determined based on our common share price on the vesting date and were paid in cash with no actual shares issued. Compensation expense of cash-settled restricted share units was remeasured each quarter with a cumulative adjustment to compensation cost during the period based on changes in our share price.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

During the Predecessor period in 2018, 0.1 million of cash-settled restricted share units vested and were settled for an immaterial amount, and all of the remaining 0.4 million units were forfeited.

During the Successor period in 2018, no cash-settled restricted share units were granted under the 2018 Stock Plan.

Note 13—Earnings per Share

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

	Successor	Predecessor		
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years Ended December 31,	
			2017	2016
(in thousands, except per share information)				
Numerator:				
Net loss, basic and diluted	\$ (27,484)	\$ (2,154,877)	\$ (525,166)	\$ (37,157)
Denominator:				
Weighted-average number of common shares outstanding, basic	75,010	21,359	21,315	21,167
Weighted-average number of common shares outstanding, diluted	75,010	21,359	21,315	21,167
Loss per share:				
Basic	\$ (0.37)	\$ (100.89)	\$ (24.64)	\$ (1.76)
Diluted	\$ (0.37)	\$ (100.89)	\$ (24.64)	\$ (1.76)

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:

	Successor	Predecessor		
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years Ended December 31,	
			2017	2016
(in thousands)				
Share-based compensation awards	161	314	349	1,217

Note 14—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.

In September 2017, Hyperdynamics announced that its exploration well did not encounter hydrocarbons, and in December 2017 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, 2018 and 2017, the aggregate fair value and cost basis of our investment were \$0.

Note 15—Derivatives

We are exposed to market risk from changes in interest rates and foreign exchange rates. From time to time, we have entered 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.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

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, we incurred net cash outflows of \$1.8 million, and reclassified the amounts from accumulated other comprehensive income to property and equipment.

We had no outstanding derivatives as of December 31, 2018 and 2017.

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")				Loss Reclassified from Accumulated OCI into Income			
	Successor	Predecessor			Successor	Predecessor		
	Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years Ended December 31,		Period From November 20, 2018 through December 31, 2018	Period From January 1, 2018 through November 19, 2018	Years Ended December 31,	
		2018	2017	2016		2018	2017	2016
(in thousands)								
Interest rate swaps	\$ —	\$ 643	\$ 4,700	\$ 2,713	\$ —	\$ 643	\$ 5,265	\$ 8,798
Foreign currency forward contracts	\$ —	\$ —	\$ —	\$ 1,584	\$ —	\$ —	\$ —	\$ —

For the Predecessor period ended November 19, 2018 and the years ended December 31, 2017 and 2016, we reclassified \$0, \$4.5 million and \$8.0 million to interest expense and \$0.6 million, \$0.8 million and \$0.8 million to depreciation from accumulated other comprehensive loss, respectively.

Note 16—Fair Value Measurements

We estimated fair value by using appropriate valuation methodologies and information available to management as of December 31, 2018 and 2017. Considerable judgment is required in developing these estimates, and accordingly, estimated values may differ from actual results.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

The estimated fair value of cash and cash equivalents, restricted cash, accounts receivable, other 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 the SSCF debt and 2013 Revolving Credit Facility as of December 31, 2017. The following table presents the carrying value and estimated fair value of our cash and cash equivalents and other financial instruments:

	Successor		Predecessor	
	December 31, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(in thousands)				
Cash and cash equivalents	\$ 367,577	\$ 367,577	\$ 308,948	\$ 308,948
2017 Senior Secured Notes	—	—	438,880	243,847
2018 Senior Secured Term Loan B	—	—	722,706	290,841
2020 Senior Secured Notes	—	—	750,000	307,500
First Lien Notes	747,400	714,953	—	—
Second Lien PIK Notes	291,935	285,548	—	—
Receivable from unconsolidated subsidiaries	204,790	205,790	—	—

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, 2018 and 2017, the aggregate carrying amount of our cash equivalents was \$331.3 million and \$220.7 million, 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.

We applied a probability weighted approach to estimate the value of assets associated with the Zonda Arbitration, which was presented within receivable from unconsolidated subsidiaries on our consolidated balance sheets as of December 31, 2018. The analysis included estimating probabilities of success for the various outcomes and expected cash flows associated with each outcome. The probability weighted cash flows were discounted to the balance sheet date using market data. The analysis utilized certain unobservable inputs that require significant judgment for which there is little or no market data, which represent Level 3 fair value measurements. These included, but were not limited to, probability and timing of successfully recovering the advance payments and purchased equipment.

See Note 15 for further discussion of our use of financial instruments.

Note 17—Commitments and Contingencies

Operating Leases— We lease office space in countries in which we operate. As of December 31, 2018, 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,	
2019	\$ 1,549
2020	1,472
2021	1,499
2022	1,525
2023	1,552
Thereafter	1,179
Total future minimum lease payments	<u>\$ 8,776</u>

During the Predecessor periods in 2018, 2017 and 2016, rent expense was \$1.6 million, \$2.4 million and \$2.5 million, respectively. Rent expense for the Successor period in 2018 was immaterial.

Commitments—As of December 31, 2018, we had commitments for capital expenditures related to rig enhancements of \$20.8 million.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

Customs bonds—As of December 31, 2018, we were contingently liable under certain customs bonds totaling approximately \$23.0 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 were subject to the automatic stay provisions of Section 362(a) of the Bankruptcy Code, including litigation relating to us and our subsidiaries that were Debtors in the Chapter 11 proceedings. On November 19, 2018, the Debtors emerged from bankruptcy after successfully completing their reorganization pursuant to the Plan. See Note 2.

In January 2013, our subsidiary Pacific Drilling VIII Limited (“PDVIII”) entered into, and our subsidiary Pacific Drilling Services, Inc. (“PDSI”) guaranteed, a contract with SHI for the construction of 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 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) (the “Tribunal”). 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 of approximately \$181.1 million, 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. We own \$75.0 million in purchased equipment for the *Pacific Zonda*, a majority of which remains on board the *Pacific Zonda*. 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 the Tribunal from February 5 through March 2, 2018. Written closing submissions and short replies to such submissions were filed with the Tribunal in May 2018. Oral closing submissions were heard by the Tribunal in early August 2018. We expect the Tribunal to render its award within the next several months.

SHI has asserted claims against PDVIII and PDSI, secured by the *Pacific Zonda*, for approximately \$387.4 million, for the remaining unpaid purchase price, interest and costs. The Zonda Debtors filed a separate plan of reorganization which was confirmed by order of the Bankruptcy Court on January 30, 2019 and are not Debtors under the Plan. On the date the plan was confirmed, PDVIII and PDSI had \$4.6 million in cash and no other material assets after accounting for post-petition administrative expenses (other than the value of their claims against SHI) for SHI to recover against on account of its claims. It is expected that the Zonda Debtors will emerge from bankruptcy pursuant to their separate plan of reorganization after the successful resolution of the arbitration proceeding. If the Zonda Debtors are unsuccessful in the arbitration, the Company expects to liquidate the Zonda Debtors.

Based on our assessment of the facts and circumstances of the rescission, we believe the recovery of the advance payments, accrued interest and the purchased equipment on board the *Pacific Zonda* is probable. Therefore, we have recognized the related assets on our consolidated balance sheets at December 31, 2018 and 2017. See Note 7.

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.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

Note 18—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 regard 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 clients.

During the years ended December 31, 2018, 2017 and 2016, the percentage of revenues earned from our clients was as follows:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Period From</u>	<u>Period From</u>	<u>Years Ended December 31,</u>	
	<u>November 20, 2018</u> <u>through</u> <u>December 31, 2018</u>	<u>January 1, 2018</u> <u>through</u> <u>November 19, 2018</u>	<u>2017</u>	<u>2016</u>
Chevron	82.1 %	84.0 %	81.6 %	77.1 %
Eni	17.9 %	— %	— %	— %
Petronas	— %	14.2 %	— %	— %
Total	— %	— %	— %	22.9 %
Other	— %	1.8 %	18.4 %	— %

Some of our employees in Nigeria are represented by unions. As of December 31, 2018 and 2017, approximately 1% of our labor force was covered by collective bargaining agreements, all of which are subject to annual salary negotiation.

Note 19—Segments and Geographic Areas

Our drillships are part of a single, global market for contract drilling services and can be redeployed globally in response 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 4.

As of December 31, 2018, the *Pacific Bora* was located offshore Nigeria and the *Pacific Sharav* was located offshore the United States. As of December 31, 2018, the *Pacific Scirocco*, the *Pacific Mistral*, the *Pacific Santa Ana*, the *Pacific Khamsin* and the *Pacific Meltem* were anchored at Las Palmas.

During the years ended December 31, 2018, 2017 and 2016, the percentage of revenues earned by geographic area, based on drilling location, is as follows:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Period From</u>	<u>Period From</u>	<u>Years Ended December 31,</u>	
	<u>November 20, 2018</u> <u>through</u> <u>December 31, 2018</u>	<u>January 1, 2018</u> <u>through</u> <u>November 19, 2018</u>	<u>2017</u>	<u>2016</u>
United States	82.1 %	84.0 %	81.6 %	56.9 %
Nigeria	17.9 %	1.8 %	11.2 %	43.1 %
Other	— %	14.2 %	7.2 %	— %

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

Note 20—Variable Interest Entities

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

	Successor	Predecessor
	December 31, 2018	December 31, 2017
(in thousands)		
Assets	\$ 2,381	\$ 3,142
Liabilities	(1,037)	(1,548)
Net carrying amount	\$ 1,344	\$ 1,594

PIDWAL is a joint venture formed to provide drilling services in Nigeria. PIDWAL has a 50.1% ownership interest in two of our rig holding subsidiaries, Pacific Bora Ltd. and Pacific Scirocco Ltd., and we own 49.9% of such entities through our wholly-owned subsidiary Pacific Drilling Limited (“PDL”). PIDWAL’s interest in the rig holding subsidiaries is held through a holding company, Pacific Drillship Nigeria Limited (“PDNL”), of which it owns 99.9%, and PDL owns the remaining 0.1%. 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 Successor period in 2018 and the Predecessor periods in 2018, 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.

During the Successor period in 2018 and the Predecessor periods in 2018, 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 21—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 Successor period in 2018 and the Predecessor periods in 2018, 2017 and 2016, our total employer contributions to both plans amounted to \$0.3 million, \$2.3 million, \$2.8 million and \$4.1 million, respectively.

Note 22—Supplemental Cash Flow Information

During the Successor period in 2018 and the Predecessor periods in 2018, 2017 and 2016, we paid \$0, \$97.2 million, \$120.8 million and \$169.8 million of interest, respectively. During the Successor period in 2018 and the Predecessor periods in 2018, 2017 and 2016, we paid income taxes of \$0.2 million, \$3.9 million, \$4.9 million and \$12.3 million, respectively.

During the Successor period and Predecessor period in 2018, we paid \$36.6 million and \$56.0 million in reorganization items, respectively.

During the Predecessor period in 2018, the following non-cash financing activities occurred:

- We converted \$1.2 billion of liabilities subject to compromise into equity when holders of the Company’s Term Loan B, 2017 Notes and 2020 Notes received an aggregate of 24,416,442 common shares in exchange for their claims.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued

- We issued approximately \$23.6 million aggregate principal amount of Second Lien PIK Notes as a commitment fee to the Ad Hoc Group for their agreement to backstop the issuance of the Second Lien PIK Notes.
- We issued an aggregate of 2,566,056 common shares as a fee to the Ad Hoc Group for their agreement to backstop the equity rights offering.
- We incurred approximately \$14.6 million in debt and equity financing costs that were unpaid as of November 19, 2018.

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 Successor period in 2018 and the Predecessor periods in 2018, 2017 and 2016, changes in accrued capital expenditures were \$4.3 million, \$1.1 million, \$(18.5) million and \$(9.0) million, respectively.

Note 23—Related Party Transactions

We have determined that Abrams Capital Management, L.P., Avenue Capital Management II, L.P., Strategic Value Partners, LLC and certain of their affiliates (the “Principal Shareholders”) meet the definition of related parties under U.S. GAAP. As of December 31, 2018, the Principal Shareholders held \$36.1 million of our Second Lien PIK Notes.

During the Predecessor periods in 2018 and 2017, the following related party transactions occurred:

Pursuant to the Global Settlement entered into in August 2018 with QP, and as approved by the Bankruptcy Court, the Company agreed to reimburse QP up to \$13.0 million for fees and out-of-pocket expenses incurred in connection with the Debtors’ Chapter 11 proceedings, of which \$12.0 million was recorded in reorganization items in our consolidated statements of operations.

In September 2018, QP purchased \$20.0 million in principal amount of our Second Lien PIK Notes in our offering of such notes.

During 2018, we paid QP an aggregate of \$0.7 million in director fees for services provided by directors affiliated with QP.

In August 2017, we executed an agreement with QP for the reimbursement or payment of certain legal and advisory fees incurred by QP and related to its participation in the negotiation of our debt restructuring. During the year ended December 31, 2017, we incurred fees of \$3.2 million under such agreement. This agreement expired by its terms upon our filing of the Bankruptcy Petitions.

Note 24—Summarized Financial Information of Zonda Debtors

The following presents summarized financial information of the Zonda Debtors which were deconsolidated as of November 19, 2018 and accounted for under the equity method in the Successor period in 2018.

PACIFIC DRILLING S.A. AND SUBSIDIARIES
Notes to Consolidated Financial Statements—Continued
Pacific Drilling VIII Limited and Pacific Drilling Services, Inc.

Summarized Financial Information

(in thousands)

	Period From November 20, 2018 through December 31, 2018
Intercompany revenues	\$ 1,410
Costs and expenses	(499)
Operating income	911
Net income	392

	December 31, 2018
Current assets	\$ 5,569
Noncurrent assets	213,725
Current liabilities	1,864
Noncurrent liabilities ^(a)	331,786

(a) Noncurrent liabilities primarily consist of pre-petition intercompany payable.

Note 25—Subsequent Events

On February 22, 2019, our shareholders approved a share repurchase program for a total expenditure of up to \$15.0 million for a two-year period. We may purchase shares in one or several transactions on the open market or otherwise; however, we are not obligated to repurchase any dollar amount or specific number of common shares under the program. We anticipate that repurchases will be funded with cash on hand. As of March 1, 2019, we had not repurchased any common shares under this program.

On February 25, 2019, the board of directors approved the issuance of an aggregate 1,232,379 RSUs.

Pacific Drilling S.A.
Société Anonyme
Siège social: 8-10, avenue de la Gare, L-1610 Luxembourg
R.C.S. Luxembourg: B159658

STATUTS COORDONNES A LA DATE DU 20 DECEMBRE 2018

Société constituée aux termes d'un acte notarié en date du 11 Mars 2011, par Maître ELVINGER, notaire de résidence à Luxembourg, publié au Mémorial C, Recueil des Sociétés et Associations, numéro 1289 en date du 15 juin 2011, inscrite auprès du Registre de Commerce et des Sociétés de Luxembourg sous le numéro B 159658

Modification établie suivant acte reçu par Maître ELVINGER, notaire de résidence à Luxembourg, le 06 Avril 2011, publié au Mémorial C, Recueil des Sociétés et Associations, le 22 Juin 2011 sous le numéro 1364

Modification établie suivant acte reçu par Maître ELVINGER, notaire de résidence à Luxembourg, le 30 Mars 2011, publié au Mémorial C, Recueil des Sociétés et Associations, le 30 Juin 2011 sous le numéro 1427

Modification établie suivant acte reçu par Maître Joelle BADEN, notaire de résidence à Luxembourg, le 14 Novembre 2011, publié au Mémorial C, Recueil des Sociétés et Associations, le 28 Décembre 2011 sous le numéro 3191

Modification établie suivant acte reçu par Maître Joelle BADEN, notaire de résidence à Luxembourg, le 18 Novembre 2011, publié au Mémorial C, Recueil des Sociétés et Associations, le 03 Janvier 2012 sous le numéro 18

Modification établie suivant acte reçu par Maître Joseph ELVINGER, notaire de résidence à Luxembourg, le 20

Décembre 2011, publié au Mémorial C, Recueil des Sociétés et Associations, le 01 Février 2012 sous le numéro 272

Modification établie suivant acte reçu par Maître Jean SECKLER, notaire de résidence à Junglinster, le 06 Mars 2014, publié au Mémorial C, Recueil des Sociétés et Associations, le 14 Mai 2014 sous le numéro 1221

Modification établie suivant acte reçu par Maître Jean SECKLER, notaire de résidence à Junglinster, le 02 Mai 2016, publié au Mémorial C, Recueil des Sociétés et Associations, le 09 Juillet 2016 sous le numéro 2015

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I. NAME-REGISTERED OFFICE-OBJECT-DURATION

Art. 1. Name

The name of the company is “ **Pacific Drilling S.A.** ” (the “ **Company**”). The Company is a public company limited by shares (*société anonyme*) governed by the laws of the Grand Duchy of Luxembourg, in particular the law of August 10, 1915, on commercial companies, as amended (the “ **Law** ”), and these articles of incorporation (the “ **Articles** ”).

Art. 2. Registered office

2.1. The Company’s registered office is established in Luxembourg, Grand Duchy of Luxembourg. It may be transferred within that municipality by a resolution of the board of directors (the “ **Board** ”). It may be transferred to any other location in the Grand Duchy of Luxembourg by a resolution of the general meeting of shareholders (the “ **General Meeting** ”), acting in accordance with the conditions prescribed for the amendment of the Articles.

2.2. Branches, subsidiaries or other offices may be established in the Grand Duchy of Luxembourg or abroad by a resolution of the Board. If the Board determines that extraordinary political or military developments or events have occurred or are imminent, and that those developments or events may interfere with the normal activities of the Company at its registered office, or with ease of communication between that office and persons abroad, the registered office may be temporarily transferred abroad until the developments or events in question have completely ceased. Any such temporary measures do not affect the nationality of the Company, which, notwithstanding the temporary transfer of its registered office, will remain a Luxembourg incorporated company.

Art. 3. Corporate object

3.1. The Company’s object is buying and selling, the chartering in and the chartering out, and the management of seagoing ships, as well as the financial and commercial operations that relate directly or indirectly to such activities

3.2. In addition, the Company may charter, hold, lease, operate and provide vessels and equipment used in contract drilling services in oil and gas drilling operations; the Company may also acquire, hold, manage, sell or dispose of any such related equipment, enter into, assist or participate in financial, commercial and other transactions relating to contract drilling services.

3.3. In addition, the Company may acquire 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.

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

3.5. The Company may use any techniques, legal means and instruments to manage its investments efficiently and protect itself against credit risks, currency exchange exposure, interest rate risks and other risks.

3.6. The Company may carry out any commercial, financial or industrial operation and any transaction with respect to real estate or movable property, which directly or indirectly, favours or relates to its corporate object.

Art. 4. Duration

4.1. The Company is formed for an unlimited period.

4.2. The Company is not to be dissolved by reason of the death, suspension of civil rights, incapacity, insolvency, bankruptcy or any similar event affecting one or more shareholders.

II. CAPITAL – SHARES

Art. 5. Capital

5.1. The share capital is set at eight hundred twenty four thousand nine hundred ninety eight United States Dollars and twenty seven cents (USD 824,998.27) represented by eighty two million four hundred ninety-nine thousand eight hundred twenty seven (82,499,827) shares in registered form, without nominal value.

5.2. The share capital may be increased or reduced once or more by a resolution of the General Meeting acting in accordance with the conditions prescribed for the amendment of the Articles.

5.3. The Board is authorized, for a period of five (5) years from the 19 November 2018, without prejudice to any renewals, to:

(i) increase the current share capital once or more up to eight hundred twenty-five thousand United States dollars (USD 825,000) (such amount including the current share capital of the Company) by the issue of new shares having the same rights as the existing shares, or without any such issue;

(ii) determine the conditions of any such capital increase including through contributions in cash or in kind, by the incorporation of reserves, issue/share premiums or retained earnings, with or without issue of new shares to current shareholders or third parties (non-shareholders) or following the issue of any instrument convertible into shares or any other instrument carrying an entitlement to, or the right to subscribe for, shares;

(iii) limit or withdraw the shareholders' preferential subscription rights to the new shares, if any, and determine the persons who are authorized to subscribe to the new shares; and

(iv) record each share capital increase by way of a notarial deed and amend the share register accordingly.

5.4. Within the limits of article 5.3 of the Articles, the Board is expressly authorized to increase the Company's share capital by incorporation of reserves, issue/share premiums or retained earnings and to issue the additional shares resulting from such capital increase to a beneficiary under any stock incentive plan as agreed by the Company (such beneficiary being a shareholder of the Company or not, or, to an entity appointed by the Company as an administrator in connection with such plan) or under any equity rights offering, private placements or backstop fees. The Company reserves the right to place transfer and other restrictions on such shares as determined by the Company pursuant to such stock incentive plan from time to time.

5.5. When the Board has implemented an increase in capital as authorised by article 5.3, article 5 of the present articles of association shall be amended to reflect that increase.

5.6. The Board is expressly authorised to delegate to any natural or legal person to organise the market in subscription rights, accept subscriptions, conversions or exchanges, receive payment for the price of shares or other financial instruments, to have registered increases of capital carried out as well as the corresponding amendments to article 5 of the present articles of association and to have recorded in said article 5 of the present articles of association the amount by which the authorisation to increase the capital has actually been used and, where appropriate, the amounts of any such increase that are reserved for financial instruments which may carry an entitlement to shares.

Art. 6. Shares

6.1. The shares are and will remain in registered form (actions nominatives).

6.2. A register of shares is kept at the registered office and may be examined by any shareholder on request.

6.3. The shares may be entered without serial numbers into fungible securities accounts with financial institutions or other professional depositaries operating a settlement system in relation to transactions on securities, dividends, interest, matured capital or other

matured monies of securities or of other financial instruments being handled through the system of such depository (such systems, professionals or other depositaries being referred to hereinafter as Depositaries and each a Depository). The shares held in deposit or in an account with such financial institution or professional depository shall be recorded in an account opened in the name of the depositor and may be transferred from one account to another, whether such account is held by the same or a different financial institution or depository. The Board may however impose transfer restrictions for shares that are registered, listed, quoted, dealt in, or have been placed in certain jurisdictions in compliance with the requirements applicable therein. The transfer to the register kept at the Company's registered office may be requested by a shareholder.

6.4. The Company may consider the person in whose name the registered shares are registered in the register(s) of Shareholders as the full owner of such registered shares. The Company shall be completely free from any responsibility in dealing with such registered shares towards third parties and shall be justified in considering any right, interest or claims of such third parties in or upon such registered shares to be non-existent, subject, however, to any right which such third party might have to demand the registration or change in registration of registered shares.

6.5. Where the shares are held with Depositaries through fungible securities accounts within clearing and settlement systems, the exercise of the voting rights in respect of such shares may be subject to the internal rules and procedures of those clearing and settlement systems.

6.6. All communications and notices to be given to a registered shareholder shall be deemed validly made to the latest address communicated by the shareholder to the Company. In the event that a holder of registered shares does not provide an address to which all notices or announcements from the Company may be sent, the Company may permit a notice to this effect to be entered into the register(s) of Shareholders and such holder's address will be deemed to be at the registered office of the Company or such other address as may be so entered by the Company from time to time, until a different address shall be provided to the Company by such holder. The holder may, at any time, change his address as entered in the register(s) of

Shareholders by means of written notification to the Company or the relevant registrar.

6.7. A share transfer of registered shares which are not held through fungible securities accounts is carried out by the entry in the register of shares of a declaration of transfer, duly signed and dated by both the transferor and the transferee or their authorized representatives, following a notification to or acceptance by the Company, in accordance with Article 1690 of the Civil Code. The Company may also accept other documents recording the agreement between the transferor and the transferee as evidence of a share transfer.

6.8. The rights and obligations attached to any share shall pass to any transferee thereof.

6.9. The shares are indivisible and the Company recognizes only one (1) owner per share.

6.10. The Company may redeem its own shares using a method approved by the Board which is in accordance with Luxembourg law and the rules of any stock exchange(s) on which the shares in the Company are listed from time to time.

6.11. The Company will not issue non-voting equity securities (which shall not be deemed to include any warrants or options to purchase shares of the Company).

III. MANAGEMENT–REPRESENTATION

Art. 7. Board of directors

7.1. Composition of the board of directors

(i) The Company is managed by the Board. Except as provided in Article 8, the total number of directors constituting the entire Board shall be seven (7) directors. Directors need not be shareholders. Except as provided in Article 8, from and after 19 November 2018 (the “ **Effective Time** ”) until the occurrence of the Nomination Termination Time (as defined in that certain Governance Agreement, dated on or about the Effective Time, by and among the Company and the other shareholders thereto (the “ **Governance Agreement** ”)), the Board shall be divided into two classes, hereby

designated Class A (composed of four (4) directors) and Class B (composed of three (3) directors), with all Class A directors and Class B directors elected to terms of one (1) year in length; provided, that the initial term of office of the Class A directors following the Effective Time shall expire at the General Meeting of the shareholders of the Company at which the annual accounts for the 2018 financial year will be approved and the initial term of office of the Class B directors following the Effective Time shall expire at the General Meeting of the shareholders of the Company at which the annual accounts for the 2019 financial year will be approved. All directors, whether assigned to Class A or Class B, shall be elected by the shareholders at the General Meeting in accordance with the Law and shall have one (1) vote each at all meetings of the Board. From and after the Nomination Termination Time (as defined in the Governance Agreement), the Board shall cease to be classified and each director then in office previously designated as a Class A director or Class B director shall remain in office as a director until his or her term expires or until his or her earlier death, resignation or removal by the shareholders.

(ii) Directors may be removed at any time, with or without cause, by a resolution of the General Meeting.

(iii) If a legal entity is appointed as director, it must appoint a permanent representative to perform its duties. The permanent representative is subject to the same rules and incurs the same liabilities as if he had exercised its functions in its own name and on its own behalf, without prejudice to the joint and several liability of the legal entity which it represents.

(iv) Should the permanent representative be unable to perform its duties, the legal entity must immediately appoint another permanent representative.

(v) If the office of a director becomes vacant, the other directors, acting by a simple majority, may fill the vacancy on a provisional basis until a new director is appointed by the next General Meeting.

7.2. Powers of the board of directors

(i) All powers not expressly reserved to the shareholder(s) by the Law or the Articles fall within the competence of the Board, which

has full power to carry out and approve all acts and operations consistent with the Company's corporate object.

(ii) The Board may delegate special and limited powers to one or more agents for specific matters and may also establish committees for certain specific purposes. Such committees may include, but are not limited to, an audit committee and a compensation committee.

(iii) The Board is authorised to delegate the day-to-day management and the power to represent the Company in this respect, to one or more directors, officers, managers or other agents, whether shareholders or not, acting either individually or jointly, provided that, prior to the Nomination Termination Time (as defined in the Governance Agreement) any appointment, delegation or power-of-attorney granted in respect of any Acquisition Proposal Matters (as defined in article 7.2(iv)(1) below), or any revocation of the foregoing, shall only be effective if a Class B Majority (as defined below) votes in favor of such appointment, delegation or power-of-attorney, or revocation of the foregoing, as the case may be. If the day-to-day management is delegated to one or more directors, the Board must report to the annual General Meeting any salary, fee and/or any other advantage granted to those director(s) during the relevant financial year.

For the avoidance of doubt, it is noted that the following non-exhaustive list of matters shall not under any circumstances be regarded as coming within the scope of day-to-day management:

- Approval of the accounts of the Company
- Approval of the annual budget of the Company
- Approval of Company policies
- Approval of recommendations made by any Board committee
- Approval of Acquisition Proposals

(iv) Acquisition Proposals Prior to Nomination Termination Time. The following provisions of this article 7.2(iv) shall apply until the Nomination Termination Time (as defined in the Governance Agreement), after which the provisions of this article 7.2(iv) (other than the meanings of any terms defined herein that are used elsewhere in these Articles) shall have no further force or effect.

(1) Representative Authority of the Class B Directors Regarding Acquisition Proposals. Notwithstanding anything in these Articles to the contrary, any two (2) Class B directors acting in their capacities as such (a “ **Class B Majority** ”) shall have the authority to act on the Company’s behalf (including to bind the Company with respect to clauses (e) through (g)) with respect to the following matters: (a) to review and evaluate the terms and conditions of any Acquisition Proposal, (b) to negotiate with any party the Class B Majority deems appropriate with respect to any Acquisition Proposal; (c) to solicit prospective Acquisition Proposals and/or explore the ability to obtain on behalf of the Company prospective Acquisition Proposals, (d) to determine whether any Acquisition Proposal is beneficial to the Company and its shareholders, (e) to make recommendations to the Board and shareholders as to what actions, if any, should be taken with respect to any Acquisition, Acquisition Contract or Acquisition Proposal, including to recommend that the Board or the shareholders, as applicable, approve any Acquisition, Acquisition Contract or Acquisition Proposal, (f) to retain, at the Company’s expense, such consultants, legal counsel and other advisors as a Class B Majority may from time to time deem appropriate to assist the Class B directors in the performance of their duties with respect to Acquisition Proposals, (g) subject to article 7.2(iv)(2) below, to execute and deliver on behalf of the Company definitive documentation providing for the consummation of an Acquisition (an “ **Acquisition Contract** ”) and (h) to take, or to cause the Company to take, any and all actions ancillary or related to any actual or prospective Acquisition Proposal or the other matters referred to in the preceding clauses (a)-(g), including without limitation to authorize and enter into contracts of any nature (other than an Acquisition Contract except in accordance with article 7.2(iv)(2) below) (the foregoing clauses (a)-(h), “ **Acquisition Proposal Matters** ”). As used herein: (x) “ **Acquisition Proposal** ” means a proposal received by the Company, any of its subsidiaries, or any of its or their respective directors, officers or outside consultants, counsel or other advisors providing for an Acquisition; and (y) “ **Acquisition** ” means a transaction or series of related transactions resulting in the acquisition (whether by merger, consolidation, sale or transfer of the Company’s shares, other equity interests or assets or otherwise) by any natural or legal person or group of such persons, directly or indirectly, (1) of a majority of (A) the outstanding shares of the Company or (B) the assets of the Company and its subsidiaries

determined on a consolidated basis and (2) upon the consummation of which, the shareholders of the Company immediately prior to such acquisition collectively do not own (beneficially or of record) a majority of the voting power of such person or the ultimate parent entity of such person (or, in the case of a group of such persons, a majority of the voting power of the largest member of such group, determined by reference to the respective equity financing contributions of such members, or ultimate parent entity of such largest member).

(2) Approval of Acquisition Contracts. No Class B director, acting singularly or with any one or more other Class B directors, shall have the power to cause the Company to enter into any Acquisition Contract or otherwise consummate an Acquisition unless such Acquisition Contract (a) provides by its terms that consummation of the Acquisition that is the subject thereof is conditioned upon either (I) the shareholder vote, under the conditions of quorum and vote, required by the Law or other provision of these Articles for such Acquisition or (II) shareholder approval by the vote of a majority of the outstanding share capital, whichever voting standard in the foregoing clauses (I) or (II) is higher (such condition, as applicable, a “ **Shareholder Approval Condition** ”) and (b) does not impose any obligations or penalties on the Company if the Shareholder Approval Condition is not obtained by the conclusion of the General Meeting or Extraordinary General Meeting, as applicable, convened to vote on such Acquisition Contract or Acquisition other than reimbursement of the reasonable expenses incurred by the counterparty thereto (provided, that, for avoidance of doubt, this clause (b) shall not preclude the imposition of any obligation or penalty on the Company due to any cause or event other than the failure in and of itself to satisfy the Shareholder Approval Condition at such General Meeting or Extraordinary General Meeting). If a proposed Acquisition Contract satisfies clauses (a) and (b) of the immediately preceding sentence, then a Class B Majority shall be authorized to represent the Company by executing and delivering, or causing any person authorized by the Class B Majority to execute and deliver, on the Company’s behalf, such Acquisition Contract, to convene a General Meeting or an Extraordinary General Meeting, as applicable, to seek shareholder approval of the Acquisition in accordance with the Shareholder Approval Condition, and, if such shareholder approval is obtained, to carry out all other powers vested under article 7.2(iv)(1) above with respect to such Acquisition Contract

(including to cause the Company to consummate the Acquisition and the other transactions contemplated thereby or, subject to the terms of the Acquisition Contract, terminate such Acquisition Contract and abandon such Acquisition).

(3) Limitation on Representative Authority of the Class A Directors Regarding Acquisition Proposals. Notwithstanding anything in these Articles to the contrary (but subject to the last sentence of this article 7.2(iv)(3)), no Class A director, acting singularly or with any one or more other directors, in his or her capacity as such, shall have any representative authority to bind the Company or otherwise act on the Company's behalf, nor shall the Board take any action, in either case with respect to any Acquisition, Acquisition Contract or Acquisition Proposal Matters, except with the prior approval of a Class B Majority. Notwithstanding the immediately prior sentence, this article 7.2(iv)(3) shall not be interpreted to limit the rights of the Class A directors to attend meetings of the Class B directors, receive information received by the Class B directors or to provide ongoing input to the Class B directors, in each case, regarding Acquisitions, Acquisition Contracts, Acquisition Proposals or other Acquisition Proposal Matters, and the Class B directors shall so extend such rights to the Class A directors.

(4) Amendments to Article 7.2(iv). Notwithstanding anything to the contrary in these Articles, the Board shall not propose to the shareholders or recommend that the shareholders approve any amendment to this article 7.2(iv) and/or any other provisions of these Articles directly or indirectly amending or limiting the application of this article 7.2(iv) without the favorable vote of a Class B Majority.

7.3. Procedure

(i) The Board must appoint a chairperson from among its members, and may choose a secretary who need not be a director and who will be responsible for keeping the minutes of the meetings of the Board and of General Meetings.

(ii) The Board meets at the request of the chairperson or the majority of the Board of directors, at the place indicated in the notice, which in principle is in Luxembourg.

(iii) Written notice of any Board meeting is given to all directors at least twenty-four (24) hours in advance, except in the case of an

emergency whose nature and circumstances are set forth in the notice.

(iv) No notice is required if all members of the Board are present or represented and state that they know the agenda for the meeting. A director may also waive notice of a meeting, either before or after the meeting. Separate written notices are not required for meetings which are held at times and places indicated in a schedule previously adopted by the Board.

(v) A director may grant another director a power of attorney in order to be represented at any Board meeting.

(vi) Save as otherwise provided herein, the Board may only validly deliberate and act if a majority of its members are present or represented. Save as otherwise provided herein, Board Resolutions are validly adopted if the majority of the members of the Board vote in their favour. The chairman has a casting vote in the event of a tie vote. Board resolutions are recorded in minutes signed by the chairperson, by all directors present or represented at the meeting, or by the secretary (if any).

(vii) Any director may participate in any meeting of the Board by telephone or video conference, or by any other means of communication which allows all those taking part in the meeting to identify, hear and speak to each other. Participation by such means is deemed equivalent to participation in person at a duly convened and held meeting.

(viii) Circular resolutions signed by all the directors (the “ **Directors’ Circular Resolutions** ”) are valid and binding as if passed at a duly convened and held Board meeting, and bear the date of the last signature.

(ix) A director who has an interest in a transaction carried out other than in the ordinary course of business which conflicts with the interests of the Company must advise the Board accordingly and have the statement recorded in the minutes of the meeting. The director concerned may not take part in the deliberations concerning that transaction. A special report on the relevant transaction is submitted to the shareholders at the next General Meeting, before any vote on the matter.

7.4. Representation

(i) The Company is bound towards third parties (a) prior to the Nomination Termination Time (as defined in the Governance Agreement), by the joint signature of any two Class B directors, with respect to Acquisition Proposal Matters or an Acquisition Contract; and (b) in all other matters, by the joint signature of the majority of the Board.

(ii) The Company is also bound towards third parties by the joint or single signature of any person to whom special signatory powers have been delegated by the Board or, prior to the Nomination Termination Time (as defined in the Governance Agreement) with respect to Acquisition Proposal Matters or an Acquisition Contract, by a Class B Majority.

Art. 8. Sole director

8.1. Where the number of shareholders is reduced to one (1), the Company may be managed by a single director until the ordinary General Meeting following the introduction of an additional shareholder. In this case, any reference in the Articles to the Board or the directors should be read as a reference to that sole director, as appropriate.

8.2. Transactions entered into by the Company which conflict with the interest of its sole director must be recorded in minutes. This does not apply to transactions carried out under normal circumstances in the ordinary course of business.

8.3. The Company is bound towards third parties by the signature of the sole director or by the joint or single signature of any person to whom the sole director has delegated special signatory powers.

Art. 9. Liability of the directors

9.1. The directors may not be held personally liable by reason of their mandate for any commitment they have validly made in the name of the Company's name, provided those commitments comply with the Articles and the Law.

Art. 10. Directors' Remuneration

10.1. The remuneration of the board of directors will be decided by the General Meeting.

10.2. The Company shall, to the fullest extent permitted by Luxembourg law, indemnify any director or officer, as well as any former director or officer, against any damages and/or compensation to be paid and any costs, charges and expenses, reasonably incurred by him in connection with the defense or settlement of any civil, criminal or administrative action, suit or proceeding to which he may be made a party by reason of his being or having been a director or officer of the Company, if (i) he acted honestly and in good faith, and (ii) in the case of criminal or administrative proceedings, he had reasonable grounds for believing that conduct was lawful. Notwithstanding the foregoing, the current or former director or officer will not be entitled to indemnification in case of an action, suit or proceeding brought against him by the Company or in case he shall be finally adjudged in an action, suit or proceeding to be liable for gross negligence, willful misconduct, fraud, dishonesty or any other criminal offence.

Furthermore, in case of settlement, the current or former director or officer will only be entitled to indemnification hereunder, provided that (i) the Board shall have determined in good faith that the defendant's actions did not constitute willful and deliberate violations of the law and shall have obtained the relevant legal advice to that effect; and (ii) notice of the intention of settlement of such action, suit or proceeding is given to the Company at least 10 business days prior to such settlement,

IV. SHAREHOLDER(S)

Art. 11. General meetings of shareholders

11.1. Powers and voting rights

(i) Resolutions of the shareholders are adopted at a general meeting of shareholders (the "**General Meeting** "). The General Meeting has full powers to adopt and ratify all acts and operations which are consistent with the company's corporate object.

(ii) Each share gives entitlement to one (1) vote.

11.2. Notices, quorum, majority and voting proceedings

(i) General Meetings are held at the time and place specified in the notices.

(ii) The notices for any ordinary General Meeting or extraordinary General Meeting shall contain the agenda, the hour and the place of the meeting and shall be sent to the registered shareholders at least eight (8) days before the General Meeting, without prejudice to other means of communication which need to be accepted on an individual basis by their addresses and to warrant notification.

(iii) If all the shareholders are present or represented and consider themselves duly convened and informed of the agenda, the General Meeting may be held without prior notice.

(iv) A shareholder may grant written power of attorney to another person, shareholder or otherwise, in order to be represented at any General Meeting.

(v) In connection with any General Meeting, the Board is authorized, but is not required, to make provision for shareholders to participate by means of remote communication. If the Board shall have made such provision, a shareholder's participation by means of remote communication shall be deemed equivalent to participation in person at the meeting.

(vi) Any shareholder may vote by using the forms provided to that effect by the Company. Voting forms contain the date, place and agenda of the meeting and the text of the proposed resolutions. For each resolution, the form must contain three boxes allowing for a vote for or against that resolution or an abstention. Shareholders must return the voting forms to the registered office. Only voting forms received prior to the General Meeting are taken into account for calculation of the quorum. Forms which indicate neither a voting intention nor an abstention are void.

(vii) Resolutions of the General Meeting are passed by a simple majority vote, regardless of the proportion of share capital represented.

(viii) An extraordinary General Meeting (" **Extraordinary General Meeting** ") may only amend the Articles if at least one-half of the share capital is represented and the agenda indicates the proposed

amendments to the Articles, including the text of any proposed amendment to the Company's object or form. If this quorum is not reached, a second Extraordinary General Meeting may be convened by means of notices published twice in the Memorial and two Luxembourg newspapers, at an interval of at fifteen (15) days and fifteen (15) days before the meeting. These notices state the date and agenda of the Extraordinary General Meeting and the results of the previous Extraordinary General Meeting. The second Extraordinary General Meeting deliberates validly regardless of the proportion of capital represented. At both Extraordinary General Meetings, resolutions must be adopted by at least two-thirds of the votes cast.

(ix) Any change in the nationality of the Company and any increase in a shareholder's commitment in the Company require the unanimous consent of the shareholders and bondholders (if any).

Art. 12. Procedure

12.1. Every General Meeting will be presided over by the chairperson of the Board appointed pursuant to article 7.3(i) or, in the absence of the chairperson, any other director or officer of the Company designated by the Board. The secretary appointed pursuant to article 7.3(i) or, in the absence of such secretary, any other director or officer of the Company designated by the Board, shall act as secretary at each General Meeting. In connection with each General Meeting, the Board or, in the absence of a determination by the Board, the person presiding over the General Meeting shall appoint a scrutineer who shall keep the attendance list.

12.2. In connection with each General Meeting, the Board is authorized to provide such rules of deliberations and such conditions for allowing shareholders to take part in the meeting as the Board deems appropriate. Except to the extent inconsistent with the rules and conditions as adopted by the Board, the person presiding over the meeting shall have the power and authority to prescribe such additional rules and conditions and to do all such acts as, in the judgment of such person, are appropriate for the proper conduct of the meeting. Such rules and conditions, whether adopted by the Board or prescribed by the person presiding over the meeting, may include, in each case to the extent permitted by applicable law, (a) determining the order of business for the meeting, (b) rules and

procedures for maintaining order at the meeting and the safety of those present, (c) limitations on attendance at or participation in the meeting to shareholders of record, their duly authorized and constituted attorneys or such other persons as the person presiding over the meeting shall determine, (d) restrictions on entry to the meeting after the time fixed for the commencement thereof and (e) limitations on the time allotted to questions or comments by participants.

12.3. Without limiting the generality of article 12.2 and irrespective of the agenda, the Board or the person presiding over the meeting may adjourn any ordinary General Meeting or Extraordinary General Meeting in accordance with the formalities and time limits stipulated for by law.

12.4. Minutes of the General Meetings shall be signed by the members of the board of the meeting. Copies or excerpts of the minutes to be produced in court or elsewhere shall be signed by two (2) directors or by the secretary of the Board or by any assistant secretary.

12.5. Notwithstanding anything to the contrary in these Articles and in addition to any greater or lesser vote required by the Law, other provision of these Articles, the applicable Acquisition Contract or otherwise, the Company shall not have the power or authority to consummate a transaction satisfying clause (1)(B) of the definition of Acquisition without the prior approval of shareholders (such approval obtained by the vote of a majority of the outstanding share capital).

Art. 13. Sole shareholder

13.1. When the number of shareholders is reduced to one (1), the sole shareholder exercises all powers granted by the Law to the General Meeting.

13.2. Any reference to the General Meeting in the Articles is to be read as a reference to the sole shareholder, as appropriate.

13.3. The resolutions of the sole shareholder are recorded in minutes.

V. ANNUAL ACCOUNTS - ALLOCATION OF PROFITS – SUPERVISION

Art. 14. Financial year and approval of annual accounts

- 14.1. The financial year begins on 1 January and ends on 31 December of each year.
- 14.2. The Board prepares the balance sheet and profit and loss account annually, together with an inventory stating the value of the Company's assets and liabilities, with an annex summarising its commitments and the debts owed by its officers, directors and statutory auditors to the Company.
- 14.3. One month before the Annual General Meeting, the Board provides the statutory auditors with a report on and documentary evidence of the Company's operations. The statutory auditors then prepare a report stating their findings and proposals.
- 14.4. The Annual General Meeting is held at the registered office or in any other place within the municipality of the registered office, as specified in the notice, on the fourth Tuesday in May at 10.00 a.m. If that day is a public holiday or the day following a public holiday in the United States of America, the Annual General Meeting shall be held on the Tuesday of the following week.
- 14.5. The annual General Meeting may be held abroad if, in the Board's, absolute and final judgement, exceptional circumstances so require.

Art. 15. Auditors

- 15.1. The Company's operations are supervised by one or more statutory auditors (*commissaires*).
- 15.2. When so required by law, or when the Company so chooses, the Company's operations are supervised by one or more approved external auditors (*réviseurs d'entreprises agréés*).
- 15.3. The General Meeting appoints the statutory auditors (*commissaires*)/ external auditors (*réviseurs d'entreprises agréés*), and determines their number and remuneration and the term of their mandate, which may not exceed six (6) years but may be renewed.

Art. 16. Allocation of profits

16.1. Five per cent (5%) of the Company's annual net profits are allocated to the reserve required by law. This requirement ceases when the legal reserve reaches an amount equal to ten per cent (10%) of the share capital.

16.2. The General Meeting determines the allocation of the balance of the annual net profits. They may decide on the payment of a dividend, to transfer the balance to a reserve account, or to carry it forward in accordance with the applicable legal provisions.

16.3. Interim dividends may be distributed at any time, under the following conditions:

(i) the Board draws up interim accounts;

(ii) the interim accounts show that sufficient profits and other reserves (including share premiums) are available for distribution; it being understood that the amount to be distributed may not exceed the profits made since the end of the last financial year for which the annual accounts have been approved, if any, increased by profits carried forward and distributable reserves, and reduced by losses carried forward and sums to be allocated to the legal or a statutory reserve;

(iii) the decision to distribute interim dividends is made by the Board within two (2) months from the date of the interim accounts.

In their report to the Board, the statutory auditors (*commissaires*) or the approved external auditors (*réviseurs d'entreprises agréés*), as applicable, must verify whether the above conditions have been satisfied.

The Company may make payment of dividends and any other payments in cash, shares or other securities to a Depositary. Said Depositary shall distribute these funds to his depositors according to the amount of securities or other financial instruments recorded in their name. Such payment by the Company to the Depositary will effect full discharge of the Company's obligations in this regard.

VI. DISSOLUTION – LIQUIDATION

17.1. The Company may be dissolved at any time by a resolution of the General Meeting, acting in accordance with the conditions prescribed for the amendment of the Articles. The General Meeting appoints one or more liquidators, who need not be shareholders, to

carry out the liquidation, and determines their number, powers and remuneration. Unless otherwise decided by the General Meeting, the liquidators have full powers to realise the Company's assets and pay its liabilities.

17.2. The surplus after realisation of the assets and payment of the liabilities is distributed to the shareholders in proportion to the shares held by each of them.

VII. GENERAL PROVISION

18.1. Notices and communications may be made or waived and circular resolutions may be evidenced in writing, fax, email or any other means of electronic communication.

18.2. Powers of attorney are granted by any of the means described above. Powers of attorney in connection with Board meetings may also be granted by a director, in accordance with such conditions as may be accepted by the Board.

18.3. Signatures may be in handwritten or electronic form, provided they fulfil all legal requirements for being deemed equivalent to handwritten signatures. Signatures of circular resolutions or resolutions adopted by telephone or video conference are affixed to one original or several counterparts of the same document, all of which taken together constitute one and the same document.

18.4. All matters not expressly governed by these Articles shall be determined in accordance with the applicable law and, subject to any non-waivable provisions of the law, with any agreement entered into by the shareholders from time to time.

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 Santa Ana Limited	British Virgin Islands
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 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.

CERTIFICATION

I, Bernie G. Wolford Jr., 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: March 12, 2019

By: /s/ Bernie G. Wolford Jr.
Name: Bernie G. Wolford Jr.
Title: Chief Executive Officer

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: March 12, 2019

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

**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, Bernie G. Wolford Jr., 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, 2018 (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: March 12, 2019

By: /s/ Bernie G. Wolford Jr.
Name: Bernie G. Wolford Jr.
Title: Chief Executive Officer

**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, 2018 (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: March 12, 2019

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

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. 333-228582) on Form S-8 of Pacific Drilling S.A. of our report dated March 12, 2019, with respect to the consolidated balance sheets of Pacific Drilling S.A. and subsidiaries (the Company) as of December 31, 2018 (Successor) and 2017 (Predecessor), the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the periods of November 20, 2018 to December 31, 2018 (Successor), January 1, 2018 to November 19, 2018 (Predecessor), and for the years ended December 31, 2017 and 2016 (Predecessor), and the related notes (collectively, the "consolidated financial statements"), which report appears in the December 31, 2018 annual report on Form 20-F of Pacific Drilling S.A.

Our report on the consolidated financial statements refers to a new basis of presentation in connection with the Company's plan for reorganization under Chapter 11, which became effective on November 19, 2018.

/s/ KPMG LLP

Houston, Texas
March 12, 2019

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	
	:	Chapter 11
PACIFIC DRILLING VIII LIMITED, <i>et al.</i> ,	:	
	:	Case No. 17-13203 (MEW)
Debtors. ¹	:	
	:	(Jointly Administered)
	:	

**AMENDED JOINT PLAN OF LIQUIDATION/REORGANIZATION
FOR PACIFIC DRILLING SERVICES INC. AND PACIFIC DRILLING VIII
LIMITED PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE**

Albert Togut
Frank A. Oswald
Kyle J. Ortiz
Amanda C. Glaubach

TOGUT, SEGAL & SEGAL LLP
One Penn Plaza
New York, New York 10119
(212) 594-5000

Attorneys for the Zonda Plan Debtors

Dated: January 22, 2019
New York, New York

¹ The Zonda Plan Debtors in these chapter 11 cases, and if applicable, the last four digits of their U.S. taxpayer identification numbers are: Pacific Drilling VIII Limited and Pacific Drilling Services, Inc. (5302).

TABLE OF CONTENTS

Page

ARTICLE I

DEFINED TERMS AND RULES OF INTERPRETATION

ARTICLE II

ADMINISTRATIVE EXPENSE AND PRIORITY CLAIMS

2.1	Administrative Claims	19
2.2	Priority Tax Claims	20
2.3	Professional Fee Claims	20

ARTICLE III

CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS

3.1	Classification in General	20
3.2	Summary of Classification	21
3.3	Treatment of Classes	22
3.4	Alternative Treatment	27
3.5	Special Provision Regarding Unimpaired Claims	27

ARTICLE IV

ACCEPTANCE OR REJECTION OF THIS PLAN

4.1	Acceptance by Class Entitled to Vote	28
4.2	Presumed Acceptance of this Plan	28
4.3	Elimination of Classes	28
4.4	Cramdown	28

ARTICLE V

MEANS FOR IMPLEMENTATION OF THIS PLAN IF THE ZONDA PLAN DEBTORS PREVAIL IN THE ZONDA ARBITRATION

5.1	Continued Corporate Existence and Vesting of Assets	28
5.2	Sources of Cash for Distributions and Operations	29

5.3	Restructuring Transactions.	30
5.4	Intercompany Claims.	30
5.5	Effectuating Documents; Further Transactions	30
5.6	Exemption from Certain Transfer Taxes and Recording Fees	31
5.7	Enforcement of Zonda Arbitration Award Against SHI.	31

ARTICLE VI

MEANS FOR IMPLEMENTATION OF THIS PLAN IF THE ZONDA PLAN DEBTORS DO NOT PREVAIL IN THE ZONDA ARBITRATION

6.1	Continued Corporate Existence and Vesting of Assets in the Liquidation Trust.	32
6.2	Sources of Cash for Payment of Claims	32
6.3	Creation of the Liquidation Trust and Appointment of the Liquidation Trustee.	32
6.4	General Powers, Rights, and Responsibilities of the Liquidation Trustee.	34
6.5	Indemnification.	35
6.6	Issuance of Liquidation Trust Interests.	36
6.7	Federal Income Tax Treatment of the Liquidation Trust.	36
6.8	Liquidation Trust Funding.	37
6.9	Creation of the Liquidation Trust Funding Amount Escrow Account.	38
6.10	Effectuating Documents; Further Transactions.	38
6.11	Dissolution.	38
6.12	Certain Securities Laws Matters.	39

ARTICLE VII

CORPORATE GOVERNANCE

7.1	Cancellation of Existing Securities and Agreements	39
7.2	Cancellation of Certain Existing Security Interests.	40
7.3	Preservation of Retained Actions	40
7.4	Corporate Action	41
7.5	Board of Directors and Officers.	41
7.6	Further Authorization.	41

ARTICLE VIII

DISTRIBUTIONS

8.1	Distributions from Liquidation Trust to Holders of Allowed Zonda Deficiency Claims.	41
8.2	Distributions Generally	41
8.3	No Postpetition Interest on Claims	42
8.4	Date of Distributions	42
8.5	Distribution Record Date	42
8.6	Disbursing Agent	42
8.7	Delivery of Distributions	42
8.8	Unclaimed Property	43
8.9	Satisfaction of Claims	43
8.10	Manner of Payment Under Plan	43
8.11	De Minimis Cash Distributions	43
8.12	No Distribution in Excess of Amount of Allowed Claim	43
8.13	Allocation of Distributions Between Principal and Interest	43
8.14	Setoffs and Recoupments	44
8.15	Rights and Powers of Disbursing Agent	44
8.16	Withholding and Reporting Requirements	45
8.17	Claims Paid or Payable by Third Parties	45

ARTICLE IX

PROCEDURES FOR DISPUTED CLAIMS

9.1	Allowance of Claims	46
9.2	Objections to Claims	47
9.3	Estimation of Claims	47
9.4	No Distributions Pending Allowance	48
9.5	Resolution of Claims	48
9.6	Disallowed Claims	48

ARTICLE X

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

10.1	Rejection of Executory Contracts and Unexpired Leases	49
10.2	Indemnification	49

10.3	Claims Based on Rejection of Executory Contracts and Unexpired Leases.	50
10.4	Reservation of Rights.	50

ARTICLE XI

CONDITIONS PRECEDENT TO CONFIRMATION AND CONSUMMATION OF THIS PLAN

11.1	Conditions Precedent to Confirmation of the Plan	51
11.2	Conditions Precedent to the Effective Date	51
11.3	Waiver of Conditions Precedent	52

ARTICLE XII

EFFECT OF PLAN CONFIRMATION

12.1	Binding Effect	52
12.2	Releases and Related Matters	53
12.3	Discharge of the Zonda Plan Debtors	56
12.4	Injunction	57
12.5	Exculpation and Limitation of Liability	57
12.6	Term of Bankruptcy Injunction or Stays	58
12.7	Post-Confirmation Date Retention of Professionals	58
12.8	Dissolution of PDVIII; Cooperation of Liquidation Trustee.	58

ARTICLE XIII

RETENTION OF JURISDICTION

13.1	Retention of Jurisdiction.	58
13.2	Jurisdiction for Certain Other Agreements	60
13.3	No Limitation on Enforcement by SEC on Non-Debtors.	60

ARTICLE XIV

MISCELLANEOUS PROVISIONS

14.1	Payment of Statutory Fees	61
14.2	Amendment or Modification of this Plan	61
14.3	Substantial Consummation	61
14.4	Severability of Plan Provisions	61
14.5	Successors and Assigns	61

14.6 Revocation, Withdrawal, or Non-Consummation 62
14.7 Governing Law 62
14.8 Time 62
14.9 Immediate Binding Effect 62
14.10 Entire Agreement 63
14.11 Notice 63
14.12 Exhibits 64
14.13 Filing of Additional Documents 64
14.14 Conflicts 65

INTRODUCTION

Pacific Drilling VIII Limited (BVI) (“*PDVIII*”) and Pacific Drilling Services Inc. (US) (“*PDSI*”), as debtors and debtors in possession (the “*Zonda Plan Debtors*”), propose the following joint plan of reorganization for the resolution of the outstanding Claims against and Interests in the Zonda Plan Debtors. Subject to certain restrictions and requirements set forth in section 1127 of the Bankruptcy Code and Bankruptcy Rule 3019, the Zonda Plan Debtors reserve the right to alter, amend, modify, revoke, or withdraw this Plan, with the consent of SHI, prior to its substantial consummation.

ARTICLE I

DEFINED TERMS AND RULES OF INTERPRETATION

Defined Terms. As used herein, capitalized terms shall have the meanings set forth below. Any term that is not otherwise defined herein, but that is used in the Bankruptcy Code or the Bankruptcy Rules, shall have the meaning given to that term in the Bankruptcy Code or the Bankruptcy Rules, as applicable.

1.1 **2017 Noteholders** means, collectively, the record holders of and owners of beneficial interests in the 2017 Notes.

1.2 **2017 Notes** means those certain 7.250% senior secured notes due 2017 issued by PDV pursuant to that certain *Indenture* dated November 28, 2012 among PDV as issuer, PDSA as guarantor, and Deutsche Bank Trust Company Americas, in its capacity as indenture trustee.

1.3 **2020 Noteholders** means, collectively, the record holders of and owners of beneficial interests in the 2020 Notes.

1.4 **2020 Notes** means those certain 5.375% senior secured notes due 2020 issued by PDSA on June 3, 2013 pursuant to that certain *Indenture* dated June 3, 2013 among PDSA, Pacific Drilling, Inc.; Pacific Drilling Finance S.à r.l.; Pacific Drilling Limited; Pacific Drillship S.à r.l.; Pacific Scirocco Ltd.; Pacific Bora Ltd.; Pacific Mistral Ltd.; Pacific Santa Ana (Gibraltar) Limited; Pacific Santa Ana S.à r.l.; and Pacific Drillship Nigeria Limited, PIDWAL, and Deutsche Bank Trust Company Americas in its capacity as indenture trustee.

1.5 **Accrued Professional Compensation** means, at any date, and regardless of whether such amounts are billed or unbilled, all of a Professional’s accrued and unpaid fees (including success fees) and reimbursable expenses for services rendered in the Chapter 11 Cases through and including such date, whether or not such

Professional has filed a fee application for payment of such fees and expenses, (a) all to the extent that any such fees and expenses have not been previously paid (regardless of whether a fee application has been filed for any such amount) and (b) after applying any retainer that has been provided by the Zonda Plan Debtors to such Professional and not previously applied. No amount of a Professional's fees and expenses denied under a Final Order shall constitute Accrued Professional Compensation.

1.6 **Ad Hoc Group** means those certain 2017 Noteholders, 2020 Noteholders, and Term Loan B Lenders identified in the *Fifth Amended Verified Statement of the Ad Hoc Group of Debtholders Pursuant to Bankruptcy Rule 2019* dated September 17, 2018 [Docket No. 596].¹

1.7 **Administrative Claim** means a Claim for costs and expenses of administration of the Chapter 11 Cases under sections 328, 330, 363, 364(c)(1), 365, 503(b), or 507(b) of the Bankruptcy Code, including, but not limited to: (a) any actual and necessary costs and expenses, incurred on or after the Petition Date and through the Effective Date, of preserving the Estates and operating the businesses of the Zonda Plan Debtors; (b) Professional Fee Claims; (c) all fees and charges assessed against the Estates under chapter 123 of title 28 of the United States Code; and (d) all other Claims entitled to administrative Claim status pursuant to an order of the Bankruptcy Court.

1.8 **Affiliate** means, with respect to any Person, "affiliate" as defined in section 101(2) of the Bankruptcy Code.

1.9 **Allowed** means, with respect to a Claim against any Zonda Plan Debtor, except as otherwise provided herein, (a) a Claim that is (i) listed in the Schedules as of the Effective Date as neither disputed, contingent, nor unliquidated, and for which no Proof of Claim has been timely filed, or (ii) evidenced by a valid Proof of Claim or request for payment of Administrative Claim, as applicable, filed by the applicable Bar Date or Administrative Claims Bar Date, and as to which the Zonda Plan Debtors or other parties in interest have not filed an objection to the allowance thereof by the Claims Objection Deadline, or (b) a Claim that is Allowed under this Plan or any stipulation or settlement approved by, or Final Order of, the Bankruptcy Court; *provided, however*, that any Claims allowed solely for the purpose of voting to accept or reject this Plan pursuant to an order of the Bankruptcy Court will not be considered "Allowed Claims" under this Plan. Notwithstanding the foregoing, a Claim shall not be Allowed and shall not be entitled to a distribution under this Plan to the extent it has been

¹ References to docket numbers in this Plan refer to *Pacific Drilling S.A., et al.*, Case No. 17-13193, unless otherwise specified.

satisfied prior to the Effective Date. If a Claim is Allowed only in part, references to Allowed Claims include and are limited to the Allowed portion of such Claim. Notwithstanding anything to the contrary herein, no Claim that is disallowed in accordance with Bankruptcy Rule 3003 or section 502(d) of the Bankruptcy Code is Allowed and each such Claim shall be expunged without further action by the Zonda Plan Debtors and without further notice to any party or action, approval, or order of the Bankruptcy Court.

1. 10 **Amended By-Laws** means, with respect to a Reorganized Zonda Debtor, where applicable, such Reorganized Zonda Debtor's amended or amended and restated by-laws or operating agreement, a substantially final form of which will be contained in the Plan Supplement to the extent they contain material changes to the existing documents.

1. 11 **Amended Certificate of Incorporation** means, with respect to each Reorganized Zonda Debtor, where applicable, such Reorganized Zonda Debtor's amended or amended and restated certificate of incorporation, or certificate of formation, a substantially final form of which will be contained in the Plan Supplement to the extent they contain material changes to the existing documents.

1. 12 **Assumed Contracts** means those Executory Contracts and Unexpired Leases to be assumed by the applicable Reorganized Zonda Debtors pursuant to the Plan.

1. 13 **Avoidance Action** means any claim or Cause of Action of an Estate arising out of or maintainable pursuant to sections 510, 541, 542, 543, 544, 545, 547, 548, 549, 550, 551, or 553 of the Bankruptcy Code or under any other similar applicable law, regardless of whether or not such action has been commenced prior to the Effective Date.

1. 14 **Ballot** means each of the ballot forms distributed to each Holder of a Claim that is entitled to vote to accept or reject this Plan and on which the Holder is to indicate, among other things, acceptance or rejection of this Plan.

1. 15 **Bankruptcy Code** means title 11 of the United States Code, as now in effect or hereafter amended, to the extent such amendments apply to the Chapter 11 Cases.

1. 16 **Bankruptcy Court** means the United States Bankruptcy Court for the Southern District of New York.

1. 17 **Bankruptcy Rules** means the Federal Rules of Bankruptcy Procedure and the local rules of the Bankruptcy Court, as now in effect or hereafter amended.

1. 18 **Bar Date** means, as applicable: (a) the General Bar Date; (b) the later of (i) the General Bar Date and (ii) 5:00 p.m. (prevailing Eastern Time) on the date that is thirty (30) days after entry of a Bankruptcy Court order pursuant to which Executory Contracts or Unexpired Leases are rejected for Claims arising from such rejected agreements; (c) the later of (i) the General Bar Date and (ii) 5:00 p.m. (prevailing Eastern Time) on the date that is thirty (30) days after the date that notice of any applicable amendment or supplement to the Schedules is served on a claimant for those Claims affected by any such amendment or supplement to the Schedules; and (d) May 11, 2018 at 5:00 p.m. (prevailing Eastern Time) for Governmental Units.

1. 19 **Bar Date Order** means the *Order Establishing Bar Dates for Filing Proofs of Claim and Approving Form and Manner of Notice Thereof* [Docket No. 253].

1. 20 **Business Day** means any day, other than a Saturday, Sunday, or “legal holiday” (as defined in Bankruptcy Rule 9006(a)).

1. 21 **Cash** means legal tender of the United States of America and equivalents thereof.

1. 22 **Cause of Action** means any action, proceeding, agreement, Claim, cause of action, controversy, demand, debt, right, action, Avoidance Action, Lien, indemnity, guaranty, suit, obligation, liability, damage, judgment, account, defense, offset, power, privilege, recoupment, cross-claim, counterclaim, third-party claim, indemnity claim, contribution claim, or any other claim, known or unknown, contingent or non-contingent, matured or unmatured, suspected or unsuspected, liquidated or unliquidated, disputed or undisputed, secured or unsecured, assertable directly or derivatively, whether pending in litigation or otherwise, in contract or in tort, in law or in equity or pursuant to any other theory of law, based in whole or in part upon any act or omission or other event occurring prior to the Effective Date.

1. 23 **Chapter 11 Case(s)** means (a) when used with reference to a particular Zonda Plan Debtor, the case under chapter 11 of the Bankruptcy Code commenced by such Zonda Plan Debtor in the Bankruptcy Court and (b) when used with reference to all Zonda Plan Debtors, the cases under chapter 11 of the Bankruptcy Code commenced by the Zonda Plan Debtors in the Bankruptcy Court.

1. 24 **Claim** means a “claim” against the Zonda Plan Debtors as defined in section 101(5) of the Bankruptcy Code.

1. 25 **Claims Objection Deadline** means for all Claims, the later of: (a) 180 days after the Effective Date, subject to extension by order of the Bankruptcy Court; (b) 90 days after the filing of a Proof of Claim or request for payment of Administrative Expense Claims for such Claim; and (c) such other objection deadline as may be specifically fixed by this Plan, the Confirmation Order, the Bankruptcy Rules, or a Final Order.

1. 26 **Class** means a category of Claims or Interests, as described in Article III hereof.

1. 27 **Confirmation** means the confirmation of this Plan by the Bankruptcy Court under section 1129 of the Bankruptcy Code.

1. 28 **Confirmation Date** means the date on which the Bankruptcy Court enters the Confirmation Order on the docket of the Bankruptcy Court.

1. 29 **Confirmation Hearing** means the hearing held by the Bankruptcy Court pursuant to section 1128 of the Bankruptcy Code to consider confirmation of this Plan, as such hearing may be adjourned or continued from time to time.

1. 30 **Confirmation Order** means the order of the Bankruptcy Court confirming this Plan pursuant to section 1129 of the Bankruptcy Code, which shall be in form and substance acceptable to the Zonda Plan Debtors and SHI.

1. 31 **Convenience Claim** means any Claim against the Zonda Plan Debtors that would otherwise be a General Unsecured Claim that is Allowed in the Convenience Claim Amount or less.

1. 32 **Convenience Claim Amount** means \$50,000.

1. 33 **Cure Amount** means all costs required of the Zonda Plan Debtors to cure any and all monetary defaults, including pecuniary losses, pursuant to Bankruptcy Code section 365, arising under any Assumed Contract.

1. 34 **Debtors** means, collectively, the Zonda Plan Debtors and the Non-Zonda Debtors.

1. 35 **Disallowed** means all or such part of a Claim (a) that is disallowed by a Final Order of the Bankruptcy Court or other court of competent jurisdiction or (b) proof of which was required to be filed but as to which a Proof of Claim was not timely or properly filed; unless Allowed by a Final Order of the Bankruptcy Court or other court of competent jurisdiction.

1. 36 **Disbursing Agent** means any entity in its capacity as a disbursing agent under Section 8.6 hereof, including any Zonda Plan Debtor or the Liquidation Trust, as applicable, that acts in such a capacity.

1. 37 **Disclosure Statement** means the disclosure statement (including all exhibits and schedules thereto) relating to this Plan, as amended, modified, or supplemented from time to time, which is in form and substance reasonably acceptable to the Zonda Plan Debtors and SHI.

1. 38 **Disputed Claim** means (a) any Claim as to which the Zonda Plan Debtors have interposed an objection or request for estimation in accordance with the Bankruptcy Code and the Bankruptcy Rules, or any Claim otherwise disputed by the Zonda Plan Debtors, the Reorganized Zonda Debtors, or other party in interest in accordance with applicable law, which objection has not been withdrawn or determined by a Final Order; (b) any Claim scheduled by the Zonda Plan Debtors as contingent, unliquidated, or disputed; (c) any Claim which amends a claim scheduled by the Zonda Plan Debtors as contingent, unliquidated, or disputed; or (d) any Claim prior to it having become an Allowed Claim.

1. 39 **Distribution Date** means a date or dates, including the Initial Distribution Date as determined by the Disbursing Agent in accordance with the terms of this Plan, on which the Disbursing Agent makes a distribution to Holders of Allowed Claims.

1. 40 **Distribution Record Date** except as it relates to holders of public securities, means December 31, 2018.

1. 41 **Do Not Prevail** means that the Zonda Arbitration Award has been issued and is final and Unappealable and in favor of SHI.

1. 42 **Effective Date** means the Business Day this Plan becomes effective as provided in Article XI hereof.

1. 43 **Entity** means “entity” as defined in section 101(15) of the Bankruptcy Code.

1. 44 **Estate (s)** means, individually, the estate of any of the Zonda Plan Debtors and, collectively, the estates of all of the Zonda Plan Debtors created under section 541 of the Bankruptcy Code.

1. 45 **Exchange Act** means the Securities Exchange Act of 1934, as now in effect or hereafter amended.

1. 46 **Exculpated Parties** means, collectively, the Released Parties.

1. 47 **Executory Contract** means a contract to which one or more of the Zonda Plan Debtors is a party that is subject to assumption or rejection under section 365 of the Bankruptcy Code.

1. 48 **Exhibit** means an exhibit annexed to either this Plan or as an appendix to the Disclosure Statement, as amended, modified, or supplemented from time to time.

1. 49 **Federal Judgment Rate** means the federal judgment rate, 28 U.S.C. § 1961, in effect as of the Petition Date, compounded annually.

1. 50 **Final Order** means an order or judgment, the operation or effect of which has not been reversed, stayed, modified, or amended, and as to which order or judgment (or any reversal, stay, modification, or amendment thereof) (a) the time to appeal, seek certiorari, or request re-argument or further review or rehearing has expired and no appeal, petition for certiorari, or request for re-argument or further review or rehearing has been timely filed, or (b) any appeal that has been or may be taken or any petition for certiorari or request for re-argument, further review, or rehearing that has been or may be filed has been resolved by the highest court to which the order or judgment was appealed, from which certiorari was sought, or to which the request was made, and no further appeal, petition for certiorari, or request for re-argument, further review, or rehearing has been or can be taken or granted.

1. 51 **GAAP** means United States generally accepted accounting principles.

1. 52 **General Bar Date** means May 1, 2018 at 5:00 p.m. (prevailing Eastern Time), the date by which each Holder of a Claim against any of the Zonda Plan Debtors must have filed a Proof of Claim unless such Claim falls within one of the exceptions set forth in the Bar Date Order.

1. 53 **General Unsecured Claim** means any Claim against any Zonda Plan Debtor other than an Administrative Claim, a Priority Tax Claim, an Other Priority Claim, a Secured Tax Claim, an Other Secured Claim, a Zonda Secured Claim, a Zonda Deficiency Claim, or an Intercompany Claim.

1. 54 **Governmental Unit** has the meaning set forth in section 101(27) of the Bankruptcy Code.

1. 55 **Holder** means a holder of a Claim or Interest, as applicable.

1. 56 **Impaired** means, when used in reference to a Claim or Interest, a Claim or Interest that is impaired within the meaning of section 1124 of the Bankruptcy Code.

1. 57 **Initial Distribution Date** means the date or dates on which the Disbursing Agent makes the first distribution to Holders of Allowed Claims pursuant to the terms of this Plan.

1. 58 **Insurance Covered Claim** means Proofs of Claim Nos. 53, 27, 7, and 149 filed in the PDSI Chapter 11 Case, which shall be classified in Class 7A.

1. 59 **Intercompany Claim** means any and all Claims between and among the Zonda Plan Debtors, the Reorganized Non-Zonda Debtors, the Reorganized Zonda Debtors, and any non-Debtor affiliate.

1. 60 **Interest** means any equity security in a Zonda Plan Debtor as defined in section 101(16) of the Bankruptcy Code.

1. 61 **IRC** means the Internal Revenue Code of 1986, as now in effect or hereafter amended.

1. 62 **IRS** means the Internal Revenue Service.

1. 63 **Lien** has the meaning set forth in section 101(37) of the Bankruptcy Code.

1. 64 **Liquidation Trust** means the trust established pursuant to this Plan and in accordance with the Liquidation Trust Agreement.

1. 65 **Liquidation Trust Agreement** means the agreement between the Zonda Plan Debtors and the Liquidation Trustee as agreed to by the Zonda Plan Debtors and SHI and filed as part of the Plan Supplement and approved pursuant to the Confirmation Order, as the same may be amended from time to time in accordance with its terms.

1. 66 **Liquidation Trust Assets** means, from and after the Effective Date, all of the assets of the Zonda Plan Debtors, including the Liquidation Trust Funding Amount, and all legal and equitable interests of the Zonda Plan Debtors in Causes of Action and all legal or equitable defenses or counterclaims of the Zonda Plan Debtors to Claims and any other assets to be vested in the Liquidation Trust pursuant to the Liquidation Trust Agreement.

1. 67 **Liquidation Trust Funding Amount** means an amount not less than two million dollars net of any amounts necessary to pay all Administrative Claims, Priority Tax Claims, Secured Tax Claims, Other Secured Claims, Other Priority Claims, Convenience Claims, and all fees due under 28 U.S.C. § 1930, and to fund the Professional Fee Escrow Amount.
1. 68 **Liquidation Trust Funding Amount Escrow Account** means an escrow account to be funded with the Liquidation Trust Funding Amount, which will be created by the Zonda Plan Debtors on the Confirmation Date.
1. 69 **Liquidation Trust Funding Reserve** means the reserve created by the Liquidation Trust with the Liquidation Trust Funding Amount.
1. 70 **Liquidation Trust Interests** means the beneficial interests in the Liquidation Trust allocable to the Holders of Allowed Zonda Deficiency Claims (and any permitted successors, transferees, or assigns thereof).
1. 71 **Liquidation Trustee** means such Person or entity designated or appointed by SHI, in consultation with the Zonda Plan Debtors, and approved pursuant to the Confirmation Order or the Liquidation Trust Agreement.
1. 72 **New First Lien Noteholders** means, collectively, the holders of the New First Lien Notes on the Reorganized Non-Zonda Debtors Effective Date.
1. 73 **New First Lien Notes** means those certain new first lien notes that mature on October 1, 2023 pursuant to the New First Lien Notes Indenture in the initial aggregate principal amount of \$750.0 million, all as set forth in the New First Lien Notes Documentation.
1. 74 **New First Lien Notes Documentation** means, collectively, the New First Lien Notes Indenture and each other agreement, security agreement, pledge agreement, collateral assignment, mortgage, control agreement, guarantee, certificate, document, or instrument executed and/or delivered in connection with the foregoing, whether or not specifically mentioned herein or therein, as the same may be modified, supplemented, or replaced from time to time.
1. 75 **New First Lien Notes Indenture** means that certain *Indenture*, dated September 26, 2018, by and among Pacific Drilling First Lien Escrow Issuer Limited and Wilmington Trust, National Association or its successors or assigns, solely in their capacity as indenture trustee under the new first lien notes indenture, a copy of which is included in the Non-Zonda Debtors Plan Supplement as Exhibit A.

1. 76 ***New Intercreditor Agreement*** means that certain Intercreditor Agreement, to be dated as of the Reorganized Non-Zonda Debtors Effective Date, by and among Wilmington Trust, National Association as first lien collateral agent and Wilmington Trust, National Association as junior lien collateral agent, and acknowledged and agreed to by the Company and Grantors (each as defined therein), a substantially final form of which is included in the Non-Zonda Debtors Plan Supplement as Exhibit C (as amended, supplemented, or otherwise modified from time to time).

1. 77 ***New Second Lien PIK Toggle Noteholders*** means, collectively, the holders of the New Second Lien PIK Toggle Notes on the Reorganized Non-Zonda Debtors Effective Date.

1. 78 ***New Second Lien PIK Toggle Notes*** means the new second lien PIK toggle notes that mature on April 1, 2024, issued pursuant to the New Second Lien PIK Toggle Notes Indenture in the initial aggregate amount of \$274.0 million, all as set forth in the New Second Lien PIK Toggle Notes Documentation.

1. 79 ***New Second Lien PIK Toggle Notes Documentation*** means, collectively, the New Second Lien PIK Toggle Notes Indenture and each other agreement, security agreement, pledge agreement, collateral assignment, mortgage, control agreement, guarantee, certificate, document, or instrument executed and/or delivered in connection with the foregoing, whether or not specifically mentioned herein or therein, as the same may be modified, supplemented, or replaced from time to time.

1. 80 ***New Second Lien PIK Toggle Notes Indenture*** means that certain *Indenture*, dated September 26, 2018, by and among Pacific Drilling Second Lien Escrow Issuer Limited and Wilmington Trust, National Association or its successors and assigns, solely in their capacity as indenture trustee under the new second lien PIK toggle notes indenture, a copy of which is included in the Non-Zonda Debtors Plan Supplement as Exhibit B.

1. 81 ***New Secured Debt Documents*** means collectively, the New First Lien Notes Documentation and the New Second Lien PIK Toggle Notes Documentation.

1. 82 ***Non -Zonda Debtors*** means PDSA; PDGL; Pacific Drillship (Gibraltar) Limited; Pacific Drilling, Inc.; Pacific Drilling Finance S.à r.l.; Pacific Drilling Limited; Pacific Drillship S.à r.l.; Pacific Sharav S.à r.l.; Pacific Drilling VII Limited; PDV; Pacific Scirocco Ltd.; Pacific Bora Ltd.; Pacific Mistral Ltd.; Pacific Santa Ana (Gibraltar) Limited; Pacific Drilling Operations Limited; Pacific Drilling Operations, Inc.; Pacific Santa Ana S.à r.l.; Pacific Drilling, LLC; Pacific Drillship Nigeria Limited; and Pacific Sharav Korlátolt Felelősségű Társaság.

1. 83 **Non -Zonda Debtors Chapter 11 Cases** means (a) when used with reference to a particular Non-Zonda Debtor, the case under chapter 11 of the Bankruptcy Code commenced by such Non-Zonda Debtor in the Bankruptcy Court and (b) when used with reference to all Non-Zonda Debtors, the cases under chapter 11 of the Bankruptcy Code commenced by the Non-Zonda Debtors in the Bankruptcy Court.

1. 84 **Non -Zonda Debtors Confirmation Order** means the *Findings of Fact, Conclusions of Law, and Order Confirming Fourth Amended Joint Plan of Reorganization for Pacific Drilling S.A. and Certain of its Affiliates Pursuant to Chapter 11 of the Bankruptcy Code* [Docket No. 746].

1. 85 **Non -Zonda Debtors Disclosure Statement** means the *Modified Third Amended Disclosure Statement for the Modified Third Joint Plan of Reorganization for Pacific Drilling S.A. and Certain of its Affiliates Pursuant to Chapter 11 of the Bankruptcy Code* [Docket. No. 621].

1. 86 **Non -Zonda Debtors Plan** means the *Modified Fourth Amended Joint Plan of Reorganization for Pacific Drilling S.A. and Certain of its Affiliates Pursuant to Chapter 11 of the Bankruptcy Court*, dated October 31, 2018 [Docket No. 746].

1. 87 **Non -Zonda Debtors Plan Supplement** means the *Amended Plan Supplement in Connection with the Debtors' Joint Chapter 11 Plan of Reorganization for Certain of the Debtors* , dated October 22, 2018 [Docket No. 690], as may be amended from time-to-time.

1. 88 **Other Priority Claim** means any Claim accorded priority in right of payment under section 507(a) of the Bankruptcy Code, other than an Administrative Claim or Priority Tax Claim.

1. 89 **Other Secured Claim** means any Secured Claim against the Zonda Plan Debtors other than a Secured Tax Claim or a Zonda Secured Claim.

1. 90 **Pacific Drilling** means, collectively, the Zonda Plan Debtors and their non-Zonda Plan Debtor affiliates.

1. 91 **Pacific Zonda** means the drillship [Hull No. 2075] in connection with the Zonda Construction Contract between SHI and the Zonda Plan Debtors.

1. 92 **PDGL** means Non-Zonda Debtor Pacific Drilling (Gibraltar) Limited, a privately-held company limited by shares organized under the laws of Gibraltar.

1. 93 **PDSA** means Non-Zonda Debtor Pacific Drilling S.A., a publicly-traded limited liability company (*société anonyme*) organized under the laws of Luxembourg.

1. 94 **PDSI** means Zonda Plan Debtor Pacific Drilling Services, Inc., a privately-held Delaware corporation.

1. 95 **PDV** means Non-Zonda Debtor Pacific Drilling V Limited, a privately-held British Virgin Islands company limited by shares.

1. 96 **PDVIII** means Zonda Plan Debtor Pacific Drilling VIII Limited, a privately-held British Virgin Islands company limited by shares.

1. 97 **Person** means an individual, corporation, partnership, joint venture, association, joint stock company, limited liability company, limited liability partnership, trust, estate, unincorporated organization, or other entity.

1. 98 **Petition Date** means November 12, 2017, the date on which the Zonda Plan Debtors filed their voluntary chapter 11 petitions commencing these Chapter 11 Cases.

1. 99 **PIDWAL** means non-Debtor Affiliate Pacific International Drilling West Africa Limited, a privately-held Nigerian registered limited liability company.

1. 100 **Plan** means this chapter 11 plan of reorganization, including the Exhibits and all supplements, appendices, and schedules hereto, either in its current form or as the same may be altered, amended, supplemented, or modified from time to time, which shall be in form and substance acceptable to the Zonda Plan Debtors and SHI.

1. 101 **Plan Documents** means any of the documents, other than this Plan, to be executed, delivered, assumed, or performed in connection with the occurrence of the Effective Date, including, without limitation, the documents to be included in the Plan Supplement, including, but not limited to, the Liquidation Trust Agreement, which shall be subject to SHI's consent, the New First Lien Notes Indenture, the New Second Lien PIK Toggle Notes Indenture, the Amended Certificates of Incorporation of the applicable Reorganized Zonda Debtors, and the Amended By-Laws of the applicable Reorganized Zonda Debtors, as applicable.

1. 102 **Plan Supplement** means any supplement to this Plan, and the compilation of documents, forms of documents, and Exhibits to this Plan, as amended, modified, or supplemented from time to time, initial drafts of which shall be filed by the

Zonda Plan Debtors as permitted herein on or before the Plan Supplement Filing Date, in form and substance satisfactory to the applicable parties as provided in this Plan.

1. 103 **Plan Supplement Filing Date** means the date not later than seven (7) days before the Voting Deadline, which date may be modified by agreement between the Zonda Plan Debtors and SHI.

1. 104 **Prevail** means that the Zonda Arbitration Award has been issued and is final and Unappealable and is in favor of the Zonda Plan Debtors.

1. 105 **Priority Tax Claim** means any Claim of a Governmental Unit of the kind specified in section 507(a) (8) of the Bankruptcy Code.

1. 106 **Professional** means any professional employed in these Chapter 11 Cases pursuant to sections 327, 328, 363, or 1103 of the Bankruptcy Code or otherwise.

1. 107 **Professional Fee Claim** means an Administrative Claim of a Professional for compensation for services rendered or reimbursement of costs attributable to the Zonda Plan Debtors, expenses, or other charges incurred on or after the Reorganized Non-Zonda Debtors Effective Date and prior to and including the Effective Date.

1. 108 **Professional Fee Escrow** means an escrow account to be funded with the Professional Fee Escrow Amount by the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust, on the Effective Date solely for the purpose of paying all Allowed Professional Fee Claims.

1. 109 **Professional Fee Escrow Amount** means the aggregate Accrued Professional Compensation incurred on or after the Reorganized Non-Zonda Debtors Effective Date through the Effective Date as estimated by the Professionals in accordance with Section 2.3.

1. 110 **Pro Rata** means the proportion that an Allowed Claim in a particular Class bears to the aggregate amount of Allowed Claims and Disputed Claims within such Class.

1. 111 **Proof of Claim** means a written proof of Claim filed against any Zonda Plan Debtor in the Chapter 11 Cases.

1. 112 **QPGL** means Quantum Pacific (Gibraltar) Limited.

1. 113 **Reinstated** means, with respect to any Claim or Interest, the treatment provided for in section 1124 of the Bankruptcy Code.

1. 114 **Released Party** means each of: (a) the Zonda Plan Debtors; (b) the Reorganized Zonda Debtors; (c) the Liquidation Trust; (d) the Liquidation Trustee; and (e) with respect to the foregoing Entities in clauses (a) through (d), each of their (i) respective current and former Affiliates, predecessors, successors, assigns, subsidiaries, managed accounts, or funds; and their (ii) current and former officers, managers, directors, equity holders (regardless of whether such interests are held directly or indirectly), principals, members, employees, agents, independent contractors, management companies, investment advisors, fund advisors, advisory board members, financial advisors, partners, attorneys, accountants, investment bankers, consultants, representatives, and other professionals, each in their capacity as such; *provided*, that equity holders of the Zonda Plan Debtors shall not be a “Released Party” except solely in their capacity as Holders of Claims against the Zonda Plan Debtors; *provided further*, that any Holder of a Claim or Interest that objects to or votes to reject the Plan shall not be a “Released Party.”

1. 115 **Releasing Parties** means, collectively and in each case in their capacity as such: (a) each Released Party; (b) each Holder of a Claim or Interest who was entitled to vote on the Plan and voted to accept the Plan; (c) each Holder of a Claim or Interest who did not vote to accept the Plan but checked the box on the applicable Ballot or Notice of Non-Voting Status indicating that they opt to grant the releases provided in the Plan; (d) each Holder of a Claim or Interest to the fullest extent permitted by law; (e) with respect to each of the foregoing Entities in clauses (a) through (d), such Entities’ or Persons’ successors and assigns.

1. 116 **Reorganized Non-Zonda Debtors** means, collectively, the Non-Zonda Debtors from and after the Reorganized Non-Zonda Debtors Effective Date.

1. 117 **Reorganized Non-Zonda Debtors Effective Date** means the “Effective Date” as defined in the Non-Zonda Debtors Plan.

1. 118 **Reorganized PDSA** means PDSA from and after the Non-Zonda Debtors Effective Date.

1. 119 **Reorganized Zonda Debtors** means, collectively, the Zonda Plan Debtors from and after the Effective Date, if the Zonda Plan Debtors Prevail in the Zonda Arbitration, but not if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration.

1. 120 **Representative** means any Person’s or Entity’s current and former officers, managers, directors, equity holders (regardless of whether such interests are held directly or indirectly), principals, members, employees, agents, independent contractors, management companies, investment advisors, fund advisors, advisory

board members, financial advisors, partners, attorneys, accountants, investment bankers, consultants, representatives, and other professionals, each in their capacity as such.

1. 121 **Restructuring Transactions** means if the Zonda Plan Debtors Prevail in the Zonda Arbitration, but not if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, one or more transactions pursuant to section 1123(a)(5)(D) of the Bankruptcy Code to occur on the Effective Date or as soon as reasonably practicable thereafter, that may be necessary or appropriate to effect any transaction described in, approved by, contemplated by, or necessary to effectuate this Plan, including (a) the consummation of the transactions provided for under or contemplated by the Plan Documents; (b) the execution and delivery of appropriate agreements or other documents containing terms that are consistent with or reasonably necessary to implement the Plan Documents, which agreement or other documents shall contain terms that are consistent with or reasonably necessary to implement the terms of this Plan and the Plan Documents and that satisfy the requirements of applicable law; (c) the execution and delivery of appropriate instruments of transfer, assignment, assumption, or delegation of any property, right, liability, duty, or obligation on terms consistent with the terms of this Plan and the Plan Documents; and (d) all other actions that the Zonda Plan Debtors or Reorganized Zonda Debtors, as applicable, determine are necessary or appropriate.

1. 122 **Retained Actions** means all claims, Causes of Action, rights of action, suits, and proceedings, whether in law or in equity, whether known or unknown, which any Zonda Plan Debtor or any Zonda Plan Debtor's Estate may hold against any Person, including, but not limited to: (a) claims and Causes of Action brought prior to the Effective Date; (b) claims and Causes of Action against any Persons for failure to pay for products or services provided or rendered by any of the Zonda Plan Debtors; (c) claims and Causes of Action seeking the recovery of any of the Zonda Plan Debtors' or the Reorganized Zonda Debtors' accounts receivable or other receivables or rights to payment created or arising in the ordinary course of any of the Zonda Plan Debtors' or the Reorganized Zonda Debtors' businesses, including claim overpayments and tax refunds; (d) all Avoidance Actions; and (e) any such claims, Causes of Action, rights of action, suits, or proceedings listed in the Disclosure Statement or any schedules filed by the Zonda Plan Debtors in these Chapter 11 Cases; *provided*, *however*, that Retained Actions shall not include those claims, Causes of Action, rights of action, suits, and proceedings, whether in law or in equity, whether known or unknown, released under Article XII herein.

1. 123 **SEC** means the U.S. Securities and Exchange Commission.

1. 124 **Securities Act** means the Securities Act of 1933, as now in effect or hereafter amended.

1. 125 **Schedules** means the Zonda Plan Debtors' schedules of assets and liabilities and statements of financial affairs, filed under section 521 of the Bankruptcy Code and the Bankruptcy Rules, as amended, supplemented, or modified.

1. 126 **Secured Claim** means a Claim that is secured by a Lien on property in which a Zonda Plan Debtor's Estate has an interest or that is subject to setoff under section 553 of the Bankruptcy Code, to the extent of the value of the Claim Holder's interest in the applicable Estate's interest in such property or to the extent of the amount subject to setoff, as applicable, as determined pursuant to section 506(a) of the Bankruptcy Code or, in the case of setoff, pursuant to section 553 of the Bankruptcy Code.

1. 127 **Secured Tax Claim** means any Secured Claim that, absent its secured status, would be entitled to priority in right of payment under sections 502(i) and 507(a)(8) of the Bankruptcy Code (determined irrespective of any time limitation therein and including any related Secured Claim for penalties).

1. 128 **SHI** means Samsung Heavy Industries, Co., Ltd.

1. 129 **SHI Retained Actions** means all claims, Causes of Action, rights of action, suits, and proceedings, whether in law or in equity, whether known or unknown, which SHI may hold against any Person, including the claims, causes of action, rights of subrogation, contribution, or indemnification, defenses, suits, debts, remedies, damages, demands, losses, costs, and expenses (including professional fees and expenses) subject to Paragraph 112 of the Non-Zonda Debtors Confirmation Order, and for the avoidance of doubt, subject to the Bar Date Order and any argument regarding the applicability thereof.

1. 130 **Term Loan B Lenders** means, collectively, those lenders party to that certain Term Loan Agreement, dated as of June 3, 2013 (as amended), among PDSA as borrower, the term loan B lenders, and Cortland Capital Market Services LLC or its successors or assigns, in each case solely in their capacity as administrative agent under that certain \$750.0 million term loan facility among PDSA as borrower, the term loan B lenders, and Cortland Capital Market Services LLC or its successors or assigns, in each case solely in their capacity as administrative agent under the term loan credit facility.

1. 131 **Third -Party Release** means the releases set forth in Section 12.2(b) of this Plan.

1. 132 **Unappealable** means a final arbitration award in respect of which any challenge to the award or appeal to the English High Court has been finally determined by the arbitral tribunal or the English High Court or English Appellate Courts in accordance with sections 66 to 71 of the Arbitration Act 1996.

1. 133 **Unexpired Lease** means a lease to which one of more of the Zonda Plan Debtors is a party that is subject to assumption or rejection under section 365 of the Bankruptcy Code.

1. 134 **Unimpaired** means a Claim or Interest that is not impaired within the meaning of section 1124 of the Bankruptcy Code.

1. 135 **Voting Deadline** means the date by which a Holder of a Claim entitled to vote on this Plan must deliver a Ballot to accept or reject this Plan as set forth in the order of the Bankruptcy Court approving the instructions and procedures relating to the solicitation of votes with respect to this Plan.

1. 136 **Zonda Arbitration** means the arbitration proceeding commenced by SHI against PDVIII and PDSI in London on November 18, 2015, in response to PDVIII's rescission of the Zonda Construction Contract.

1. 137 **Zonda Arbitration Award** means (a) a final award or awards issued in connection with the Zonda Arbitration in which liability and damages are determined between SHI, on the one hand, and PDVIII and PDSI, on the other hand, and/or (b) separate final awards issued in connection with the Zonda Arbitration in which liability and damages are determined between SHI and PDVIII and between SHI and PDSI.

1. 138 **Zonda Claims** means Proofs of Claim Nos. 164, 168, 169, 170, and 176 filed in these Chapter 11 Cases, which shall be classified in Classes 4A–4B and 5A–5B.

1. 139 **Zonda Construction Contract** means that certain *Contract for Construction and Sale of Drillship (Hull No. 2075)* between PDVIII and SHI.

1. 140 **Zonda Deficiency Claim** means a Claim arising out of or related to the Zonda Claims and the Zonda Construction Contract, solely to the extent such Claim is not a Secured Claim.

1. 141 **Zonda Plan Debtor Release** means the releases contained in Section 12.2(a) herein.

1. 142 **Zonda Plan Debtors** means PDVIII and PDSI.

1. 143 **Zonda Secured Claim** means a claim arising out of or related to the Zonda Claims and the Zonda Construction Contract, solely to the extent that such Claim is a Secured Claim.

Rules of Interpretation and Computation of Time . For purposes of this Plan, unless otherwise provided herein: (a) whenever from the context it is appropriate, each term, whether stated in the singular or the plural, shall include both the singular and the plural; (b) unless otherwise provided in this Plan, any reference in this Plan to a contract, instrument, release, or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (c) any reference in this Plan to an existing document or schedule filed or to be filed means such document or schedule, as it may have been or may be amended, modified, or supplemented pursuant to this Plan; (d) any reference to an entity as a Holder of a Claim or Interest includes that entity's successors and assigns; (e) all references in this Plan to Sections and Articles are references to Sections and Articles of or to this Plan; (f) the words "herein," "hereunder," and "hereto" refer to this Plan in its entirety rather than to a particular portion of this Plan; (g) captions and headings to Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of this Plan; (h) subject to the provisions of any contract, certificates of incorporation, by-laws, instrument, release, or other agreement or document entered into in connection with this Plan, the rights and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, federal law, including the Bankruptcy Code and Bankruptcy Rules; (i) the rules of construction set forth in section 102 of the Bankruptcy Code shall apply; (j) in computing any period of time prescribed or allowed by this Plan, the provisions of Bankruptcy Rule 9006(a) shall apply; (k) "including" means "including without limitation"; and (l) with reference to any distribution under this Plan, "on" a date means on or as soon as reasonably practicable after that date.

Exhibits . All Exhibits are incorporated into and are a part of this Plan as if set forth in full herein, and, to the extent not annexed hereto, such Exhibits shall be filed with the Bankruptcy Court no later than seven (7) days prior to the Voting Deadline. Holders of Claims and Interests may obtain a copy of the Exhibits upon written request to the Zonda Plan Debtors. Upon their filing, the Exhibits may be inspected (a) in the office of the clerk of the Bankruptcy Court or its designee during normal business hours; (b) on the Bankruptcy Court's website at <http://nysb.uscourts.gov> (registration required); or (c) at our noticing agent's website at <https://cases.primeclerk.com/pacificdrilling/>. The documents contained in the Exhibits shall be approved by the Bankruptcy Court pursuant to the Confirmation Order.

Controlling Document . In the event of an inconsistency between this Plan and the Plan Supplement, the terms of the relevant document in the Plan Supplement shall control (unless stated otherwise in such Plan Supplement document). The provisions of this Plan and of the Confirmation Order shall be construed in a manner consistent with each other so as to effect the purposes of each; *provided*, that, if there is determined to be any inconsistency between any Plan provision and any provision of the Confirmation Order that cannot be so reconciled, then, solely to the extent of such inconsistency, the provisions of the Confirmation Order shall govern and any such provision of the Confirmation Order shall be deemed a modification of this Plan and shall control and take precedence.

Applicability of Articles V and VI. This Plan contains two Articles that include provisions related to the means for implementation of this Plan. For the avoidance of doubt, if the Zonda Plan Debtors Prevail in the Zonda Arbitration, Article V governs and Article VI is rendered null and void as of the Effective Date. Alternatively, if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration Article VI governs and Article V is rendered null and void as of the Effective Date.

Intercompany Claims and Interests. The summary table in Section 3.2 provides that Classes 8A–8B, 9A, and 9B are either Unimpaired or Impaired under the Plan, and are not entitled to vote, however, such Classes are consenting to the Plan under either scenario.

ARTICLE II

ADMINISTRATIVE EXPENSE AND PRIORITY CLAIMS

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims, Priority Tax Claims, and Professional Fee Claims are not classified and are not entitled to vote on this Plan.

2.1 *Administrative Claims* . Unless the Holder of an Allowed Administrative Claim agrees to less favorable treatment, on or as soon as reasonably practicable after the later of (a) the Effective Date, (b) the date on which an Administrative Claim becomes an Allowed Administrative Claim, or (c) the date on which an Allowed Administrative Claim becomes payable under any agreement relating thereto, each Holder of such Allowed Administrative Claim shall receive, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed Administrative Claim, Cash equal to the unpaid portion of such Allowed Administrative Claim.

2.2 **Priority Tax Claims** . The legal and equitable rights of the Holders of Priority Tax Claims, if any, are Unimpaired by this Plan. Unless the Holder of an Allowed Priority Tax Claim agrees to less favorable treatment, on the Effective Date, each Holder of an Allowed Priority Tax Claim shall have such Claim Reinstated.

2.3 **Professional Fee Claims** .

(a) Professionals shall submit final fee applications seeking approval of all Professional Fee Claims by the Bankruptcy Court no later than sixty (60) days after the Effective Date. These applications remain subject to Bankruptcy Court approval under the standards established by the Bankruptcy Code, including the requirements of sections 327, 328, 330, 331, 363, 503(b), and 1103 of the Bankruptcy Code, as applicable. Payments to Professionals shall be made upon entry of an order approving such Professional Fee Claims.

(b) The Reorganized Zonda Debtors or the Liquidation Trust, as applicable, are authorized to pay compensation for services rendered or reimbursement of expenses incurred after the Effective Date in the ordinary course without the need for Bankruptcy Court approval.

(c) On the Effective Date, the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, will establish and fund the Professional Fee Escrow with Cash remaining in the PDSI bank accounts on the Effective Date or from the Liquidation Trust Assets, as applicable, equal to the Professional Fee Escrow Amount.

ARTICLE III

CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS

3.1 **Classification in General** . Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of Classes of Claims against and Interests in the Zonda Plan Debtors. A Claim or Interest is placed in a particular Class only to the extent that the Claim or Interest falls within the description of that Class and is classified in other Classes to the extent that any portion of the Claim or Interest falls within the description of such other Classes. A Claim is also placed in a particular Class for the purpose of receiving distributions pursuant to this Plan only to the extent that such Claim is an Allowed Claim in that Class and such Claim has not been paid, released, or otherwise settled prior to the Effective Date. Subject to the payment of any joint and several obligations between the Zonda Plan Debtors, each Zonda Plan Debtor shall be responsible for satisfying the Claims and Administrative Claims against and Interests in such Zonda Plan Debtor from such Zonda Plan Debtor's assets.

3.2 **Summary of Classification** . For administrative convenience, this Plan organizes the Zonda Plan Debtors into two (2) groups (each a “ **Zonda Plan Debtor Group** ”) and assigns a letter to each Zonda Plan Debtor Group. Notwithstanding this organizing principle, this plan is a separate plan of reorganization for each Zonda Plan Debtor. For consistency, similarly designated Classes of Claims and Interests are assigned the same number across each of the Zonda Plan Debtor Groups. Any non-sequential enumeration of the Classes is intentional to maintain consistency.

Letter	Zonda Plan Debtor Group
A	PDSI
B	PDVIII

The following table designates the Classes of Claims against and Interests in the Zonda Plan Debtors and specifies which of those Classes are (a) Impaired or Unimpaired by this Plan, (b) entitled to vote to accept or reject this Plan in accordance with section 1126 of the Bankruptcy Code, and (c) deemed to accept or reject this Plan. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims, Priority Tax Claims, and Professional Fee Claims have not been classified and, thus, are excluded from the Classes of Claims and Interests set forth in this Section 3.2. All of the potential Classes for the Zonda Plan Debtors are set forth herein. Certain of the Zonda Plan Debtors may not have Holders of Claims or Interests in a particular Class or Classes, and such Classes shall be treated as set forth in Section 4.3 hereof.

Class(es)	Designation	Impairment	Entitled to Vote
1A–1B	Secured Tax Claims	Unimpaired	No (deemed to accept)
2A–2B	Other Secured Claims	Unimpaired	No (deemed to accept)
3A–3B	Other Priority Claims	Unimpaired	No (deemed to accept)
4A–4B	Zonda Secured Claims	Impaired	Yes
5A–5B	Zonda Deficiency Claims	Impaired	Yes
6A–6B	Convenience Claims	Unimpaired	No (deemed to accept)

Class(es)	Designation	Impairment	Entitled to Vote
7A	Insurance Covered Claims	Unimpaired	No (deemed to accept)
8A–8B	Intercompany Claims	Unimpaired/ Impaired	No, but consenting to the Plan under either scenario
9A	PDSI Interests	Unimpaired/ Impaired	No, but consenting to the Plan under either scenario
9B	PDVIII Interests	Unimpaired/ Impaired	No, but consenting to the Plan under either scenario

3.3 *Treatment of Classes* .

(a) *Classes 1A through 1B – Secured Tax Claims*

(i) *Claims in Class* : Classes 1A and 1B consist of all Secured Tax Claims.

(ii) *Treatment* : Except to the extent that a Holder of an Allowed Secured Tax Claim agrees to less favorable treatment, each Holder of an Allowed Secured Tax Claim shall receive, on account of and in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Secured Tax Claim and any Lien securing such Claim, Cash in the amount of such Allowed Secured Tax Claim: on or as soon as reasonably practicable after, the later of (A) the Effective Date and (B) the date on which such Secured Tax Claim becomes an Allowed Secured Tax Claim.

All Allowed Secured Tax Claims that are not due and payable on or before the Effective Date shall be paid by the Reorganized Zonda Debtors when such Claims become due and payable in the ordinary course of business in accordance with the terms thereof.

(iii) *Voting* : Claims in Classes 1A and 1B are Unimpaired, and the Holders of Allowed Secured Tax Claims are conclusively deemed to have accepted this Plan pursuant to section 1126(f) of the Bankruptcy Code. Therefore, the Holders of Secured Tax Claims are not entitled to vote to accept or reject this Plan.

(b) *Classes 2A through 2B – Other Secured Claims*

(i) *Claims in Class*: Classes 2A and 2B consist of all Other Secured Claims.

(ii) *Treatment*: Except to the extent that a Holder of an Allowed Other Secured Claim agrees to less favorable treatment, on or as soon as

reasonably practicable after (A) the Effective Date if such Other Secured Claim is an Allowed Other Secured Claim on the Effective Date or (B) the date on which such Other Secured Claim becomes an Allowed Other Secured Claim, each Holder of an Allowed Other Secured Claim shall receive from its respective Zonda Plan Debtor, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed Other Secured Claim and any Lien securing such Claim, at the option of the Zonda Plan Debtors: (x) payment in full in Cash, plus postpetition interest, if applicable; (y) Reinstatement or such other treatment sufficient to render the Holder of such Claim Unimpaired pursuant to section 1124 of the Bankruptcy Code; or (z) the return of the applicable collateral in satisfaction of the Allowed amount of such Other Secured Claim.

(iii) *Voting*: Claims in Classes 2A and 2B are Unimpaired, and the Holders of Allowed Other Secured Claims are conclusively deemed to have accepted this Plan pursuant to section 1126(f) of the Bankruptcy Code. Therefore, the Holders of Other Secured Claims are not entitled to vote to accept or reject this Plan.

(c) *Classes 3A through 3B – Other Priority Claims*

(i) *Claims in Class*: Classes 3A and 3B consist of all Other Priority Claims.

(ii) *Treatment*: Except to the extent that a Holder of an Allowed Other Priority Claim agrees to less favorable treatment, on or as soon as reasonably practicable after (A) the Effective Date if such Other Priority Claim is an Allowed Other Priority Claim on the Effective Date or (B) the date on which such Other Priority Claim becomes an Allowed Other Priority Claim, each Holder of an Allowed Other Priority Claim shall receive, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed Other Priority Claim, Cash equal to the unpaid portion of such Allowed Other Priority Claim.

(iii) *Voting*: Claims in Classes 3A and 3B are Unimpaired, and the Holders of Allowed Other Priority Claims are conclusively deemed to have accepted this Plan pursuant to section 1126(f) of the Bankruptcy Code. Therefore, the Holders of Other Priority Claims are not entitled to vote to accept or reject this Plan.

(d) *Classes 4A through 4B – Zonda Secured Claims*

(i) *Claims in Class*: Classes 4A and 4B consist of all Zonda Secured Claims.

(ii) *Treatment*: Except to the extent that a Holder of an Allowed Zonda Secured Claim agrees to less favorable treatment, on or as soon as

reasonably practicable after the Effective Date, each Holder of an Allowed Zonda Secured Claim shall receive in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed Zonda Secured Claim (a) an amount of existing Cash held by the Zonda Plan Debtors agreed to by SHI and the Liquidation Trustee, and at the option of SHI, either (i) the proceeds of the sale or disposition of the *Pacific Zonda*, or (ii) the *Pacific Zonda* securing such Allowed Zonda Secured Claim. If an Allowed Zonda Secured Claim is paid in full under this Section, the Liens securing such Zonda Secured Claim shall be deemed released.

For the avoidance of doubt, the Zonda Secured Claims will be disallowed if the Zonda Plan Debtors Prevail in the Zonda Arbitration.

(iii) *Voting*: Claims in Classes 4A and 4B are Impaired. Pursuant to section 1126 of the Bankruptcy Code, each Holder of an Allowed Zonda Secured Claim is entitled to vote to accept or reject this Plan.

(e) *Classes 5A through 5B – Zonda Deficiency Claims*

(i) *Claims in Class*: Classes 5A and 5B consist of all Zonda Deficiency Claims.

(ii) *Treatment*: Except to the extent that a Holder of an Allowed Zonda Deficiency Claim agrees to less favorable treatment, on or as soon as reasonably practicable after the Effective Date, each Holder of an Allowed Zonda Deficiency Claim shall receive, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed Zonda Deficiency Claim its Pro Rata share of the Liquidation Trust Interests based on the Allowed amount of its Claim.

For the avoidance of doubt, the Zonda Deficiency Claims will be disallowed if the Zonda Plan Debtors Prevail in the Zonda Arbitration.

(iii) *Voting*: Claims in Classes 5A and 5B are Impaired. Pursuant to section 1126 of the Bankruptcy Code, each Holder of an Allowed Zonda Deficiency Claim is entitled to vote to accept or reject this Plan.

(f) *Classes 6A through 6B – Convenience Claims*

(i) *Claims in Class*: Classes 6A and 6B consist of all Convenience Claims.

(ii) *Treatment*: Except to the extent that a Holder of an Allowed Convenience Claim agrees to less favorable treatment, on or as soon as reasonably practicable after the Effective Date, each Holder of an Allowed Convenience

Claim shall receive, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed Convenience Claim, payment in full in Cash.

(iii) *Voting:* Claims in Classes 6A and 6B are Unimpaired, and the Holders of Allowed Convenience Claims are conclusively deemed to have accepted this Plan pursuant to section 1126(f) of the Bankruptcy Code. Therefore, the Holders of Allowed Convenience Claims are not entitled to vote to accept or reject this Plan.

(g) *Class 7A – Insurance Covered Claims*

(i) *Claims in Class:* Class 7A consists of all Insurance Covered Claims.

(ii) *Treatment:* Except to the extent that a Holder of an Allowed Insurance Covered Claim agrees to less favorable treatment, on or as soon as reasonably practicable after the Effective Date, each Holder of an Allowed Insurance Covered Claim shall receive, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed Insurance Covered Claim, (A) payment in Cash in an amount equal to such Allowed Insurance Covered Claim on the Effective Date; or (B) such other treatment as may be required so as to render such Allowed Insurance Covered Claim Unimpaired. For the avoidance of doubt, Holders of Allowed Insurance Covered Claims will look solely to applicable insurance for payment.

(iii) *Voting:* Claims in Class 7A are Unimpaired, and the Holders of Allowed Insurance Covered Claims are conclusively deemed to have accepted this Plan pursuant to section 1126(f) of the Bankruptcy Code. Therefore, the Holders of Allowed Insurance Covered Claims are not entitled to vote to accept or reject this Plan.

(h) *Classes 8A through 8B – Intercompany Claims*

(i) *Claims in Class :* Classes 8A and 8B consist of all Intercompany Claims.

(ii) *Treatment:* Except to the extent that a Holder of an Allowed Intercompany Claim agrees to less favorable treatment, on or as soon as reasonably practicable after the Effective Date, each Holder of an Allowed Intercompany Claim shall receive, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed Intercompany Claim:

(A) If the Zonda Plan Debtors Prevail in the Zonda Arbitration, all Allowed Intercompany Claims shall be paid, adjusted, continued, settled, Reinstated, discharged, or

eliminated, in each case to the extent determined to be appropriate by the Zonda Plan Debtors or the Reorganized Zonda Debtors, as applicable; or

(B) if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, Allowed Intercompany Claims shall be paid, adjusted, continued, settled, Reinstated, discharged, or eliminated, in each case to the extent determined to be appropriate by the Liquidation Trust.

(iii) *Voting*: Claims in Classes 8A and 8B are either Unimpaired, and each Holder of an Allowed Intercompany Claim is conclusively presumed to have accepted this Plan under section 1126(f) of the Bankruptcy Code, or Impaired, and each Holder of an Allowed Intercompany Claim is conclusively deemed to have rejected this Plan pursuant to section 1126(g) of the Bankruptcy Code. However, Holders of Allowed Intercompany Claims have agreed to be deemed to accept this Plan under either scenario.

(i) *Class 9A – PDSI Interests*

(i) *Claims in Class* : Class 9A consists of all PDSI Interests.

(ii) *Treatment* : Except to the extent that a Holder of an Allowed PDSI Interest agrees to less favorable treatment, on or as soon as reasonably practicable after the Effective Date, each Holder of an Allowed PDSI Interest shall receive, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed PDSI Interest:

(A) If the Zonda Plan Debtors Prevail in the Zonda Arbitration, Holders of Allowed PDSI Interests will receive all remaining assets of PDSI after distributions to Classes 1A–1B through 8A–8B; or

(B) if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, all PDSI Interests will be extinguished.

(iii) *Voting* : Claims in Class 9A are either Unimpaired, and each Holder of an Allowed PDSI Interest is conclusively presumed to have accepted this Plan under section 1126(f) of the Bankruptcy Code, or Impaired, and each Holder of an Allowed PDSI Interest is conclusively deemed to have rejected this Plan pursuant to section

1126(g) of the Bankruptcy Code. However, Holders of Allowed PDSI Interests have agreed to be deemed to accept this Plan under either scenario.

(j) *Class 9B – PDVIII Interests*

(i) *Claims in Class* : Class 9B consists of all PDVIII Interests.

(ii) *Treatment* : Except to the extent that a Holder of an Allowed PDVIII Interest agrees to less favorable treatment, on or as soon as reasonably practicable after the Effective Date, each Holder of an Allowed PDVIII Interest shall receive, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, such Allowed PDVIII Interest:

(A) If the Zonda Plan Debtors Prevail in the Zonda Arbitration, Holders of Allowed PDVIII Interests will receive all remaining assets of PDVIII after distributions to Classes 1A–1B through 8A–8B; or

(B) if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, all PDVIII Interests will be extinguished.

(iii) *Voting* : Claims in Class 9B are either Unimpaired, and each Holder of an Allowed PDVIII Interest is conclusively presumed to have accepted this Plan under section 1126(f) of the Bankruptcy Code, or Impaired, and each Holder of an Allowed PDVIII Interest is conclusively deemed to have rejected this Plan pursuant to section 1126(g) of the Bankruptcy Code. However, Holders of Allowed PDVIII Interests have agreed to be deemed to accept this Plan under either scenario.

3.4 *Alternative Treatment* . Notwithstanding any provision herein to the contrary, any Holder of an Allowed Claim may receive, instead of the distribution or treatment to which it is entitled hereunder, any other distribution or treatment to which it and the Zonda Plan Debtors may agree in writing, with the consent of SHI; *provided, however*, that under no circumstances may the Zonda Plan Debtors agree to provide any other distribution or treatment to any Holder of an Allowed Claim that would adversely impair the distribution or treatment provided to any other Holder of an Allowed Claim.

3.5 *Special Provision Regarding Unimpaired Claims* . Except as otherwise provided in this Plan, nothing shall affect the Zonda Plan Debtors' rights and defenses, both legal and equitable, with respect to any Unimpaired Claims, including but

not limited to all rights with respect to legal and equitable defenses to setoffs against or recoupments of Unimpaired Claims.

ARTICLE IV

ACCEPTANCE OR REJECTION OF THIS PLAN

4.1 **Acceptance by Class Entitled to Vote** . Classes 4A–4B and 5A–5B are the Classes of Claims of the Zonda Plan Debtors that are entitled to vote to accept or reject this Plan. Classes 4A–4B and 5A–5B shall have accepted this Plan if (a) the Holders of at least two-thirds in amount of the Allowed Claims actually voting in each Class have voted to accept this Plan and (b) the Holders of more than one-half in number of the Allowed Claims actually voting in each Class have voted to accept this Plan, not counting the vote of any Holder designated under section 1126(e) of the Bankruptcy Code. If there are no votes cast in the Class that is entitled to vote on this Plan, then this Plan shall be deemed accepted by such Class.

4.2 **Presumed Acceptance of this Plan** . Classes 1A–1B, 2A–2B, 3A–3B, 6A–6B, and 7A are Unimpaired. Therefore, such Classes are deemed to have accepted this Plan by operation of law and are not entitled to vote to accept or reject this Plan.

4.3 **Elimination of Classes** . To the extent applicable, any Class that does not contain any Allowed Claims or any Claims temporarily allowed for voting purposes under Bankruptcy Rule 3018, as of the date of the commencement of the Confirmation Hearing, shall be deemed to have been deleted from this Plan for purposes of (a) voting to accept or reject this Plan and (b) determining whether it has accepted or rejected this Plan under section 1129(a)(8) of the Bankruptcy Code.

4.4 **Cramdown** . The Zonda Plan Debtors request Confirmation of this Plan, as it may be modified from time to time, under section 1129(b) of the Bankruptcy Code, to the extent applicable, subject to SHI's express written consent. The Zonda Plan Debtors reserve the right to modify this Plan to the extent, if any, that Confirmation pursuant to section 1129(b) of the Bankruptcy Code requires modification.

ARTICLE V

MEANS FOR IMPLEMENTATION OF THIS PLAN IF THE ZONDA PLAN DEBTORS PREVAIL IN THE ZONDA ARBITRATION

5.1 **Continued Corporate Existence and Vesting of Assets** . If the Zonda Plan Debtors Prevail in the Zonda Arbitration, except as otherwise provided in this Plan, each Zonda Plan Debtor shall continue to exist after the Effective Date as a separate

corporate Entity, limited liability company, partnership, or other form, as the case may be, with all the powers of a corporation, limited liability company, partnership, or other form, as the case may be, pursuant to the applicable law in the jurisdiction in which each applicable Zonda Plan Debtor is incorporated or formed and pursuant to the respective certificate of incorporation, where applicable and bylaws (or other formation documents) in effect prior to the Effective Date, except to the extent such certificate of incorporation and bylaws (or other formation documents) are amended by this Plan, the Plan Supplement, or otherwise, and to the extent such documents are amended, such documents are deemed to be pursuant to this Plan and require no further action or approval, as permitted by applicable law. On or after the Effective Date, each Reorganized Zonda Debtor may take such action as permitted by applicable law and such Reorganized Zonda Debtor's organizational documents, as such Reorganized Zonda Debtor may determine is reasonable and appropriate, including causing: (i) a Reorganized Zonda Debtor to be merged into another Reorganized Debtor or its Affiliate; (ii) a Reorganized Zonda Debtor to be dissolved; (iii) the legal name of a Reorganized Zonda Debtor to be changed; (iv) a Reorganized Zonda Debtor to reorganize under the laws of another jurisdiction; or (v) the closure of a Reorganized Zonda Debtor's Chapter 11 Case on the Effective Date or any time thereafter.

If the Zonda Plan Debtors Prevail in the Zonda Arbitration, except as otherwise provided herein, on the Effective Date, all property of each Zonda Plan Debtor's Estate, including any property held or acquired by each Zonda Plan Debtor or Reorganized Zonda Debtor under this Plan or otherwise, will vest in such Reorganized Zonda Debtor free and clear of all Claims, Liens, charges, other encumbrances, Interests, and other interests, except for the Liens and Claims established under this Plan.

If the Zonda Plan Debtors Prevail in the Zonda Arbitration, on or after the Effective Date, each Reorganized Zonda Debtor may operate its business and may use, acquire, and dispose of property and maintain, prosecute, abandon, compromise, or settle any Claims or Causes of Action without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, subject only to those restrictions expressly imposed by this Plan or the Confirmation Order, as well as the documents and instruments executed and delivered in connection therewith, including the documents, exhibits, instruments, and other materials comprising the Plan Supplement.

5.2 ***Sources of Cash for Distributions and Operations*** . If the Zonda Plan Debtors Prevail in the Zonda Arbitration, all Cash necessary for the Reorganized Zonda Debtors to make payments required by this Plan and for post-Confirmation operations shall be obtained from (a) existing Cash held by the Reorganized Zonda Debtors on the

Effective Date after giving effect to the Professional Fee Escrow, (b) proceeds from any Retained Actions, and (c) proceeds from the Zonda Arbitration Award.

5.3 **Restructuring Transactions.** If the Zonda Plan Debtors Prevail in the Zonda Arbitration, on or as soon as practicable after the Effective Date, the Reorganized Zonda Debtors are authorized, without further order of the Bankruptcy Court, to take all actions as may be necessary or appropriate to effect any transaction described in, approved by, contemplated by, or necessary to satisfy the Zonda Plan Debtors' springing obligations under the New First Lien Notes and the New Second Lien PIK Toggle Notes including, without limitation: (a) the execution and delivery of all appropriate agreements or other documents of merger, consolidation, restructuring, conversion, disposition, transfer, dissolution, or liquidation containing terms that are consistent with the terms of this Plan and that satisfy the requirements of applicable law and any other terms to which the applicable Entities may agree; (b) the execution and delivery of appropriate instruments of transfer, assignment, assumption, or delegation of any asset, property, right, liability, debt, or obligation on terms consistent with the terms of this Plan and having other terms for which the applicable parties agree; (c) rejection or assumption, as applicable, of Executory Contracts and Unexpired Leases; (d) the filing and/or execution of appropriate limited liability company agreements, certificates, or articles of incorporation or organization, reincorporation, merger, consolidation, conversion, or dissolution pursuant to applicable state law; (e) the consummation of the transactions contemplated by the New First Lien Notes Documentation, and the New Second Lien PIK Toggle Notes Documentation, and the execution thereof; (f) all other actions that the applicable Entities determine to be necessary or appropriate, including making filings or recordings that may be required by applicable law.

5.4 **Intercompany Claims.** If the Zonda Plan Debtors Prevail in the Zonda Arbitration, Allowed Intercompany Claims shall be paid, adjusted, continued, settled, Reinstated, discharged or eliminated, in each case to the extent determined to be appropriate by the Zonda Plan Debtors or the Reorganized Zonda Debtors, as applicable. If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, Allowed Intercompany Claims shall be paid, adjusted, continued, settled, Reinstated, discharged or eliminated, in each case to the extent determined to be appropriate by the Liquidation Trust.

5.5 **Effectuating Documents; Further Transactions .** If the Zonda Plan Debtors Prevail in the Zonda Arbitration, the chairman of the board of directors, president, chief executive officer, chief financial officer, manager, or any other

appropriate officer of the Zonda Plan Debtors or, after the Effective Date, the Reorganized Zonda Debtors, shall be authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents, and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan. The secretary of the Zonda Plan Debtors, or, after the Effective Date, of the Reorganized Zonda Debtors, shall be authorized to certify or attest to any of the foregoing actions.

5.6 ***Exemption from Certain Transfer Taxes and Recording Fees*** . If the Zonda Plan Debtors Prevail in the Zonda Arbitration, to the maximum extent provided by section 1146(a) of the Bankruptcy Code, any post-Confirmation sale by any Zonda Plan Debtor or any transfer from any Entity pursuant to, in contemplation of, or in connection with this Plan or pursuant to: (a) the issuance, distribution, transfer, or exchange of any debt, equity security, or other interest in the Zonda Plan Debtors; or (b) the making, delivery, or recording of any deed or other instrument of transfer under, in furtherance of, or in connection with, this Plan, including any deeds, bills of sale, assignments, or other instruments of transfer executed in connection with any transaction arising out of, contemplated by, or in any way related to this Plan, shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, real estate transfer tax, mortgage recording tax, Uniform Commercial Code filing or recording fee, or other similar tax or governmental assessment, in each case to the extent permitted by applicable bankruptcy law, and the appropriate state or local government officials or agents shall forego collection of any such tax or governmental assessment and accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment.

5.7 ***Enforcement of Zonda Arbitration Award Against SHI*** . If the Zonda Plan Debtors Prevail in the Zonda Arbitration, SHI shall have ten (10) days to satisfy the Zonda Arbitration Award during which time the Zonda Plan Debtors or the Reorganized Zonda Debtors, as applicable, shall not take any actions against SHI to enforce such Zonda Arbitration Award.

ARTICLE VI

MEANS FOR IMPLEMENTATION OF THIS PLAN IF THE ZONDA PLAN DEBTORS DO NOT PREVAIL IN THE ZONDA ARBITRATION

6.1 ***Continued Corporate Existence and Vesting of Assets in the Liquidation Trust.*** If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, except as otherwise provided herein, on the Effective Date, the proceeds of the Liquidation Trust Funding Amount Escrow Account shall be transferred to the Liquidation Trust, free and clear as provided in the Plan or the Liquidation Trust Agreement.

If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, except as otherwise provided in this Plan, PDVIII shall be deemed dissolved on the Effective Date and its Chapter 11 Case shall be deemed closed without any further order of the Bankruptcy Court, and PDSI shall continue to exist after the Effective Date as a separate corporate Entity, with all the powers of a corporation, pursuant to the applicable law in Delaware, the jurisdiction in which PDSI is incorporated, and pursuant to the respective certificate of incorporation, and amended and restated bylaws in effect prior to the Effective Date, except to the extent such certificate of incorporation and amended and restated bylaws are amended by this Plan, the Plan Supplement, or otherwise, and to the extent such documents are amended, such documents are deemed to be pursuant to this Plan and require no further action or approval, as permitted by applicable law. On or after the Effective Date, PDSI may, in the Liquidation Trust's sole discretion, take such action as permitted by applicable law, and PDSI's organizational documents, as the Liquidation Trust may determine is reasonable and appropriate, including causing: (a) PDSI to be merged into the Liquidation Trust; (b) PDSI to be dissolved; (c) the legal name of PDSI to be changed; (d) PDSI to reorganize under the laws of another jurisdiction; or (e) the closure of a Zonda Plan Debtor's Chapter 11 Case on the Effective Date or any time thereafter. PDSI should be deemed dissolved upon termination of the Liquidation Trust, or the wind down of the Liquidation Trust, as provided in the Plan or the Liquidation Trust Agreement.

6.2 ***Sources of Cash for Payment of Claims .*** If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, all Cash necessary for the Liquidation Trust to make payments required by this Plan shall be obtained from (a) existing Cash held by the Zonda Plan Debtors, (b) the disposition of the *Pacific Zonda* , (c) the disposition of the Zonda Plan Debtors' equipment on the *Pacific Zonda* , (d) proceeds from any Retained Actions, and (e) the Liquidation Trust Funding Amount.

6.3 ***Creation of the Liquidation Trust and Appointment of the Liquidation Trustee.***

(a) ***Creation of the Liquidation Trust.*** If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, on the Effective Date, the Liquidation Trust shall be formed pursuant to this Plan and the Liquidation Trust shall be established and become effective in accordance with the Liquidation Trust Agreement to liquidate the Liquidation Trust Assets, including, without limitation, the prosecution of the Retained

Actions under the jurisdiction of the Bankruptcy Court and to enable the Liquidation Trustee to distribute the proceeds thereof to Holders of Allowed Zonda Deficiency Claims in accordance with the Plan and the Liquidation Trust Agreement; *provided, however*, that if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Zonda Plan Debtors or the Reorganized Non-Zonda Debtors shall have ten (10) days to satisfy the Zonda Arbitration Award during which time the Liquidation Trustee may not bring any Retained Actions. The Liquidation Trust, when established pursuant to the Plan and the Liquidation Trust Agreement, will be an affiliate of the Zonda Plan Debtors (within the meaning and solely for purposes of Sections 1125(e) and 1145(a) of the Bankruptcy Code). The Liquidation Trust shall be established for the sole purpose of liquidating and distributing the assets of the Zonda Plan Debtors contributed to such Liquidation Trust in accordance with Treasury Regulation section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business. The terms of the Liquidation Trust Agreement shall be satisfactory in form and substance to SHI, and shall be established in consultation with the Zonda Plan Debtors. In the event of any conflict or inconsistency between the Plan and the Liquidation Trust Agreement, as such conflict or inconsistency relates to the establishment of the Liquidation Trust, the terms of the Plan shall govern.

(b) *Liquidation Trust Agreement and Appointment of the Liquidation Trustee.* If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, on the Effective Date, the Liquidation Trust Agreement shall be executed by the Zonda Plan Debtors and the Liquidation Trustee and shall become effective without further action by any party. The Liquidation Trustee shall be selected by SHI, in consultation with the Zonda Plan Debtors, and approved pursuant to the Confirmation Order or the Liquidation Trust Agreement.

(c) *Liquidation Trust Assets.* If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the assets of the Liquidation Trust shall consist of the Liquidation Trust Assets. On the Effective Date, the proceeds of the Liquidation Trust Funding Amount Escrow Account shall be released to the Liquidation Trust. Following the transfer of the Liquidation Trust Assets to the Liquidation Trust, the Liquidation Trust will constitute a successor of the Zonda Plan Debtors under the Plan (within the meaning and solely for purposes of Sections 1125(e) and 1145(a) of the Bankruptcy Code). The Liquidation Trust Assets will be transferred free and clear, as provided in the Plan or the Liquidation Trust Agreement. Such transfer shall be exempt from any stamp, real estate transfer, mortgage reporting, sales, use or other similar tax, pursuant to § 1146(a) of the Bankruptcy Code.

6.4 **General Powers, Rights, and Responsibilities of the Liquidation Trustee**. If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, after the Effective Date, pursuant to the Liquidation Trust Agreement, the Liquidation Trustee shall have the authority and right on behalf of the Zonda Plan Debtors without the need for Bankruptcy Court approval (unless otherwise expressly indicated herein), to carry out and implement all provisions of the Zonda Plan, including, without limitation, to:

- (a) oversee and control the Liquidation Trust;
- (b) collect and liquidate the Liquidation Trust Assets under the jurisdiction of the Bankruptcy Court;
- (c) assert, prosecute, pursue, compromise and settle in accordance with the Liquidation Trustee's reasonable business judgment, all Claims and Causes of Action, and enforce all legal or equitable remedies and defenses belonging to the Zonda Plan Debtors or their Estates, including, without limitation, setoff, recoupment and any rights under section 502(d) of the Bankruptcy Code;
- (d) object to Claims in accordance with the Liquidation Trustee's reasonable business judgment;
- (e) make distributions to Holders of Allowed Zonda Deficiency Claims;
- (f) exercise reasonable business judgment to direct and control the wind down, liquidation, sale, and/or abandoning of the remaining assets of the Zonda Plan Debtors and in accordance with applicable law as necessary to maximize distributions to Holders of Allowed Zonda Deficiency Claims;
- (g) prosecute all Causes of Action (other than those Causes of Action that are released, waived, or transferred pursuant to the Plan) on behalf of the Zonda Plan Debtors for the benefit of Holders of Allowed Zonda Deficiency Claims, elect not to pursue any Causes of Action, and determine whether and when to compromise, settle, abandon, dismiss, or otherwise dispose of any such Causes of Action, as the Liquidation Trustee may determine is in the best interests of the Holders of Allowed Zonda Deficiency Claims;
- (h) retain professionals to assist in performing the Liquidation Trustee's duties under this Plan;

- (i) maintain the books and records and accounts of the Liquidation Trust;
- (j) invest the Cash of the Liquidation Trust (other than the Liquidation Trust Reserve), and any income earned thereon;
- (k) incur and pay reasonable and necessary expenses in connection with the performance of the Liquidation Trustee's duties under this Plan, including the reasonable fees and expenses of professionals retained by the Liquidation Trust;
- (l) administer the Liquidation Trust's tax obligations, including (1) filing tax returns and paying tax obligations, (2) requesting, if necessary, an expedited determination of any unpaid tax liability of the Liquidation Trust under Bankruptcy Code section 505(b) for all taxable periods of such Zonda Plan Debtor ending after the Petition Date through the liquidation of the Liquidation Trust as determined under applicable tax laws, and (3) representing the interest and account of the Liquidation Trust before any taxing authority in all matters including, without limitation, any action, suit, proceeding or audit;
- (m) prepare and file any and all informational returns, reports, statements, returns or disclosures relating to the Liquidation Trust that are required hereunder, by any Governmental Unit or under applicable law;
- (n) arrange for the liquidation and/or dissolution of PDVIII in accordance with the applicable law and to indemnify, out of the assets of the Liquidation Trust, any liquidator appointed under the applicable law, or to seek any appropriate relief in furtherance of this Plan in any appropriate jurisdiction; and
- (o) perform other duties and functions that are consistent with the implementation of this Plan.

6.5 **Indemnification** . If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust shall indemnify and hold harmless the Liquidation Trustee, solely in his or her capacity as the Liquidation Trustee for any losses incurred in such capacity, except to the extent such losses were the result of the Liquidation Trustee's gross negligence, willful misconduct, or criminal conduct .

6.6 **Issuance of Liquidation Trust Interests.**

(a) *Liquidation Trust Interests* . If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, Liquidation Trust Interests shall be distributed to Holders of Allowed Zonda Deficiency Claims on a Pro Rata basis based on the Allowed amount of their Claims and in exchange for such claims. In such event, on or before the Effective Date, the Zonda Plan Debtors shall deliver to the Liquidation Trust a list of each Person to receive Liquidation Trust Interests as of the Effective Date pursuant to the Plan, including the Allowed amounts of the Zonda Deficiency Claims and the address of each such Person.

(b) *Register of Liquidation Trust Interests; Non-Transferability of Liquidation Trust Interests; Reports* . If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust shall maintain a register of the Holders of Liquidation Trust Interests. To the extent permitted in the Plan and the Liquidation Trust Agreement, upon notice to the Liquidation Trust by any Holder or transferee of a Liquidation Trust Interest, the Liquidation Trustee shall amend the register to reflect any transfer of a Liquidation Trust Interest by such Holder to a transferee as set forth in the notice; *provided, however* , that the Liquidation Trust need not reflect any transfer (or make any distribution to any transferee) and will give notice to such Holder that no transfer has been recognized in the event the Liquidation Trust reasonably believes that such transfer (or the distribution to such transferee) may constitute a violation of applicable laws or might cause the Liquidation Trust to be required to register Liquidation Trust Interests, or to become a reporting company under the Exchange Act. The Liquidation Trust Interests may not be transferred or assigned, except by will, intestate succession or operation of law, and will not be represented by certificates. Neither the Liquidation Trust nor other persons affiliated with the Liquidation Trust nor PDSI will take any actions to facilitate or encourage any trading in the Liquidation Trusts Interests or any instrument or interest tied to the value of the Liquidation Trust Interests. The Liquidation Trust shall provide each Holder of Liquidation Trust Interests with periodic reports at least annually containing unaudited financial information prepared in accordance with GAAP.

6.7 **Federal Income Tax Treatment of the Liquidation Trust** . If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust generally is intended to be treated for United States federal income tax

purposes, (i) in part as a grantor trust that is a liquidating trust within the meaning of Treasury Regulations § 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business, and (ii) in part as one or more disputed ownership funds within the meaning of Treasury Regulations § 1.468B-9(b)(1). For United States federal income tax purposes, the transfer of the Liquidation Trust Assets to the Liquidation Trust will be treated as a transfer of the Liquidation Trust Assets from the Zonda Plan Debtors to the Holders of Liquidation Trust Interests, followed by the Holders of Liquidation Trust Interests' transfer of the Liquidation Trust Assets to the Liquidation Trust. The Holders of Liquidation Trust Interests will thereafter be treated for U.S. federal income tax purposes as the grantors and deemed owners of their respective shares of the Liquidation Trust Assets. The Holders of Liquidation Trust Interests shall include in their annual taxable incomes, and pay tax to the extent due on, their allocable shares of each item of income, gain, deduction, loss and credit, and all other such items shall be allocated by the Liquidation Trust to the Holders of Liquidation Trust Interests using any reasonable allocation method.

The Liquidation Trustee will be required by the Liquidation Trust Agreement to file income tax returns for the Liquidation Trust as a grantor trust of the Holders of the Liquidation Trust Interests (and file separate returns for the disputed ownership fund(s) pursuant to Treasury Regulations § 1.468B-9(b)(1) and pay all taxes owed on any net income or gain of the disputed ownership fund(s), on a current basis from Liquidation Trust Assets). In addition, the Liquidation Trust Agreement will require consistent valuation by the Liquidation Trust and the Holders of Liquidation Trust Interests, for all federal income tax and reporting purposes, of any property held by the Liquidation Trust. The Liquidation Trust Agreement also will limit the investment powers of the Liquidation Trust in accordance with IRS Rev. Proc. 94-45 and will require the Liquidation Trust to distribute at least annually to the Holders of Liquidation Trust Interests (as such may have been determined at such time) its net income (net of any payment of or provision for taxes), except for amounts retained as reasonably necessary to maintain the value of the Liquidation Trust Assets.

6.8 **Liquidation Trust Funding.** If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, on or as soon as practicable after the Effective Date, the Liquidation Trust Funding Reserve shall be established from the Liquidation Trust Assets. Subject to the provisions of the Liquidation Trust Agreement, the Liquidation Trust Funding Reserve shall be used to pay the expenses of the Liquidation Trust, including without limitation, costs and expenses of counsel or other advisors and a sum to be provided on account of the fees of a liquidator in the British Virgin Islands which shall not exceed \$35,000 to give effect to the dissolution hereby contemplated and to provide such other indemnities to that liquidation as the Liquidation Trustee shall in its sole discretion consider appropriate. The Liquidation Trust Agreement shall provide for an allocation of the Liquidation Trust Funding Reserve across projected expenditures agreed to by SHI in consultation with the Liquidation Trustee. Such expenses shall be paid as they are incurred without the

need for Bankruptcy Court approval. Additional funding of the Liquidation Trust Funding Reserve may only be authorized in accordance with the terms of the Liquidation Trust Agreement.

6.9 ***Creation of the Liquidation Trust Funding Amount Escrow Account.*** On the Confirmation Date, the Zonda Plan Debtors will fund and create the Liquidation Trust Funding Amount Escrow Account. The Liquidation Trust Funding Amount will stay in the Liquidation Trust Funding Amount Escrow Account until the Zonda Arbitration Award shall have been issued and shall be final and Unappealable. On the Effective Date, proceeds of the Liquidation Trust Funding Amount Escrow Account will be released to the Zonda Plan Debtors if the Zonda Plan Debtors Prevail in the Zonda Arbitration, or to the Liquidation Trust if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration.

6.10 ***Effectuating Documents; Further Transactions .*** If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, subject to the Liquidation Trust Agreement, chairman of the board of directors, president, chief executive officer, chief financial officer, manager, or any other appropriate officer of the Zonda Plan Debtors or, after the Effective Date, PDSI, shall be authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents, and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan. The secretary of the Zonda Plan Debtors, or, after the Effective Date, PDSI, shall be authorized to certify or attest to any of the foregoing actions.

6.11 ***Dissolution .***

(a) The Liquidation Trustee and Liquidation Trust shall be discharged and/or dissolved, as the case may be, at such time as (i) all of the Liquidation Trust Assets have been distributed pursuant to the Plan and the Liquidation Trust Agreement, (ii) the Liquidation Trustee determines, in its sole discretion, that the administration of any remaining Liquidation Trust Assets is not likely to yield sufficient additional Liquidation Trust proceeds to justify further pursuit, or (iii) all distributions required to be made by the Liquidation Trust under the Plan and the Liquidation Trust Agreement have been made; *provided, however* , that in no event shall the Liquidation Trust be dissolved later than five (5) years after the Effective Date of such Liquidation Trust unless the Bankruptcy Court approves an extension based on a finding that such an extension is necessary for the Liquidation Trust to complete its liquidating purpose.

(b) If at any time the Liquidation Trustee determines, in reliance upon such professionals as the Liquidation Trust may retain, that the expense of administering the Liquidation Trust so as to make a final distribution to Holders of Allowed Zonda Deficiency Claims is likely to exceed the value of the assets remaining in the Liquidation Trust, the Liquidation Trust may apply to the Bankruptcy Court for authority to (i) reserve any amount necessary to dissolve the Liquidation Trust, (ii) donate any balance to a charitable organization (A) described in section 501(c)(3) of the IRC, (B) exempt from United States federal income tax under section 501(a) of the IRC, (C) not a “private foundation,” as defined in section 509(a) of the IRC, and (D) that is unrelated to the Zonda Plan Debtors, the Liquidation Trust, and any insider of the Liquidation Trust, and (iii) dissolve such Liquidation Trust.

6.12 **Certain Securities Laws Matters.** The Liquidation Trust Interests shall not be “securities” under federal and state securities laws or, to the extent they are “securities,” their issuance shall be exempt from the registration requirements of Section 5 of the Securities Act and any other applicable U.S. state or other law requiring registration prior to the offering, issuance, distribution or sale of securities, in accordance with and pursuant to Section 1145 of the Bankruptcy Code. The Plan prohibits, and the Liquidation Trust Agreement will prohibit, the transfer or assignment of the Liquidation Trust Interests except by will, intestate succession or by operation of law. In addition, to the extent the Liquidation Trust Interests are “securities,” the Liquidation Trust Interests will not be required to be registered under Section 12(g) of the Exchange Act.

ARTICLE VII

CORPORATE GOVERNANCE

7.1 **Cancellation of Existing Securities and Agreements.** Except as provided in this Plan or in the Confirmation Order, on the Effective Date, all notes, stock (where permitted by applicable law), instruments, certificates, agreements, side letters, fee letters, and other documents evidencing or giving rise to Claims against and Interests in the Zonda Plan Debtors shall be cancelled, and the obligations of the Zonda Plan Debtors thereunder or in any way related thereto shall be fully released, terminated, extinguished, and discharged, in each case without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order, or rule, or any requirement of further action, vote, or other approval or authorization by any Person. The Holders of or parties to such notes, stock, instruments, certificates, agreements, side letters, fee letters, and other documents shall retain their rights vis-à-

vis each other but shall have no rights against any Zonda Plan Debtor arising from or relating to such notes, stock, instruments, certificates, agreements, side letters, fee letters, and other documents or the cancellation thereof, except the rights provided pursuant to this Plan and the Confirmation Order.

7.2 ***Cancellation of Certain Existing Security Interests*** . Upon the full payment or other satisfaction of an Allowed Secured Claim, or reasonably promptly thereafter, the Holder of such Allowed Secured Claim shall deliver to the Zonda Plan Debtors or Reorganized Zonda Debtors, as applicable, and at their sole cost and expense, any collateral or other property of a Zonda Plan Debtor held by such Holder, together with any termination statements, instruments of satisfaction, or releases of all security interests with respect to its Allowed Secured Claim that may be reasonably required to terminate any related financing statements, mortgages, mechanics' or other statutory liens, or lis pendens, or similar interests or documents.

7.3 ***Preservation of Retained Actions*** . In accordance with section 1123(b)(3) of the Bankruptcy Code, the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, will retain and may (but are not required to) enforce all Retained Actions as follows: after the Effective Date, if the Zonda Plan Debtors Prevail in the Zonda Arbitration, the Reorganized Zonda Debtors, and if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust, in their respective sole and absolute discretion, shall have the right to bring, settle, release, compromise, or enforce such Retained Actions (or decline to do any of the foregoing), without further approval of the Bankruptcy Court. The Reorganized Zonda Debtors or the Liquidation Trust, as applicable, or any successors, in the exercise of their sole discretion, may pursue such Retained Actions so long as it is in the best interests of the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, or any of their respective successors holding such rights of action. The failure of the Zonda Plan Debtors to specifically list any claim, right of action, suit, proceeding, or other Retained Action in this Plan, the Disclosure Statement, the Plan Supplement, or otherwise does not, and will not be deemed to, constitute a waiver or release by the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, of such claim, right of action, suit, proceeding, or other Retained Action, and the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, will retain the right to pursue such claims, rights of action, suits, proceedings, and other Retained Actions in their sole discretion and, therefore, no preclusion doctrine, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches will apply to such claim, right of action, suit, proceeding, or other Retained Action upon or after the Confirmation or consummation of this Plan.

7.4 **Corporate Action.** Each of the matters provided for under this Plan involving the corporate structure of any Zonda Plan Debtor or any corporate action to be taken by or required of any Zonda Plan Debtor or Reorganized Zonda Debtor shall be deemed to have occurred and be effective as provided herein, and shall be authorized, approved, and, to the extent taken prior to the Effective Date, ratified in all respects without any requirement of further action by shareholders, members, creditors, directors, or managers of the Zonda Plan Debtors or Reorganized Zonda Debtors, as applicable. To the extent permitted by applicable law the authorizations and approvals contemplated by this Section 7.4 shall be effective notwithstanding any requirements under nonbankruptcy law.

7.5 **Board of Directors and Officers.** The composition of each board of directors or similar governing body, as applicable, of the Reorganized Zonda Debtors, shall be disclosed prior to the entry of the Confirmation Order to the extent required by section 1129(a)(5) of the Bankruptcy Code.

7.6 **Further Authorization.** The Zonda Plan Debtors and the Reorganized Zonda Debtors and the Liquidation Trust, as applicable, shall be entitled to seek such orders, judgments, injunctions, and rulings as they deem necessary to carry out the intentions and purposes, and to give full effect to the provisions, of this Plan.

ARTICLE VIII

DISTRIBUTIONS

8.1 **Distributions from Liquidation Trust to Holders of Allowed Zonda Deficiency Claims.** The provisions of this Article VIII shall not apply to distributions from the Liquidation Trust to Holders of Allowed Zonda Deficiency Claims. Distributions from the Liquidation Trust to Holders of such Allowed Zonda Deficiency Claims shall be administered in accordance with, and subject to, as applicable, the terms of the Liquidation Trust Agreement and Article VI of this Plan.

8.2 **Distributions Generally.** Subject to Section 8.1 hereof, the Disbursing Agent shall make Plan distributions on behalf of the Zonda Plan Debtors in accordance with this Article VIII and other governing terms of this Plan.

8.3 **No Postpetition Interest on Claims** . Postpetition interest shall not accrue or be paid on any General Unsecured Claims and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date, except to the extent permitted under this Plan or the Bankruptcy Code.

8.4 **Date of Distributions** . Unless otherwise provided in this Plan, any distributions and deliveries to be made under this Plan shall be made on the Effective Date or as soon thereafter as is practicable.

8.5 **Distribution Record Date** . As of the close of business on the Distribution Record Date, the various lists of Holders of Claims in each Class, as maintained by the Zonda Plan Debtors or their agents, shall be deemed closed, and there shall be no further changes in the record Holders of any Claims after the Distribution Record Date. Neither the Zonda Plan Debtors nor the Disbursing Agent shall have any obligation to recognize any transfer of a Claim occurring after the close of business on the Distribution Record Date. In addition, with respect to payment of any Cure Amounts or disputes over any Cure Amounts, neither the Zonda Plan Debtors nor the Disbursing Agent shall have any obligation to recognize or deal with any party other than the non-Debtor party to the applicable Executory Contract or Unexpired Lease, even if such non-Debtor party has sold, assigned, or otherwise transferred its Claim for a Cure Amount.

8.6 **Disbursing Agent** . Subject to Section 8.1 hereof, all distributions under this Plan shall be made by the Disbursing Agent or, if applicable, its agent on and after the Effective Date as provided herein. The Disbursing Agent shall not be required to give any bond or surety or other security for the performance of its duties. The Reorganized Zonda Debtors or the Liquidation Trustee, as applicable, shall use all commercially reasonable efforts to provide the Disbursing Agent (if other than the Reorganized Zonda Debtors or the Liquidation Trustee, as applicable) with the amounts of Claims and the identities and addresses of Holders of Claims, in each case, as set forth in the Zonda Plan Debtors' or Reorganized Zonda Debtors' books and records. The Reorganized Zonda Debtors or the Liquidation Trustee, as applicable, shall cooperate in good faith with the applicable Disbursing Agent (if other than the Reorganized Zonda Debtors or the Liquidation Trustee, as applicable) to comply with the reporting and withholding requirements outlined in Section 8.16 hereof.

8.7 **Delivery of Distributions** . Subject to Sections 8.8, 8.11, 8.12, 8.14, and 8.16 of this Plan, the Disbursing Agent will issue or cause to be issued the applicable consideration under this Plan and, subject to Bankruptcy Rule 9010, will make all distributions as and when required by this Plan to Holders of Allowed Claims to the address of the Holder of such claim on the books and records of the Zonda Plan

Debtors or their agents or the address in any written notice of address change delivered to the Zonda Plan Debtors or the Disbursing Agent, including any addresses included on any transfers of Claim filed pursuant to Bankruptcy Rule 3001. In the event that any distribution is returned as undeliverable, no distribution or payment shall be made to such recipient unless and until the Disbursing Agent has been notified of the then-current address of recipient, at which time or as soon thereafter as reasonably practicable such distribution shall be made without interest.

8. 8 **Unclaimed Property** . One year from the later of: (a) the Effective Date and (ii) the date that is ten (10) Business Days after the date a Claim is first Allowed, all distributions payable on account of such Claim shall be deemed unclaimed property under section 374(b) of the Bankruptcy Code and shall revert to the Reorganized Zonda Debtors or their successors or assigns, and all claims of any other Person (including the Holder of a Claim in the same Class) to such distribution shall be discharged and forever barred. The Reorganized Zonda Debtors, the Liquidation Trust, as applicable, and the Disbursing Agent shall have no obligation to attempt to locate any Holder of an Allowed Claim other than by reviewing the Zonda Plan Debtors' books and records and the Bankruptcy Court's filings.

8. 9 **Satisfaction of Claims** . Unless otherwise provided herein, any distributions and deliveries to be made on account of Allowed Claims under this Plan shall be in complete and final satisfaction, settlement, and discharge of and exchange for such Allowed Claims.

8. 10 **Manner of Payment Under Plan** . Except as specifically provided herein, at the option of the Zonda Plan Debtors, the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, any Cash payment to be made under this Plan may be made by a check or wire transfer or as otherwise required or provided in applicable agreements or customary practices of the Zonda Plan Debtors or the Liquidation Trust, as applicable.

8. 11 **De Minimis Cash Distributions** . The Disbursing Agent shall not have any obligation to make a distribution that is less than \$50.00 in Cash.

8. 12 **No Distribution in Excess of Amount of Allowed Claim** . Notwithstanding anything to the contrary in this Plan, no Holder of an Allowed Claim shall receive, on account of such Allowed Claim, Plan distributions in excess of the Allowed amount of such Claim.

8. 13 **Allocation of Distributions Between Principal and Interest** . Except as otherwise provided in this Plan and subject to Section 3.3 of this Plan, to the extent that any Allowed Claim entitled to a distribution under this Plan is comprised of

indebtedness and accrued but unpaid interest thereon, such distribution shall be allocated first to the principal amount (as determined for federal income tax purposes) of the Claim and then to accrued but unpaid interest.

8. 14 ***Setoffs and Recoupments*** . The Liquidation Trust or each Reorganized Zonda Debtor or its designee as instructed by such Reorganized Zonda Debtor, as applicable, may, pursuant to section 553 of the Bankruptcy Code or applicable nonbankruptcy law, offset or recoup against any Allowed Claim and the distributions to be made pursuant to this Plan on account of such Allowed Claim any and all claims, rights, and Causes of Action that the Liquidation Trust or a Reorganized Zonda Debtor or its successors, as applicable, may hold against the Holder of such Allowed Claim after the Effective Date to the extent that such setoff or recoupment is either (a) agreed in amount among the Liquidation Trust or relevant Reorganized Zonda Debtor(s), as applicable, and Holder of the Allowed Claim or (b) otherwise adjudicated by the Bankruptcy Court or another court of competent jurisdiction; *provided* , that neither the failure to effect a setoff or recoupment nor the allowance of any Claim hereunder will constitute a waiver or release by the Liquidation Trust or a Reorganized Zonda Debtor or its successor, as applicable, of any claims, rights, or Causes of Action that the Liquidation Trust or a Reorganized Zonda Debtor or its successor or assign, as applicable, may possess against such Holder.

8. 15 ***Rights and Powers of Disbursing Agent*** .

(a) ***Powers of the Disbursing Agent*** . The Disbursing Agent shall be empowered to: (i) effect all actions and execute all agreements, instruments, and other documents necessary to perform its duties under this Plan; (ii) make all applicable distributions or payments provided for under this Plan; (iii) employ professionals to represent it with respect to its responsibilities; and (iv) exercise such other powers (a) as may be vested in the Disbursing Agent by order of the Bankruptcy Court (including any order issued after the Effective Date) or pursuant to this Plan or (2) as deemed by the Disbursing Agent to be necessary and proper to implement the provisions of this Plan.

(b) ***Expenses Incurred on or After the Effective Date*** . Except as otherwise ordered by the Bankruptcy Court and subject to the written agreement of the Reorganized Zonda Debtors, the amount of any reasonable fees and expenses incurred by the Disbursing Agent on or after the Effective Date (including, without limitation, taxes) and any reasonable compensation and expense reimbursement Claims (including, without limitation, for reasonable attorneys' and other professional fees and expenses) made by the Disbursing Agent shall be paid in Cash by the Reorganized Zonda Debtors or the Liquidation Trust, as applicable.

8.16 ***Withholding and Reporting Requirements*** . In connection with this Plan and all instruments issued in connection therewith and distributed thereon, the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, shall comply with all withholding and reporting requirements imposed by any federal, state, or local taxing authority, and all distributions under this Plan shall be subject to any such withholding and reporting requirements. In the case of a non-Cash distribution that is subject to withholding, the distributing party may withhold an appropriate portion of such distributed property and sell such withheld property to generate the Cash necessary to pay over the withholding tax. Any amounts withheld pursuant to the preceding sentence shall be deemed to have been distributed to and received by the applicable recipient for all purposes of this Plan.

Notwithstanding the above, each Holder of an Allowed Claim or Interest that is to receive a distribution under this Plan shall have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed on such Holder by any governmental unit, including income, withholding, and other tax obligations, on account of such distribution. The Reorganized Zonda Debtors or the Liquidation Trust, as applicable, have the right, but not the obligation, to not make a distribution until such Holder has made arrangements satisfactory to any issuing or disbursing party for payment of any such tax obligations.

The Reorganized Zonda Debtors or the Liquidation Trust, as applicable, may require, as a condition to receipt of a distribution, that the Holder of an Allowed Claim complete and return a Form W-8 or W-9, as applicable to each such Holder. If the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, make such a request and the Holder fails to comply before the date that is 180 days after the request is made, the amount of such distribution shall irrevocably revert to the applicable Reorganized Zonda Debtor or the Liquidation Trust, as applicable, and any Claim in respect of such distribution shall be discharged and forever barred from assertion against such Reorganized Zonda Debtor or the Liquidation Trust, as applicable, or its respective property.

8.17 ***Claims Paid or Payable by Third Parties*** .

(a) ***Claims Paid by Third Parties***. The Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, shall reduce a Claim, and such Claim shall be Disallowed without a Claims objection having to be filed and without any further notice to or action, order, or approval of the Bankruptcy Court, to the extent that the Holder of such Claim receives payment on account of such Claim from a party that is not a Zonda Plan Debtor, a Reorganized Zonda Debtor, or the Liquidation Trust. Subject to the last sentence of this paragraph, to the extent a Holder

of a Claim receives a distribution on account of such Claim and receives payment from a party that is not a Zonda Plan Debtor, a Reorganized Zonda Debtor, or the Liquidation Trust on account of such Claim, such Holder shall, within fourteen (14) days of receipt thereof, repay or return the distribution to the applicable Reorganized Zonda Debtor, or the Liquidation Trust, as applicable, to the extent the Holder's total recovery on account of such Claim from the third party and under this Plan exceeds the amount of such Claim as of the date of any such distribution under this Plan. The failure of such Holder to timely repay or return such distribution shall result in the Holder owing the applicable Reorganized Zonda Debtor, or the Liquidation Trust, as applicable, annualized interest at the Federal Judgment Rate on such amount owed for each Business Day after the 14-day period specified above until the amount is repaid.

(b) *Claims Payable by Third Parties* . Except as otherwise provided in this Plan, (i) no distributions under this Plan shall be made on account of an Allowed Claim that is payable pursuant to one of the Zonda Plan Debtors' insurance policies until the Holder of such Allowed Claim has exhausted all remedies with respect to such insurance policy, and (ii) to the extent that one or more of the Zonda Plan Debtors' insurers agrees to satisfy in full or in part a Claim (if and to the extent adjudicated by a court of competent jurisdiction), then immediately upon such insurers' agreement, the applicable portion of such Claim may be expunged without a Claims objection having to be filed and without any further notice to or action, order, or approval of the Bankruptcy Court.

(c) *Applicability of Insurance Proceeds* . Except as otherwise provided in this Plan, distributions to Holders of Allowed Claims shall be in accordance with the provisions of any applicable insurance policy. Nothing contained in this Plan shall constitute or be deemed a waiver of any Cause of Action that the Zonda Plan Debtors or any Entity may hold against any other Entity, including insurers under any policies of insurance, nor shall anything contained herein (i) constitute or be deemed a waiver by such insurers of any rights or defenses, including coverage defenses, held by such insurers, or (ii) establish, determine, or otherwise imply any liability or obligation, including any coverage obligation, of any insurer.

ARTICLE IX

PROCEDURES FOR DISPUTED CLAIMS

9.1 *Allowance of Claims* . After the Effective Date, if the Zonda Plan Debtors Prevail in the Zonda Arbitration, each of the Zonda Plan Debtors or the Reorganized Zonda Debtors, or if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust, shall have and retain any and all rights and defenses

such Zonda Plan Debtor had with respect to any Claim immediately before the Effective Date. Except as expressly provided in this Plan or in any order entered in these Chapter 11 Cases prior to the Effective Date (including the Confirmation Order), no Claim shall become an Allowed Claim unless and until such Claim is deemed Allowed under this Plan or the Bankruptcy Court has entered a Final Order, including the Confirmation Order (when it becomes a Final Order), in these Chapter 11 Cases allowing such Claim.

9.2 ***Objections to Claims*** .

(a) ***Authority*** . If the Zonda Plan Debtors Prevail in the Zonda Arbitration, the Zonda Plan Debtors, and after the Effective Date, the Reorganized Zonda Debtors, shall have authority to (i) file objections to any Claim, and to withdraw any objections to any Claim that they may file, (ii) settle, compromise, or litigate to judgment any objections to any Claim, and (iii) except as set forth above, resolve any Disputed Claim outside the Bankruptcy Court under applicable governing law. Alternatively, if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Zonda Plan Debtors and after the Effective Date, the Liquidation Trust shall have authority to (i) file objections to any Claim, and to withdraw any objections to any Claim that he or she may file, (ii) settle, compromise, or litigate to judgment any objections to any Claim, and (iii) except as set forth above, resolve any Disputed Claim after the Effective Date outside the Bankruptcy Court under applicable governing law.

(b) ***Objection Deadline*** . As soon as practicable, but no later than the Claims Objection Deadline, the Zonda Plan Debtors, and after the Effective Date, if the Zonda Plan Debtors Prevail in the Zonda Arbitration, the Reorganized Zonda Debtors, or if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust, may file objections with the Bankruptcy Court and serve such objections on the Holders of the Claims to which such objections are made. Nothing contained herein, however, shall limit the right of the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, to object to Claims, if any, filed or amended after the Claims Objection Deadline. The Claims Objection Deadline may be extended by the Bankruptcy Court upon motion by the Reorganized Zonda Debtors or the Liquidation Trust, as applicable.

9.3 ***Estimation of Claims*** . If the Zonda Plan Debtors Prevail in the Zonda Arbitration, the Reorganized Zonda Debtors, and if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust, may at any time after the Effective Date request that the Bankruptcy Court estimate any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code, regardless of whether the Zonda Plan Debtors, the Reorganized Zonda Debtors, or Liquidation Trust previously objected to such Claim or whether the Bankruptcy Court has ruled on any

such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim, the amount so estimated shall constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust as applicable, may pursue supplementary proceedings to object to the allowance of such Claim. All of the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn, or resolved by any mechanism approved by the Bankruptcy Court.

9.4 ***No Distributions Pending Allowance*** . If an objection to a Claim is filed as set forth in Section 9.2 hereof, no payment or distribution provided under this Plan shall be made on account of such Claim unless and until such Disputed Claim becomes an Allowed Claim.

9.5 ***Resolution of Claims*** . Except as otherwise provided herein, or in any contract, instrument, release, indenture, or other agreement or document entered into in connection with this Plan, in accordance with section 1123(b) of the Bankruptcy Code, if the Zonda Plan Debtors Prevail in the Zonda Arbitration, the Reorganized Zonda Debtors, and if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust, shall retain and may enforce, sue on, settle, or compromise (or decline to do any of the foregoing) all Claims, Disputed Claims, rights, Causes of Action, suits, and proceedings, whether in law or in equity, whether known or unknown, that the Zonda Plan Debtors or their Estates may hold against any Person, without the approval of the Bankruptcy Court, the Confirmation Order, and any contract, instrument, release, indenture, or other agreement entered into in connection herewith. The Reorganized Zonda Debtors or the Liquidation Trust or their respective successors may pursue such retained Claims, rights, Causes of Action, suits, or proceedings, as appropriate, in accordance with the best interests of the Zonda Plan Debtors and the Liquidation Trust, as applicable.

9.6 ***Disallowed Claims*** . All Claims held by persons or entities against whom or which any of the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust have commenced a proceeding asserting a Cause of Action under sections 542, 543, 544, 545, 547, 548, 549, and/or 550 of the Bankruptcy Code shall be deemed Disallowed Claims pursuant to section 502(d) of the Bankruptcy Code and Holders of such Claims shall not be entitled to vote to accept or reject this Plan. Claims

that are deemed disallowed pursuant to this Section 9.6 shall continue to be Disallowed for all purposes until such Claim has been settled or resolved by Final Order and any sums due to the Zonda Plan Debtor, the Reorganized Zonda Debtors, or the Liquidation Trust from such party have been paid.

ARTICLE X

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

10.1 ***Rejection of Executory Contracts and Unexpired Leases*** . Except as otherwise provided in this Plan, on the Effective Date, all Executory Contracts and Unexpired Leases of the Zonda Plan Debtors shall be deemed rejected in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code, unless such Executory Contract or Unexpired Lease (a) has previously been assumed by order of the Bankruptcy Court in effect as of the Effective Date (which order may be the Confirmation Order); (b) is the subject of a motion to assume filed on or before the Effective Date; or (c) is identified as an Executory Contract or Unexpired Lease to be assumed pursuant to the Plan Supplement before the Effective Date; or (d) has expired or terminated pursuant to its own terms. The Confirmation Order will constitute an order of the Bankruptcy Court under sections 365 and 1123(b) of the Bankruptcy Code approving the assumptions or assumption and assignments or rejections described herein as of the Effective Date. Unless otherwise indicated, all assumptions, assumptions and assignments, and rejections of Executory Contracts and Unexpired Leases in this Plan will be effective as of the Effective Date. Each Executory Contract and Unexpired Lease assumed or assumed and assigned pursuant to this Plan, or by Bankruptcy Court order, will vest in and be fully enforceable by the applicable Reorganized Zonda Debtor or assignee in accordance with its terms, except as such terms may have been modified by order of the Bankruptcy Court.

10.2 ***Indemnification*** . Except as otherwise specifically limited in this Plan, any obligations or rights of the Zonda Plan Debtors to defend, indemnify, reimburse, or limit the liability of the Zonda Plan Debtors' present and former directors, officers, employees, agents, representatives, attorneys, accountants, financial advisors, restructuring advisors, investment bankers, and consultants (the "***Covered Persons***") pursuant to the Zonda Plan Debtors' certificates of incorporation, by-laws, indemnification agreements, policy of providing employee indemnification, applicable law, or specific agreement in respect of any claims, demands, suits, Causes of Action, or proceedings against such Covered Persons based upon any act or omission related to such Covered Persons' service with, for, or on behalf of the Zonda Plan Debtors prior to the Effective Date, shall be treated as if they were Executory Contracts that are assumed

under this Plan and shall survive the Effective Date and remain unaffected thereby, and shall not be discharged, irrespective of whether such defense, indemnification, reimbursement, or limitation of liability is owed in connection with an occurrence before or after the Petition Date.

10.3 **Claims Based on Rejection of Executory Contracts and Unexpired Leases.** Unless otherwise provided by a Bankruptcy Court order, any Proofs of Claim asserting Claims arising from the rejection of the Zonda Plan Debtors' Executory Contracts and Unexpired Leases pursuant to this Plan or otherwise must be filed no later than thirty (30) days after the Effective Date. Any Proofs of Claim arising from the rejection of the Zonda Plan Debtors' Executory Contracts or Unexpired Leases that are not timely filed shall be Disallowed automatically, forever barred from assertion, and shall not be enforceable against the Zonda Plan Debtors or the Reorganized Zonda Debtors without the need for any objection by any Person or further notice to or action, order, or approval of the Bankruptcy Court, and any Claim arising out of the rejection of such Executory Contract or Unexpired Lease shall be deemed fully satisfied, released, and discharged, notwithstanding anything in the Schedules or a Proof of Claim to the contrary. All Allowed Claims arising from the rejection of the Zonda Plan Debtors' Executory Contracts and Unexpired Leases shall be classified as General Unsecured Claims and shall be treated in accordance with the particular provisions of this Plan for such Claims; *provided, however*, that if the Holder of an Allowed Claim for rejection damages has an unavoidable security interest in any collateral to secure obligations under such rejected Executory Contract or Unexpired Lease, the Allowed Claim for rejection damages shall be treated as an Other Secured Claim to the extent of the value of such Holder's interest in such collateral, with the deficiency, if any, treated as a General Unsecured Claim.

10.4 **Reservation of Rights.** Nothing contained in this Plan shall constitute an admission by the Zonda Plan Debtors that any particular contract is in fact an Executory Contract or Unexpired Lease or that the Zonda Plan Debtors have any liability thereunder. If there is a dispute regarding whether a contract or lease is or was executory or unexpired at the time of assumption or rejection, the Zonda Plan Debtors or the Reorganized Zonda Debtors, as applicable, shall have forty-five (45) days following entry of a Final Order resolving such dispute to alter and to provide appropriate treatment of such contract or lease.

ARTICLE XI

CONDITIONS PRECEDENT TO CONFIRMATION AND CONSUMMATION OF THIS PLAN

11.1 ***Conditions Precedent to Confirmation of the Plan*** . The following are conditions precedent to the confirmation of the Plan:

(a) an order, in form and substance acceptable to the Zonda Plan Debtors and SHI finding that the Disclosure Statement contains adequate information pursuant to section 1125 of the Bankruptcy Code shall have been entered by the Bankruptcy Court; and

(b) the Plan and the Plan Supplement and all of the schedules, documents, and exhibits contained therein including, but not limited to the Liquidation Trust Agreement, shall be acceptable to the Zonda Plan Debtors and SHI shall have been filed.

11.2 ***Conditions Precedent to the Effective Date*** . The Zonda Plan Debtors shall request that the Confirmation Order include a finding by the Bankruptcy Court that, notwithstanding Bankruptcy Rule 3020(e), the Confirmation Order shall take effect immediately upon its entry. The following are conditions precedent to the occurrence of the Effective Date, each of which must be satisfied or waived in accordance with the terms hereof:

(a) the Bankruptcy Court shall have entered the Confirmation Order, which shall be in form and substance acceptable to the Zonda Plan Debtors and SHI, and the Confirmation Order shall have become a Final Order and shall, among other things, provide that the Zonda Plan Debtors, the Reorganized Zonda Debtors, and/or the Liquidation Trust, as applicable, are authorized to take all actions necessary or appropriate to enter into, implement, and consummate the agreements and documents created in connection with this Plan;

(b) the final version of the Plan Supplement and all of the schedules, documents, and exhibits contained therein (and any amendment thereto) shall have been filed with the Bankruptcy Court;

(c) the Professional Fee Escrow shall have been funded;

(d) all governmental and third-party approvals and consents, including Bankruptcy Court approval, necessary in connection with the transactions contemplated by this Plan, if any, shall have been obtained, if any, not be subject to

unfulfilled conditions, and be in full force and effect, and all applicable waiting periods shall have expired without any action being taken or threatened by any competent authority that would restrain, prevent, or otherwise impose materially adverse conditions on such transactions;

(e) all documents and agreements necessary to implement this Plan shall have (i) been tendered for delivery and (ii) been effected or executed by all Entities party thereto, and all conditions precedent to the effectiveness of such documents and agreements shall have been satisfied or waived pursuant to the terms of such documents or agreements;

(f) if the Zonda Plan Debtors Prevail in the Zonda Arbitration, all documents and agreements necessary for the Zonda Plan Debtors to comply with the terms of the New First Lien Notes Indenture and the New Second Lien PIK Toggle Notes Indenture;

(g) both (i) the Zonda Arbitration Award shall have been issued and shall be final and Unappealable, and (ii) if the Zonda Plan Debtors Do Not Prevail, the Zonda Plan Debtors or the Reorganized Non-Zonda Debtors shall have, within ten (10) days of the Zonda Arbitration Award becoming final and Unappealable, either (1) not satisfied the Zonda Arbitration Award, or (2) informed SHI in writing that they will not satisfy the Zonda Arbitration Award; and

(h) the Zonda Plan Debtors shall have created and funded the Liquidation Trust Funding Amount Escrow Account.

11.3 ***Waiver of Conditions Precedent*** . Each of the conditions precedent in Sections 11.1 and 11.2 hereof may be waived only if waived in writing by the Zonda Plan Debtors if the Zonda Plan Debtors Prevail in the Zonda Arbitration, or by SHI if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, without notice, leave or order of the Bankruptcy Court or any formal action other than proceedings to confirm or consummate this Plan.

ARTICLE XII

EFFECT OF PLAN CONFIRMATION

12.1 ***Binding Effect*** . Following the Effective Date, this Plan shall be binding upon and inure to the benefit of the Zonda Plan Debtors, their Estates, the Liquidation Trust, all present and former Holders of Claims and Interests, whether or not such Holders voted in favor of this Plan, and their respective successors and assigns.

12.2 **Releases and Related Matters** .

(a) *Releases by the Zonda Plan Debtors* . Pursuant to section 1123(b) of the Bankruptcy Code, and without limiting any other applicable provisions of, or releases contained in, this Plan, as of the Effective Date, the Zonda Plan Debtors and their Estates, the Reorganized Zonda Debtors, as applicable, and any other person seeking to exercise the rights of the Estates, to the extent permitted by applicable law, shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever released, waived, and discharged any and all liabilities, whether known or unknown, foreseen or unforeseen, existing or hereinafter arising, in law, equity, or otherwise that such Person or Entity has, had, or may have against any Released Party (which release shall be in addition to the discharge of Claims and termination of Interests provided herein and under the Confirmation Order and the Bankruptcy Code), in each case, relating to a Zonda Plan Debtor, the Estates, the Chapter 11 Cases, the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation, or consummation of this Plan, the Non-Zonda Debtors Plan, the Exhibits, the Disclosure Statement, the Non-Zonda Debtors Disclosure Statement, any amendments thereof or supplements thereto, the Plan Supplement, the Non-Zonda Debtors Plan Supplement, the New Secured Debt Documents, the New Intercreditor Agreement, or the Restructuring Transactions, or any other transactions in connection with the Chapter 11 Cases or any contract, instrument, release, or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any other obligations arising under this Plan or the obligations assumed hereunder; *provided, however*, that nothing in this Section 12.2(a) shall be deemed to release any potential litigation claims, including, but not limited to, any Retained Actions, to be prosecuted by the Liquidation Trust, and any SHI Retained Actions, to be prosecuted by SHI, subject to the Bar Date Order and any argument regarding the applicability thereof, if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration or any defenses the Reorganized Non-Zonda Debtors may have to such claims; *provided, further, however*, that the foregoing provisions shall have no effect on: (i) the liability of any Person or Entity that would otherwise result from the failure to perform or pay any obligation or liability under this Plan or any contract, instrument, release, or other agreement or document (A) previously assumed, (B) entered into during the Chapter 11 Cases, or (C) to be entered into, assumed, or delivered in connection with this Plan; or (ii) the liability of any Released Party that would otherwise result from any act or omission of such Released Party to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud). For the avoidance of doubt, nothing in this Section 12.2(a) shall relieve any Released Party from any obligation or liability under this Plan nor have any impact whatsoever with respect to any SHI Retained

Actions, subject to the Bar Date Order and any argument regarding the applicability thereof.

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, of the Zonda Plan Debtor Release, which includes by reference each of the related provisions and definitions contained in this Plan, and further, shall constitute the Bankruptcy Court's finding that the Zonda Plan Debtor Release is: (1) essential to the Confirmation of this Plan; (2) an exercise of the Zonda Plan Debtors' business judgment; (3) in exchange for the good and valuable consideration and substantial contributions provided by the Released Parties; (4) a good faith settlement and compromise of the Claims released by the Zonda Plan Debtor Release; (5) in the best interests of the Zonda Plan Debtors and all Holders of Claims and Interests; (6) fair, equitable, and reasonable; (7) given and made after due notice and opportunity for hearing; and (8) a bar to any of the Zonda Plan Debtors, the Reorganized Zonda Debtors, and the Estates and each of their current and former Affiliates, and such Entities' and their current and former Affiliates' current and former officers, managers, directors, equity holders (regardless of whether such interests are held directly or indirectly), predecessors, successors, assigns, subsidiaries, principals, members, employees, agents, managed accounts or funds, management companies, fund advisors, advisory board members, financial advisors, partners, attorneys, accountants, investment bankers, consultants, representatives, and other professionals, each in their capacity as such asserting any Claim or Cause of Action released pursuant to the Zonda Plan Debtor Release.

(b) *Releases by the Releasing Parties* . Without limiting any other applicable provisions of, or releases contained in, this Plan, as of the Effective Date, in consideration for the obligations of the Zonda Plan Debtors under this Plan, and the consideration and other contracts, instruments, releases, agreements, or documents to be entered into or delivered in connection with this Plan, each Releasing Party shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever released, waived, and discharged any and all liabilities whether known or unknown, foreseen or unforeseen, existing or hereinafter arising, in law, equity, or otherwise, that such Releasing Party has, had, or may have against any Released Party (which release shall be in addition to the discharge of Claims and termination of Interests provided herein and under the Confirmation Order and the Bankruptcy Code), in each case, relating to a Zonda Plan Debtor, the Estates, the Chapter 11 Cases, the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation, or consummation of this Plan, the Exhibits, the Disclosure Statement, any amendments thereof or supplements thereto, the Plan Supplement, the New Secured Debt Documents, the New Intercreditor Agreement, or the Restructuring Transactions or any other transactions in connection with the Chapter 11 Cases or any contract, instrument, release, or other agreement or document created or entered into or any other act taken

or omitted to be taken in connection therewith or in connection with any other obligations arising under this Plan or the obligations assumed hereunder; *provided, however*, that nothing in this Section 12.2(b) shall be deemed to release any potential litigation claims, including, but not limited to, any Retained Actions, to be prosecuted by the Liquidation Trust, and any SHI Retained Actions, to be prosecuted by SHI subject to the Bar Date Order and any argument regarding the applicability thereof, if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration or any defenses the Reorganized Non-Zonda Debtors may have to such claims; *provided, further, however*, that the foregoing provisions of this Section 12.2(b) shall have no effect on: (i) the liability of any Person or Entity that would otherwise result from the failure to perform or pay any obligation or liability under this Plan or any contract, instrument, release, or other agreement or document (A) previously assumed, (B) entered into during the Chapter 11 Cases, or (C) to be entered into, assumed, or delivered in connection with this Plan; (ii) the liability of any Released Party that would otherwise result from any act or omission of such Released Party to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud); or (iii) any non-Released Party. For the avoidance of doubt, nothing in this provision shall relieve any Released Party from any obligation or liability under this Plan nor have any impact whatsoever with respect to any SHI Retained Actions, subject to the Bar Date Order and any argument regarding the applicability thereof.

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, of the Third-Party Release, which includes by reference each of the related provisions and definitions contained herein, and, further, shall constitute the Bankruptcy Court's finding that the Third-Party Release is: (1) essential to the Confirmation of this Plan; (2) given in exchange for the good and valuable consideration and substantial contributions provided by the Released Parties; (3) a good faith settlement and compromise of the Claims released by the Third-Party Release; (4) in the best interests of the Zonda Plan Debtors and their Estates; (5) fair, equitable, and reasonable; (6) given and made after due notice and opportunity for hearing; and (7) a bar to any of the Releasing Parties asserting any Claim or Cause of Action released pursuant to the Third-Party Release.

(c) *Waiver of Statutory Limitation on Releases* . Without limiting any other applicable provisions of, or releases contained in, this Plan, each Releasing Party in each of the releases contained in this Plan (including under this Section 12.2) expressly acknowledges that although ordinarily a general release may not extend to claims which the releasing party does not know or suspect to exist in his favor, which if known by it may have materially affected its settlement with the party released, it has carefully considered and taken into account in determining to enter into the above releases the possible existence of such unknown losses or claims. Without limiting the

generality of the foregoing, each Releasing Party expressly waives any and all rights conferred upon it by any statute or rule of law which provides that a release does not extend to claims which the claimant does not know or suspect to exist in its favor at the time of executing the release, which if known by it may have materially affected its settlement with the Released Party, including the provisions of California Civil Code Section 1542. The releases contained in Article XII of this Plan are effective regardless of whether those released matters are presently known, unknown, suspected or unsuspected, foreseen or unforeseen.

12.3 ***Discharge of the Zonda Plan Debtors .***

(a) Upon the Effective Date, except as provided in this Plan or the Confirmation Order, the Zonda Plan Debtors, and each of them, shall be deemed discharged and released under section 1141(d)(1)(A) of the Bankruptcy Code from any and all Claims, including, but not limited to, demands and liabilities that arose before the Effective Date, and all debts of the kind specified in section 502 of the Bankruptcy Code, whether or not (i) a Proof of Claim based upon such debt is filed or deemed filed under section 501 of the Bankruptcy Code, (ii) a Claim based upon such debt is Allowed under section 502 of the Bankruptcy Code, (iii) a Claim based upon such debt is or has been Disallowed by order of the Bankruptcy Court, or (iv) the Holder of a Claim based upon such debt accepted this Plan; and no Claim shall be made in any liquidation of any Zonda Plan Debtor under any applicable law.

(b) As of the Effective Date, except as provided in this Plan or the Confirmation Order, all Persons shall be precluded from asserting against the Zonda Plan Debtors or the Reorganized Zonda Debtors any other or further Claims, debts, rights, Causes of Action, claims for relief, liabilities, or Interests relating to the Zonda Plan Debtors based upon any act, omission, transaction, occurrence, or other activity of any nature that occurred prior to the Effective Date. In accordance with the foregoing, except as provided in this Plan or the Confirmation Order, the Confirmation Order shall be a judicial determination of discharge of all such Claims and other debts and liabilities against the Zonda Plan Debtors, pursuant to sections 524 and 1141 of the Bankruptcy Code, and such discharge shall void any judgment obtained against the Zonda Plan Debtors at any time, to the extent that such judgment relates to a discharged Claim.

(c) For the avoidance of doubt, this Section 12.3 shall not apply to any Claims, debts, rights, Causes of Action, claims for relief, liabilities, or Interests arising under the New Secured Debt Documents, whether executed prior to, on, or after the Effective Date.

12.4 ***Injunction*** . Except as otherwise provided in this Plan or the Confirmation Order, from and after the Effective Date, (a) to the extent a party's Claim is discharged pursuant to this Plan or the Confirmation Order, such party shall be permanently enjoined from pursuing such Claim against the parties that have been discharged pursuant to this Plan or the Confirmation Order, and (b) to the extent a party's Claim has been released pursuant to this Plan or the Confirmation Order, such Releasing Party shall be permanently enjoined from pursuing such Claim against the applicable Released Party, including (i) commencing or continuing in any manner any action or other proceeding of any kind, including on account of any Claims, Interests, Causes of Action, or liabilities that have been Released; (ii) enforcing, levying, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order; (iii) creating, perfecting, or enforcing any Lien, Claim, or encumbrance of any kind; (iv) asserting any right of setoff, subrogation, or recoupment of any kind against any debt, liability, or obligation due to the Zonda Plan Debtors, Reorganized Zonda Debtors, or Released Parties; and (v) commencing or continuing any act, in any manner, or in any place to assert any Claim, or send any notice or invoice in respect of any Claim that has been discharged or released under this Plan or that does not otherwise comply with or is inconsistent with the provisions of this Plan, or from making or threatening to make or assert any claim in any liquidation of any Zonda Plan Debtor under any applicable law; *provided, however*, that nothing contained in this Plan shall (A) preclude an Entity from obtaining benefits directly and expressly provided to such Entity pursuant to the terms of this Plan; (B) be construed to prevent any Entity from defending against Claims objections or collection action, whether by asserting a right of setoff, recoupment, or otherwise, to the extent permitted by law; or (C) enjoining or precluding any Entity that is not a Releasing Party from taking any of the foregoing enforcement actions against QPGL or any member of the Ad Hoc Group or its assets or property on account of any Claims, Interests, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, or liabilities that such Entity has not waived, discharged, compromised, or released pursuant to this Plan or that have not been exculpated pursuant to Section 12.5.

12.5 ***Exculpation and Limitation of Liability*** . From and after the Effective Date, the Exculpated Parties shall neither have nor incur any liability to any Person or Entity, and no Holder of a Claim or Interest, no other party in interest, and none of their respective Representatives, each in their capacity as such, shall have any right of action against any Exculpated Party for any act taken or omitted to be taken before the Effective Date based on the Chapter 11 Cases, the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation, or consummation of this Plan, the Exhibits, the Disclosure Statement, any amendments thereof or supplements thereto, the Plan Supplement, the New Secured Debt Documents, the New Intercreditor Agreement, or the Restructuring Transactions or any

other transactions in connection with the Chapter 11 Cases or any contract, instrument, release, or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any other obligations arising under this Plan or the obligations assumed hereunder; *provided*, *however*, that the foregoing provisions of this Section 12.5 shall have no effect on: (a) the liability of any Person or Entity that would otherwise result from the failure to perform or pay any obligation or liability under this Plan or any contract, instrument, release, or other agreement or document (i) previously assumed, (ii) entered into during the Chapter 11 Cases, or (iii) to be entered into or delivered in connection with this Plan; or (b) the liability of any Exculpated Party from any obligation or liability under this Plan.

12. 6 ***Term of Bankruptcy Injunction or Stays*** . Except as provided otherwise in this Plan, from and after the entry of an order or other deemed action under this Plan closing these Chapter 11 Cases, the automatic stay of section 362(a) of the Bankruptcy Code shall terminate.

12. 7 ***Post -Confirmation Date Retention of Professionals*** . Upon the Confirmation Date, any requirement that professionals comply with sections 327 through 331 of the Bankruptcy Code in seeking retention or compensation for services rendered after such date will terminate and the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, will employ and pay professionals in the ordinary course of business.

12. 8 ***Dissolution of PDVIII; Cooperation of Liquidation Trustee*** . If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trustee shall reasonably cooperate to execute, deliver, file, or record such contracts, instruments, releases, and other agreements or documents, and take such actions as may be necessary or appropriate to effectuate the dissolution of PDVIII in accordance with the laws of the British Virgin Islands and any other applicable law.

ARTICLE XIII

RETENTION OF JURISDICTION

13. 1 ***Retention of Jurisdiction*** . Pursuant to sections 105(c) and 1142 of the Bankruptcy Code and notwithstanding entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain jurisdiction (unless otherwise indicated) over all matters arising in, arising out of, and/or related to, the Chapter 11 Cases and this Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

(a) resolve any matters related to the assumption, assumption and assignment, or rejection of any Executory Contract or Unexpired Lease to which any Zonda Plan Debtor is a party or with respect to which any Zonda Plan Debtor may be liable and to hear, determine, and, if necessary, liquidate any Claims arising therefrom;

(b) decide or resolve any motions, adversary proceedings, contested, or litigated matters, and any other matters and grant or deny any applications involving the Zonda Plan Debtors that may be pending on the Effective Date (which jurisdiction shall be non-exclusive as to any such non-core matters);

(c) enter such orders as may be necessary or appropriate to implement or consummate the provisions of this Plan, and all contracts, instruments, releases, and other agreements or documents created in connection with this Plan, the Disclosure Statement, the Plan Supplement, or the Confirmation Order;

(d) resolve any cases, controversies, suits, or disputes that may arise in connection with the consummation, interpretation, or enforcement of this Plan or any contract, instrument, release, or other agreement or document that is executed or created pursuant to this Plan, or any entity's rights arising from or obligations incurred in connection with this Plan or such documents;

(e) modify this Plan before or after the Effective Date pursuant to section 1127 of the Bankruptcy Code or modify the Confirmation Order, or any contract, instrument, release, or other agreement or document created in connection with this Plan or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, this Plan, the Confirmation Order, or any contract, instrument, release, or other agreement or document created in connection with this Plan or the Confirmation Order, in such manner as may be necessary or appropriate to consummate this Plan;

(f) hear and determine all applications for compensation and reimbursement of expenses of Professionals under this Plan or under sections 330, 331, 503(b), and 1129(a)(4) of the Bankruptcy Code; *provided*, *however*, that from and after the Effective Date the payment of fees and expenses by the Reorganized Zonda Debtors, including professional fees, shall be made in the ordinary course of business and shall not be subject to the approval of the Bankruptcy Court;

(g) issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Entity with consummation, implementation, or enforcement of this Plan or the Confirmation Order;

of this Plan;

(h) adjudicate controversies arising out of the administration of the Estates or the implementation

(i) resolve any cases, controversies, suits, or disputes that may arise in connection with Claims, including without limitation, the Bar Date, related notice, claim objections, allowance, disallowance, estimation, and distribution;

(j) hear and determine Retained Actions by or on behalf of the Zonda Plan Debtors, Reorganized Zonda Debtors, or the Liquidation Trust;

(k) enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason or in any respect modified, stayed, reversed, revoked, or vacated, or distributions pursuant to this Plan are enjoined or stayed;

(l) determine any other matters that may arise in connection with or relate to this Plan, the Disclosure Statement, the Confirmation Order, the Plan Supplement, or any contract, instrument, release, or other agreement or document created in connection with this Plan, the Plan Supplement, the Disclosure Statement, or the Confirmation Order;

(m) enforce all orders, judgments, injunctions, releases, exculpations, indemnifications, and rulings entered in connection with the Chapter 11 Cases;

(n) hear and determine such other matters as may be provided in the Confirmation Order or as may be authorized under the Bankruptcy Code; and

(o) enter an order closing the Chapter 11 Cases.

13.2 ***Jurisdiction for Certain Other Agreements*** . This Plan shall not modify the jurisdictional provisions of the New Secured Debt Documents or the New Intercreditor Agreement. Notwithstanding anything herein to the contrary, on and after the Effective Date, the Bankruptcy Court's retention of jurisdiction pursuant to this Plan shall not govern the enforcement or adjudication of any rights or remedies with respect to or as provided in the New Secured Debt Documents or the New Intercreditor Agreement, and the jurisdictional provisions of such documents shall control.

13.3 ***No Limitation on Enforcement by SEC on Non-Debtors*** . Notwithstanding any language to the contrary contained herein, in the Disclosure Statement, or in the Confirmation Order, no provision of this Plan or the Confirmation Order shall (a) preclude the SEC from enforcing its police or regulatory powers; or

(b) enjoin, limit, impair, or delay the SEC from commencing or continuing any claims, causes of action, proceedings, or investigations against any non-Debtor person or non-Debtor entity in any forum.

ARTICLE XIV

MISCELLANEOUS PROVISIONS

14.1 ***Payment of Statutory Fees*** . All fees payable pursuant to section 1930 of title 28 of the United States Code shall be paid by the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, on the earlier of when due or the Effective Date.

14.2 ***Amendment or Modification of this Plan*** . Subject to section 1127 of the Bankruptcy Code and, to the extent applicable, sections 1122, 1123, and 1125 of the Bankruptcy Code, the Zonda Plan Debtors reserve the right to alter, amend, or modify this Plan at any time prior to or after the Confirmation Date but prior to the substantial consummation of this Plan, subject to the express written consent of SHI. A Holder of a Claim that has accepted this Plan shall be deemed to have accepted this Plan, as altered, amended, or modified, if the proposed alteration, amendment, or modification does not materially and adversely change the treatment of the Claim of such Holder.

14.3 ***Substantial Consummation*** . On the Effective Date, this Plan shall be deemed to be substantially consummated under sections 1101 and 1127(b) of the Bankruptcy Code.

14.4 ***Severability of Plan Provisions*** . If, prior to the Confirmation Date, any term or provision of this Plan is determined by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of this Plan shall remain in full force and effect and shall in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of this Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

14.5 ***Successors and Assigns*** . This Plan shall be binding upon and inure to the benefit of the Zonda Plan Debtors, and their respective successors and assigns,

including the Reorganized Zonda Debtors or the Liquidation Trust, as applicable. The rights, benefits, and obligations of any Entity named or referred to in this Plan shall be binding on, and shall inure to the benefit of, any heir, executor, administrator, successor, or assign of such Entity.

14. 6 **Revocation , Withdrawal, or Non-Consummation** . The Zonda Plan Debtors reserve the right to revoke or withdraw this Plan at any time prior to the Confirmation Date and to file other plans of reorganization, subject to the express written consent of SHI. If the Zonda Plan Debtors revoke or withdraw this Plan, or if Confirmation or consummation of this Plan does not occur, then (a) this Plan shall be null and void in all respects; (b) any settlement or compromise embodied in this Plan (including the fixing or limiting to an amount any Claim or Class of Claims), assumption or rejection of Executory Contracts or Unexpired Leases effected by this Plan, and any document or agreement executed pursuant to this Plan shall be deemed null and void; and (c) nothing contained in this Plan, and no acts taken in preparation for consummation of this Plan, shall (i) constitute or be deemed to constitute a waiver or release of any Claims by or against, or any Interests in, the Zonda Plan Debtors or any other Person, (ii) prejudice in any manner the rights of the Zonda Plan Debtors or any Person in any further proceedings involving the Zonda Plan Debtors, or (iii) constitute an admission of any sort by the Zonda Plan Debtors or any other Person.

14. 7 **Governing Law** . Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent an Exhibit hereto or a schedule in the Plan Supplement provides otherwise, the rights, duties, and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the principles of conflict of law thereof.

14. 8 **Time** . In computing any period of time prescribed or allowed by this Plan, unless otherwise set forth herein or determined by the Bankruptcy Court, the provisions of Bankruptcy Rule 9006 shall apply.

14. 9 **Immediate Binding Effect** . Notwithstanding Bankruptcy Rules 3020(e), 6004(h), or 7062 or otherwise, upon the occurrence of the Effective Date, the terms of this Plan and Plan Supplement shall be immediately effective and enforceable and deemed binding upon and inure to the benefit of the Zonda Plan Debtors, the New First Lien Noteholders, the New Second Lien PIK Toggle Noteholders, the Holders of Claims and Interests, the Released Parties, the Exculpated Parties, and each of their respective successors and assigns, including the Reorganized Zonda Debtors or the Liquidation Trust, as applicable.

14. 10 **Entire Agreement** . On the Effective Date, this Plan, the Plan Supplement, and the Confirmation Order shall supersede all previous and contemporaneous negotiations, promises, covenants, agreements, understandings and representations on such subjects, all of which have become merged and integrated into this Plan.

14. 11 **Notice** . All notices, requests, and demands to or upon the Zonda Plan Debtors, Reorganized Zonda Debtors, and SHI to be effective shall be in writing and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile or other electronic transmission, when received and telephonically confirmed, addressed as follows:

PDVIII
11700 Katy Freeway, #175
Houston, TX 77079
(713) 334-6662
Attention: Bernie G. Wolford Jr. and Lisa Buchanan
Email: b.wolford@pacificdrilling.com,
l.buchanan@pacific drilling.com

and

TOGUT, SEGAL & SEGAL LLP
One Penn Plaza, Suite 3335
New York, New York 10019
(212) 594-5000
Attention: Albert Togut, Frank A. Oswald, Kyle J. Ortiz, and Amanda C. Glaubach
E-mail: altogut@teamtogut.com, frankoswald@teamtogut.com, kortiz@teamtogut.com,
aglaubach@teamtogut.com

Attorneys for the Zonda Plan Debtors

-and-

DLP Piper LLP (US)
1201 North Market Street
Suite 2100
Wilmington, Delaware 19801-1147
Attention: R. Craig Martin and Joshua D. Morse
E-mail: Craig.Martin@dlapiper.com, Joshua.Morse@dlapiper.com

Counsel for SHI

14. 12 **Exhibits** . All Exhibits to this Plan are incorporated and are a part of this Plan as if set forth in full herein.

14. 13 **Filing of Additional Documents** . On or before substantial consummation of this Plan, the Zonda Plan Debtors shall file such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan.

14. 14 **Conflicts** . In the event that provisions of the Disclosure Statement and provisions of this Plan conflict, the terms of this Plan shall govern.

Dated: January 22, 2019
New York, New York

PACIFIC DRILLING SERVICES, INC.

By: /s/ Lisa Manget Buchanan
Name: Lisa Manget Buchanan
Title: Senior Vice President, General
Counsel, and Secretary

PACIFIC DRILLING VIII LIMITED.

By: /s/ Lisa Manget Buchanan
Name: Lisa Manget Buchanan
Title: Senior Vice President, General
Counsel, and Secretary

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	Chapter 11
	:	
PACIFIC DRILLING VIII LIMITED, <i>et al.</i> ,	:	Case No. 17-13203 (MEW)
	:	
Debtors ¹	:	(Jointly Administered)
	:	

**FINDINGS OF FACT, CONCLUSIONS OF
LAW, AND ORDER CONFIRMING AMENDED
JOINT PLAN OF LIQUIDATION/REORGANIZATION FOR
PACIFIC DRILLING SERVICES, INC. AND PACIFIC DRILLING VIII
LIMITED PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE**

WHEREAS, Pacific Drilling VIII Limited (“PDVIII”) and Pacific Drilling Services, Inc. (“PDSI”), as debtors and debtors in possession in the above-captioned chapter 11 cases (collectively, the “Zonda Plan Debtors”), as “proponents of the plan” within the meaning of section 1129 of title 11 of the United States Code (the “Bankruptcy Code”), filed the *Amended Joint Plan of Liquidation/Reorganization for Pacific Drilling Services, Inc. and Pacific Drilling VIII Limited Pursuant to Chapter 11 of the Bankruptcy Code* [Docket No. 30], dated as of January 22, 2019 (the “Proposed Plan” and, as modified by this Order, the “Plan”) ² and the *Disclosure Statement for the Joint Plan of Reorganization/Liquidation for Pacific Drilling Services, Inc. and*

¹ The Zonda Plan Debtors in these chapter 11 cases and, if applicable, the last four digits of their U.S. taxpayer identification numbers are: Pacific Drilling VIII Limited and Pacific Drilling Services, Inc. (5302).

² Capitalized terms used but not otherwise herein defined shall have the meanings ascribed to such terms in (a) the Plan, a copy of which is annexed hereto as Exhibit A, or (b) the *Zonda Plan Debtors’ Memorandum of Law in Support of Confirmation of Amended Joint Plan of Liquidation/Reorganization for Pacific Drilling Services, Inc. and Pacific Drilling VIII Limited Pursuant to Chapter 11 of the Bankruptcy Code*, dated as of January 22, 2019 [Docket No. 32] (the “Confirmation Brief”), as applicable. Any term used in the Plan or this Confirmation Order that is not defined in the Plan or this Confirmation Order, but that is used in the Bankruptcy Code or the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), shall have the meaning ascribed to such term in the Bankruptcy Code or the Bankruptcy Rules, as applicable.

Pacific Drilling VIII Limited Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 14], dated as of December 21, 2018 (the “Disclosure Statement”);

WHEREAS, on December 21, 2018, the Zonda Plan Debtors filed the *Zonda Plan Debtors’ Motion for an Order Approving (I) The Disclosure Statement; (II) Procedures for Solicitation; (III) Forms of Ballots and Notices; (IV) Procedures for Tabulation of Votes; and (V) Procedures for Objections to Approval of the Disclosure Statement and Confirmation of the Plan* [Docket No. 15] (the “Solicitation Procedures Motion”);

WHEREAS, on December 21, 2018, the Zonda Plan Debtors filed the *Zonda Plan Debtors’ Ex Parte Application for Entry of an Order (I) Approving Certain Key Dates Relating to Confirmation of the Zonda Plan and Approval of Related Disclosure Statement, (II) Shortening Notice with Respect Thereto, (III) Approving Form and Manner of Combined Hearing Notice, and (IV) Granting Related Relief* [Docket No. 16] (the “Scheduling Motion”);

WHEREAS, on December 28, 2018, the United States Bankruptcy Court for the Southern District of New York (the “Court”) entered the *Order (I) Approving Certain Key Dates Relating to Confirmation of the Zonda Plan and Approval of Related Disclosure Statement, (II) Shortening Notice with Respect Thereto, (III) Approving Form and Manner of Combined Hearing Notice, and (IV) Granting Related Relief* [Docket No. 18] (the “Scheduling Order”), which among other things, scheduled a combined hearing to consider approval of the Disclosure Statement and confirmation of the Proposed Plan (the “Combined Hearing”) for January 24, 2019 at 10:00 a.m. (prevailing Eastern Time);

WHEREAS, pursuant to the Scheduling Order and the procedures for solicitation of votes to accept or reject the Proposed Plan (the “Solicitation Procedures”), the Court established January 14, 2019, at 5:00 p.m. (prevailing Eastern Time) as the deadline to vote on the Proposed Plan (the “Voting Deadline”) and January 17, 2019, at 4:00 p.m. (prevailing Eastern Time) as the

deadline to file any objection to the Proposed Plan, the Disclosure Statement, or the Solicitation Procedures Motion (the “ Objection Deadline ”);

WHEREAS, on December 28, 2018, the Zonda Plan Debtors filed the *Notice of (I) Combined Hearing to Consider Approval of Disclosure Statement and Plan Confirmation and (II) Deadline for Objection to Plan and Disclosure Statement* [Docket No. 19] (the “ Combined Hearing Notice ”);

WHEREAS , on December 31, 2018, as set forth in the *Affidavit of Service of Solicitation Materials* [Docket No. 22], dated as of January 4, 2019, admitted into evidence at the Combined Hearing (the “ Solicitation Materials Declaration ”), the Zonda Plan Debtors, through the Solicitation Agent, caused copies of the following documents to be served, via first class mail, to the voting Classes under the Proposed Plan (Class 4A – Zonda Secured Claims, Class 4B – Zonda Secured Claims, Class 5A – Zonda Deficiency Claims, and Class 5B – Zonda Deficiency Claims): (a) the Disclosure Statement with the Proposed Plan annexed thereto; (b) the Disclosure Statement Approval Order (as defined in the Solicitation Procedures Motion) without exhibits; (c) the Combined Hearing Notice; and (d) the appropriate Ballot, along with a postage-prepaid return envelope;

WHEREAS, on December 31, 2018, as set forth in the Solicitation Materials Declaration, the Zonda Plan Debtors, through the Solicitation Agent, caused copies of the following to be served, via first class mail, to Holders of Claims and Interests in Classes 1A–1B, 2A–2B, 3A–3B, 6A–6B, 7A, 8A–8B, 9A and 9B of the Proposed Plan: (a) the Disclosure Statement Approval Order; (b) the Combined Hearing Notice; and (c) the Notice of Non-Voting Status, which notice: (i) identified the treatment of Classes that are either Unimpaired or consenting to their treatment under the Proposed Plan; (ii) set forth the manner in which a copy of the Disclosure Statement and Proposed Plan may be obtained; (iii) provided notice of the

Combined Hearing and the Objection Deadline, as well as procedures for filing objections and responses to approval of the Disclosure Statement or Confirmation of the Proposed Plan; and (iv) provided disclosure regarding the releases, injunctions, and exculpations provided for in the Proposed Plan and an opportunity to “opt in” to the releases through the Voting Agent;

WHEREAS, on January 7, 2019, the Zonda Plan Debtors filed the *Plan Supplement in Connection with the Joint Plan of Liquidation/Reorganization for Pacific Drilling Services, Inc. and Pacific Drilling VIII Limited Pursuant to Chapter 11 of the Bankruptcy Code* [Docket No. 23] (collectively, and as thereafter amended, modified, or supplemented from time to time, the “Plan Supplement”);

WHEREAS, on January 16, 2019, the Zonda Plan Debtors filed the *Notice of Filing of Exhibit C to the Disclosure Statement for the Joint Plan of Liquidation/Reorganization for Pacific Drilling Services, Inc. and Pacific Drilling VIII Limited Pursuant to Chapter 11 of the Bankruptcy Code* [Docket No. 26], which included the Liquidation Analysis;

WHEREAS, the *Declaration of Jeffrey W. Kopa of AlixPartners, LLP in Support of Confirmation of Amended Joint Plan of Liquidation/Reorganization for Pacific Drilling Services, Inc. and Pacific Drilling VIII Limited* (the “Kopa Declaration” or the “Confirmation Declaration”) was attached as Exhibit A to the Confirmation Brief in support of Confirmation of the Proposed Plan and was admitted into evidence at the Combined Hearing;

WHEREAS, the *Declaration of James Daloia of Prime Clerk Regarding the Solicitation of Votes and Tabulation of Ballots Cast on the Joint Plan of Liquidation/Reorganization for Pacific Drilling Services, Inc. and Pacific Drilling VIII Limited Pursuant to Chapter 11 of the Bankruptcy Code* [Docket No. 28], dated January 17, 2019 (the “Voting Report”), attesting and certifying the method and results of the tabulation for Claims in Class 4A – Zonda Secured Claims, Class 4B – Zonda Secured Claims, Class 5A – Zonda

Deficiency Claims, and Class 5B – Zonda Deficiency Claims (collectively, the “Undersecured Claims”) entitled to vote to accept or reject the Proposed Plan; was previously filed in these Chapter 11 Cases in support of Confirmation of the Proposed Plan and was admitted into evidence at the Combined Hearing (collectively with the Confirmation Declarations and the Solicitation Materials Declaration, the “Declarations”);

WHEREAS , the Combined Hearing was held on January 24, 2019; and

WHEREAS , the Court made certain rulings at the Combined Hearing that are reflected below,

NOW, THEREFORE , based on the Declarations, the record of the Combined Hearing, including all the evidence proffered or adduced, and the arguments of counsel made, at the Combined Hearing, the entire record of the Chapter 11 Cases, and the record of the PDSA case, through November 16, 2018; and after due deliberation thereon and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, FOUND AND DETERMINED THAT:

DEEMED MODIFICATIONS TO THE PROPOSED PLAN

The changes set forth below shall be deemed to be incorporated in the Proposed Plan, and all references in this Order to the “Plan” shall constitute references to the Proposed Plan as modified by the changes set forth in items I through V, below.

I. **Typographical Corrections**. The definition of “Professional Fee Escrow” in section 1.108 of the Proposed Plan is deemed to be modified to substitute the phrase “Liquidation Trust” in place of the words “Liquidation Trust.”

II. **Definition of Releasing Parties**. The Proposed Plan provides for certain consensual releases. In that regard, and for the reasons stated on the record at the Combined

Hearing, section 1.115 of the Proposed Plan is deemed to have been modified so that it shall read as follows:

1.115 **Releasing Party** means, collectively and in each case in their capacity as such: (a) each Released Party, (b) each Holder of a Claim or Interest who was entitled to vote on the Plan and voted to accept the Plan; (c) each Holder of a Claim or Interest who did not vote to accept the Plan but checked the box on the applicable Ballot or Notice of Non-Voting Status indicating that they opt to grant the releases provided in the Plan; and (d) with respect to each of the foregoing Entities in clauses (a) through (c), such Entities' or Persons' successors and assigns.

III. **Discharge Provisions**. Sections 2.1, 3.3 and 8.9 of the Proposed Plan provide that payments that are to be made under the Proposed Plan will be made in "full and final satisfaction, settlement, release and discharge" or in "complete and final satisfaction, settlement, and discharge" of the underlying claims or obligations. Section 12.3(a) of the Proposed Plan also contemplates a discharge of the Zonda Plan Debtors. However, the Proposed Plan contemplates the possibility of liquidation in the event the Zonda Plan Debtors do not Prevail in the Zonda Arbitration (as the terms "Prevail" and "Zonda Arbitration" are defined in the Proposed Plan). The releases that Releasing Parties have provided consensually pursuant to section 12.2 of the Proposed Plan are enforceable and will be enforced regardless of whether a liquidation occurs. However, if a liquidation occurs the Zonda Plan Debtors will not be entitled to a discharge of obligations pursuant to section 1141 of the Bankruptcy Code. It is not enough just to eliminate the reference to a "discharge" in sections 2.1, 3.3, 8.9 and 12.3(a) because the remaining terms, which propose that all payments are to be in "full" or "complete" satisfaction, "release" and "settlement" of all of the underlying obligations, would (if approved) be the same as granting a discharge. If section 1141 does not permit a discharge, the Court may not grant the same thing just by using different words that have the same effect. Accordingly:

(a) The consensual releases set forth in Section 12.2 of the Proposed Plan shall be approved and enforced as set forth in this Order and on behalf of "Releasing

Parties” as that term is defined above, regardless of whether the Proposed Plan results in a liquidation;

(b) To the extent that the Zonda Plan Debtors Prevail in the Zonda Arbitration, the Debtors will continue in operations and will be entitled to a discharge, in which case the provisions of sections 2.1, 3.3, 8.9 and 12.3(a) of the Proposed Plan that contemplate that payments are in full satisfaction, settlement, release and discharge of the underlying obligations shall be effective and shall be enforced; and

(c) To the extent that the Debtors do not Prevail in the Zonda Arbitration, the provisions in sections 2.1, 3.3, 8.9 and 12.3(a) of the Proposed Plan that state that the proposed payments are made in full or complete satisfaction, settlement, release and/or discharge of the underlying obligations shall not be applicable, and such underlying obligations shall be released only to the extent they have been released consensually by Releasing Parties pursuant to section 12.2 of the Plan and this Confirmation Order.

(d) Nothing in the modifications described in subparagraphs (a) through (c) above is intended to foreclose an argument that as a matter of non-bankruptcy law the payment, in full, of a claim or expense obligation constitutes a “satisfaction” of that claim or expense obligation.

(e) In addition, and for the avoidance of doubt: notwithstanding the technical issue as to whether certain claims are fully settled, released, satisfied or discharged, all assets of the Zonda Debtors shall be applied to the payment of claims and expenses only in the manner and in the order set forth in the Plan, and creditors shall be enjoined from interfering with the distributions and payments contemplated by the Plan.

IV. **Effect of a Failure to List Claims**. For the reasons stated on the record at the Combined Hearing, the last sentence of section 7.3 of the Proposed Plan is modified to state as follows:

“The failure of the Zonda Plan Debtors to specifically list any claim, right of action, suit, proceeding, or other Retained Action in this Plan, the Disclosure Statement, the Plan Supplement, or otherwise does not, and will not be deemed to, constitute a waiver or release by the Zonda Plan Debtors, the Reorganized Zonda Plan Debtors, or the Liquidation Trust, as applicable, of such claim, right of action, suit, proceeding, or other Retained Action, and the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, will retain the right to pursue such claims, rights of action, suits, proceedings, and other Retained Actions in their sole discretion and, therefore, the failure to list a claim, right of action, suit, proceeding or other Retained Action shall not result in any limitation of the right to pursue the same upon and after the Confirmation or consummation of this Plan based on any preclusion doctrine, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches.

V. **Unclaimed Property**. For the reasons set forth on the record at the Combined Hearing, the last sentence of section 8.8 of the Proposed Plan is modified to state as follows:

“The Reorganized Debtors, the Liquidation Trust, as applicable, and the Disbursing Agent shall use reasonable efforts to locate any Holder of an Allowed Claim whose distribution is returned as undeliverable.”

FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. Findings of Fact and Conclusions of Law.

1. The findings and conclusions set forth herein, together with the findings of fact and conclusions of law set forth in the record of the Combined Hearing, constitute the Court’s findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

B. Exclusive Jurisdiction; Venue; Core Proceeding (28 U.S.C. §§ 157(b)(2), 1334(a)).

2. The Court has jurisdiction over the Chapter 11 Cases pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper under 28 U.S.C. §§ 1408 and 1409. Confirmation of the Plan is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(L), and the Court has exclusive jurisdiction to determine whether the Plan complies with the applicable provisions of the Bankruptcy Code and should be confirmed.

C. Commencement and Administration of the Chapter 11 Cases.

3. On November 12, 2017 (the “Petition Date”), each Zonda Plan Debtor commenced with this Court a voluntary case under chapter 11 of the Bankruptcy Code. The Zonda Plan Debtors are authorized to continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. On September 7, 2018, the U.S. Trustee appointed an official committee of unsecured creditors (the “Committee”) pursuant to the *Notice of Appointment of Official Committee of Unsecured Creditors*, filed in the PDSA case [Docket No. 519]. The Committee was disbanded on September 28, 2018 pursuant to the *Notice of Disbandment of Official Committee of Unsecured Creditors*, filed in the PDSA case [Docket No. 626]. No trustee, examiner, or committee of equity holders has been appointed in these Chapter 11 Cases.

4. On November 7, 2018, the Zonda Plan Debtors and the Non-Zonda Debtors filed a *Motion for an Order (I) Amending the Debtors’ Joint Administration Order, and (II) Granting Related Relief* [Docket No. 7] (the “Zonda Joint Administration Motion”). On November 16, 2018, the Court entered the *Order (I) Amending the Debtors’ Joint Administration Order, and (II) Granting Related Relief* [Docket No. 9] (the “Zonda Joint Administration Order”), which among other things, provided for the Zonda Plan Debtors’ cases to be separately administered from

the main PDSA case. Pursuant to the Zonda Joint Administration Order, these Chapter 11 Cases are being jointly administered for procedural purposes only pursuant to Bankruptcy Rule 1015(b).

D. Judicial Notice.

5. The Court takes judicial notice of the docket of the Chapter 11 Cases, and the docket of the PDSA case through November 16, 2018, maintained by the Clerk of the Court and/or its duly-appointed agent, including, without limitation, all pleadings and other documents filed, all orders entered, and the evidence and arguments made, proffered, or adduced at the hearings held before the Court during the pendency of the Chapter 11 Cases, and in the PDSA case through November 16, 2018, including, but not limited to, the Combined Hearing.

E. Burden of Proof.

6. The Zonda Plan Debtors have satisfied their burden of proving by a preponderance of the evidence that the Plan satisfies the requirements of section 1129(a) of the Bankruptcy Code.

F. Section 1129(b) Inapplicable.

7. Section 1129(b) of the Bankruptcy Code is not applicable to the Plan because all four of the Impaired classes voted to accept the Plan.

G. Transmittal and Mailing of Materials; Notice.

8. The Solicitation Packages, which were transmitted and served as set forth in the Solicitation Materials Declaration, have been transmitted and served in compliance with the Solicitation Procedures Motion, the Scheduling Order, the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules. Such transmittal and service were adequate and sufficient, and no other or further notice is or shall be required.

H. Voting.

9. Votes to accept or reject the Plan have been solicited and tabulated fairly, in good faith, and in a manner consistent with the Bankruptcy Code, the Bankruptcy Rules, the Solicitation Procedures Motion, and the Scheduling Order.

I. Plan Supplement.

10. The Zonda Plan Debtors filed the Plan Supplement, which includes (a) the Liquidation Trust Agreement, (b) the Schedule of Assumed Executory Contracts and Unexpired Leases, and (c) the information required to be disclosed in accordance with section 1129(a)(5) of the Bankruptcy Code. All such materials comply with the terms of the Plan, and the filing and notice of such documents is good and proper in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, and all other applicable rules, laws, and regulations, and no other or further notice is or shall be required.

J. Bankruptcy Rule 3016(a).

11. In accordance with Bankruptcy Rule 3016(a), the Plan is dated and identifies the Zonda Plan Debtors as the proponents of the Plan.

Compliance with the Requirements of Section 1129 of the Bankruptcy Code

K. Plan Compliance with Bankruptcy Code – 11 U.S.C. § 1129(a)(1).

12. The Plan complies with all applicable provisions of the Bankruptcy Code, thereby satisfying section 1129(a)(1) of the Bankruptcy Code.

L. Proper Classification – 11 U.S.C. §§ 1122, 1123(a)(1).

13. In addition to Administrative Expense Claims, Professional Fee Claims, and Priority Tax Claims, which need not be classified, the Plan designates the following nine Classes of Claims and Interests: Classes 1A–1B (Secured Tax Claims), Classes 2A–2B (Other Secured Claims), Classes 3A–3B (Other Priority Claims), Classes 4A–4B (Zonda Secured Claims), Classes

5A–5B (Zonda Deficiency Claims), Classes 6A–6B (Convenience Claims), Class 7A (Insurance Covered Claims), Classes 8A–8B (Intercompany Claims), Class 9A (PDSI Interests), and Class 9B (PDVIII Interests). The Claims and Interests placed in each Class are substantially similar to other Claims and Interests, as the case may be, in each such Class.³ Valid business, factual, and legal reasons exist for separately classifying the various Classes of Claims and Interests created under the Plan, and such classification does not unfairly discriminate between Holders of Claims and Interests. Accordingly, the Plan satisfies sections 1122 and 1123(a)(1) of the Bankruptcy Code.

M. Specified Unimpaired Classes – 11 U.S.C. § 1123(a)(2).

14. Article III of the Plan specifies that Classes 1A–1B (Secured Tax Claims), Classes 2A–2B (Other Secured Claims), Classes 3A–3B (Other Priority Claims), Classes 6A–6B (Convenience Claims), Class 7A (Insurance Covered Claims), Classes 8A–8B (Intercompany Claims), Class 9A (PDSI Interests), and Class 9B (PDVIII Interests), are either Unimpaired under the Plan or are consenting to their treatment under the Plan, thereby satisfying section 1123(a)(2) of the Bankruptcy Code.

N. Specified Treatment of Impaired Classes – 11 U.S.C. § 1123(a)(3).

15. Article III of the Plan designates Class 4A (Zonda Secured Claims), Class 4B (Zonda Secured Claims), Class 5A (Zonda Deficiency Claims), and Class 5B (Zonda Deficiency Claims) as Impaired and specifies the treatment of Claims in such Classes, thereby satisfying section 1123(a)(3) of the Bankruptcy Code.

³ The Zonda Plan Debtors do not believe that they own the *Pacific Zonda*. The Zonda Plan Debtors expect to Prevail in the Zonda Arbitration, but if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Zonda Plan Debtors expect SHI will be required to look to the *Pacific Zonda* to satisfy all or a portion of its Zonda Secured Claim.

O. No Discrimination – 11 U.S.C. § 1123(a)(4).

16. The Plan provides for the same treatment of each Claim or Interest in each respective Class or subclass pertaining to each Zonda Plan Debtor Group unless the Holder of a particular Claim or Interest has agreed to a less favorable treatment of its Claim or Interest, thereby satisfying section 1123(a)(4) of the Bankruptcy Code.

P. Implementation of Plan – 11 U.S.C. § 1123(a)(5).

17. The Plan and the various documents and agreements referred to therein or set forth in the Plan Supplement provide adequate and proper means for the Plan's implementation, thereby satisfying section 1123(a)(5) of the Bankruptcy Code, including, without limitation, (a) the vesting of the assets of the Zonda Plan Debtors in the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, and the cancellation of existing security agreements and interests, except as provided pursuant to the Plan and this Confirmation Order, (b) if the Zonda Plan Debtors Prevail in the Zonda Arbitration: (i) the continued corporate existence of the Zonda Plan Debtors, (ii) sources of cash for distributions and operations, and (iii) the consummation of the transactions contemplated by the New First Lien Notes Documentation and the New Second Lien PIK Toggle Notes Documentation, and (c) if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration: (i) the continued corporate existence of PDSI, and the dissolution of PDVIII, (ii) the sources of cash for payment of claims, (iii) the creation of the Liquidation Trust, (iv) the appointment of the Liquidation Trustee, and (v) the creation of the Liquidation Trust Funding Amount Escrow Account.

Q. Nonvoting Equity Securities – 11 U.S.C. § 1123(a)(6).

18. The certificates of incorporation, articles of incorporation, limited liability company agreements, operating agreements, or similar governing documents, as applicable, of the Zonda Plan Debtors have been or shall be amended on or prior to the Effective Date to prohibit

the issuance of non-voting equity securities to the extent prohibited by section 1123(a)(6) of the Bankruptcy Code, thereby satisfying section 1123(a)(6) of the Bankruptcy Code.

R. Selection of Officers, Directors, or Trustees – 11 U.S.C. § 1123(a)(7).

19. The Plan Supplement and Section 7.5 of the Plan contain provisions with respect to the selection of directors and officers of the Reorganized Zonda Debtors that are consistent with the interests of creditors, equity security holders, and public policy. The Plan also provides that the Liquidation Trustee will be approved in accordance with the Liquidation Trust Agreement, which is consistent with the interests of the Holders of the Liquidation Trust Interests and public policy, thereby satisfying section 1123(a)(7) of the Bankruptcy Code.

S. Impairment/Unimpairment of Classes of Claims and Equity Interests – 11 U.S.C. § 1123(b)(1).

20. As contemplated by section 1123(b)(1) of the Bankruptcy Code, Class 4A (Zonda Secured Claims), Class 4B (Zonda Secured Claims), Class 5A (Zonda Deficiency Claims), and Class 5B (Zonda Deficiency Claims) are Impaired under the Plan. Classes 1A–1B (Secured Tax Claims), Classes 2A–2B (Other Secured Claims), Classes 3A–3B (Other Priority Claims), Classes 6A–6B (Convenience Claims), Class 7A (Insurance Covered Claims), and Classes 8A–8B (Intercompany Claims) are Unimpaired under the Plan. Class 9A (PDSI Interests) and Class 9B (PDVIII Interests) are either Unimpaired under the Plan or Impaired under the Plan but are not entitled to vote.

T. Assumption and Rejection of Executory Contracts and Unexpired Leases – 11 U.S.C. § 1123(b)(2).

21. Article X of the Plan governing the assumption and rejection of Executory Contracts and Unexpired Leases satisfies the requirements of section 365(b) of the Bankruptcy Code and, accordingly, the requirements of section 1123(b)(2) of the Bankruptcy Code.

U. Preservation of Claims and Causes of Action – 11 U.S.C. § 1123(b)(3).

22. In accordance and compliance with section 1123(b)(3)(B) of the Bankruptcy Code, Section 7.3 of the Plan appropriately provides for the preservation of Retained Actions in the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, as follows: after the Effective Date if the Zonda Plan Debtors Prevail in the Zonda Arbitration, the Reorganized Zonda Debtors, and if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust, in their respective sole and absolute discretion, shall have the right to bring, settle, release, compromise, or enforce Retained Actions (or decline to do any of the foregoing), without further approval of the Court. The provisions regarding the Retained Actions in the Plan are appropriate and are in the best interests of the Zonda Plan Debtors or the Liquidation Trust, as applicable.

V. Modification of Rights – 11 U.S.C. § 1123(b)(5).

23. In accordance and compliance with section 1123(b)(5) of the Bankruptcy Code, the Plan properly modifies the rights of Holders of Claims in Class 4A (Zonda Secured Claims), Class 4B (Zonda Secured Claims), Class 5A (Zonda Deficiency Claims), and Class 5B (Zonda Deficiency Claims). The Plan also leaves unaffected the rights of Holders of Claims and Interests in Classes 1A–1B (Secured Tax Claims), Classes 2A–2B (Other Secured Claims), Classes 3A–3B (Other Priority Claims), Classes 6A–6B (Convenience Claims), Class 7A (Insurance Covered Claims), Classes 8A–8B (Intercompany Claims), Class 9A (PDSI Interests), and Class 9B (PDVIII Interests).

W. Additional Plan Provisions – 11 U.S.C. § 1123(b)(6).

24. The provisions of the Plan are appropriate and consistent with the applicable provisions of the Bankruptcy Code, thereby satisfying section 1123(b) of the Bankruptcy Code.

The failure to specifically address a provision of the Bankruptcy Code in this Confirmation Order shall not diminish or impair the effectiveness of this Confirmation Order.

X. Zonda Plan Debtors Are Not Individuals – 11 U.S.C. § 1123(c).

25. The Zonda Plan Debtors are not individuals and, accordingly, section 1123(c) of the Bankruptcy Code is inapplicable in these Chapter 11 Cases.

Y. Cure of Defaults – 11 U.S.C. § 1123(d).

26. The Plan does not provide for the cure of any defaults by the Zonda Plan Debtors. Thus, section 1123(d) of the Bankruptcy Code is not applicable in these Chapter 11 Cases.

Z. Zonda Plan Debtors' Compliance with Bankruptcy Code – 11 U.S.C. § 1129(a)(2).

27. The Zonda Plan Debtors have complied with the applicable provisions of the Bankruptcy Code, thereby satisfying section 1129(a)(2) of the Bankruptcy Code. Specifically:

- a. the Zonda Plan Debtors are proper debtors under section 109 of the Bankruptcy Code;
- b. the Zonda Plan Debtors have complied with applicable provisions of the Bankruptcy Code, except as otherwise provided or permitted by orders of this Court; and
- c. the Zonda Plan Debtors have complied with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, the Solicitation Procedures Motion, and the Scheduling Order in transmitting the Disclosure Statement, the Plan, the Ballots, and related documents and notices and in soliciting and tabulating votes on the Plan.

AA. Plan Proposed in Good Faith – 11 U.S.C. § 1129(a)(3).

28. The Zonda Plan Debtors have proposed the Plan and all other agreements, documents, and instruments necessary to effectuate the Plan in good faith and not by any means forbidden by law, thereby satisfying section 1129(a)(3) of the Bankruptcy Code. The Zonda Plan Debtors' good faith is evident from the facts and record of these Chapter 11 Cases, the Disclosure Statement, and the record of the Combined Hearing and other proceedings held in these Chapter

11 Cases. The Plan, the Plan Documents, and other agreements and documents contemplated thereby are based upon extensive, arms'-length, good faith negotiations between and among the Zonda Plan Debtors and Samsung Heavy Industries, Inc. ("SHI"), and represents the culmination of several months of discussions among the foregoing parties. The Plan was proposed with the legitimate and honest purpose of maximizing the value of the Zonda Plan Debtors' Estates and effectuating a successful reorganization or orderly liquidation of the Zonda Plan Debtors. Further, the Plan's classification, indemnification, exculpation, release, settlement, and injunction provisions, including, without limitation, Article XII of the Plan, have been negotiated in good faith and at arms' length, consistent with sections 105, 1123(b)(3)(A), 1123(b)(6), 1129, and 1142 of the Bankruptcy Code.

BB. Payments for Services or Costs and Expenses – 11 U.S.C. § 1129(a)(4).

29. Any payment made or to be made by any of the Zonda Plan Debtors for services or for costs and expenses incurred prior to the Effective Date in connection with these Chapter 11 Cases, or in connection with the Plan and incidental to these Chapter 11 Cases, has been approved by, or is subject to the approval of, the Court as reasonable, thereby satisfying section 1129(a)(4) of the Bankruptcy Code.

CC. Directors, Officers, and Insiders – 11 U.S.C. § 1129(a)(5).

30. Upon and following the Effective Date, the individuals identified in the Plan Supplement shall be the directors of the Reorganized Zonda Debtors, or the Zonda Plan Debtors, as applicable, along with such additional directors as may be designated consistent with the terms of the Plan. The officers of the respective Zonda Plan Debtors immediately before the Effective Date shall serve as the initial officers of each of the respective Reorganized Zonda Debtors on or after the Effective Date and in accordance with any employment agreement with the Reorganized Zonda Debtors and applicable nonbankruptcy law. After the Effective Date, the selection of

officers of the Reorganized Zonda Debtors shall be as provided by their respective organizational documents. Except as otherwise provided in the Plan Supplement, and to the extent applicable, the members of the board of directors for each of the Reorganized Zonda Debtors shall be determined as set forth in the Reorganized Zonda Debtors' organizational documents. The identity and affiliations of the persons proposed to serve as the initial directors and officers of the Reorganized Zonda Debtors or the Zonda Plan Debtors, as applicable, after confirmation of the Plan have been fully disclosed, and the appointment to, or continuance in, such offices of such persons is consistent with the interests of holders of Claims against and Interests in the Reorganized Zonda Debtors and with public policy. The Plan also provides that the Liquidation Trustee will be approved pursuant to the Liquidation Trust Agreement, which is consistent with the interests of the Holders of the Liquidation Trust Interests and with public policy. The Zonda Plan Debtors have complied with section 1129(a)(5) of the Bankruptcy Code.

DD. No Rate Changes – 11 U.S.C. § 1129(a)(6).

31. The Plan does not provide for rate changes by any of the Reorganized Zonda Debtors. Thus, section 1129(a)(6) of the Bankruptcy Code is not applicable in these Chapter 11 Cases.

EE. Best Interests of Creditors – 11 U.S.C. § 1129(a)(7).

32. The Plan satisfies section 1129(a)(7) of the Bankruptcy Code. The Disclosure Statement, the Plan Supplement, the Kopa Declaration, the Voting Report, and the other evidence proffered or adduced at the Combined Hearing (a) is persuasive and credible, (b) has not been controverted by other evidence, and (c) establishes that each Holder of an Impaired Claim or Interest either has accepted the Plan or will receive or retain under the Plan, on account of such Claim or Interest, property of a value, as of the Effective Date, that is not less than the amount

such Holder would receive or retain if the Zonda Plan Debtors were liquidated under chapter 7 of the Bankruptcy Code on such date in both liquidation scenarios.

FF. Acceptance by Certain Classes – 11 U.S.C. § 1129(a)(8).

33. Classes 1A–1B (Secured Tax Claims), Classes 2A–2B (Other Secured Claims), Classes 3A–3B (Other Priority Claims), Classes 6A–6B (Convenience Claims), Class 7A (Insurance Covered Claims), Classes 8A–8B (Intercompany Claims), Class 9A (PDSI Interests), and Class 9B (PDVIII Interests) are either Unimpaired under the Plan, or Impaired under the Plan but consenting to the Plan under either scenario, and are deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code. Class 4A (Zonda Secured Claims), Class 4B (Zonda Secured Claims), Class 5A (Zonda Deficiency Claims), and Class 5B (Zonda Deficiency Claims) have voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code. Accordingly, section 1129(a)(8) of the Bankruptcy Code is satisfied.

GG. Treatment of Administrative Expense Claims, Priority Tax Claims, and Other Priority Claims – 11 U.S.C. § 1129(a)(9).

34. The treatment of Administrative Expense Claims, Priority Tax Claims, and Professional Fee Claims, pursuant to Sections 2.1, 2.2, and 2.3 of the Plan, respectively, satisfies the requirements of sections 1129(a)(9)(A), (C), and (D) of the Bankruptcy Code, as applicable. The treatment of Other Priority Claims pursuant to Section 3.3(c) of the Plan satisfies the requirements of section 1129(a)(9)(B) of the Bankruptcy Code. On the Effective Date, the Zonda Plan Debtors or the Reorganized Zonda Debtors, as applicable, will have sufficient Cash to pay Allowed Administrative Expense Claims, Priority Tax Claims, and Other Priority Claims, and to fund the Professional Fee Escrow.

HH. Acceptance by Impaired Classes – 11 U.S.C. § 1129(a)(10).

35. Class 4A (Zonda Secured Claims), Class 4B (Zonda Secured Claims), Class 5A (Zonda Deficiency Claims), and Class 5B (Zonda Deficiency Claims) voted to accept the Plan

by the requisite majorities, determined without including any acceptance of the Plan by any insider, thereby satisfying the requirements of section 1129(a)(10) of the Bankruptcy Code.

II. Feasibility – 11 U.S.C. § 1129(a)(11).

36. The Disclosure Statement, the Plan Supplement, the Kopa Declaration, and the other evidence proffered or adduced at the Combined Hearing (a) is persuasive and credible, (b) has not been controverted by other evidence, and (c) establishes that if the Zonda Plan Debtors Prevail in the Zonda Arbitration or if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Plan is feasible and that Confirmation of the Plan is not likely to be followed by the need for further liquidation or further financial reorganization, thereby satisfying the requirements of section 1129(a)(11) of the Bankruptcy Code.

JJ. Payment of Statutory Fees – 11 U.S.C. § 1129(a)(12).

37. Pursuant to Section 12.1 of the Plan, all fees payable under section 1930 of chapter 123 of title 28 of the United States Code, together with any interest pursuant to section 3717 of title 31 of the United States Code, will be paid on the Effective Date and thereafter as may be required until the cases are closed, dismissed, or converted to chapter 7. Thus, the Plan satisfies the requirements of section 1129(a)(12) of the Bankruptcy Code.

KK. Benefit Plans – 11 U.S.C. § 1129(a)(13).

38. The Zonda Plan Debtors have no obligations to provide retiree benefits, and if PDSI had any such obligations those obligations were assumed and assigned pursuant to the First through Ninth Omnibus Assumption and Assignment Motions, filed in the PDSA case [Docket Nos. 641-643, 645, 655-658 and 695], and therefore, section 1129(a)(13) of the Bankruptcy Code is inapplicable in these Chapter 11 Cases.

LL. Domestic Support Obligations – 11 U.S.C. § 1129(a)(14).

39. The Zonda Plan Debtors are not required by a judicial or administrative order, or by statute, to pay any domestic support obligations, and therefore, section 1129(a)(14) of the Bankruptcy Code is inapplicable in these Chapter 11 Cases.

MM. The Zonda Plan Debtors Are Not Individuals – 11 U.S.C. § 1129(a)(15).

40. The Zonda Plan Debtors are not individuals, and therefore, section 1129(a)(15) of the Bankruptcy Code is inapplicable in these Chapter 11 Cases.

NN. No Applicable Nonbankruptcy Law Regarding Transfers – 11 U.S.C. § 1129(a)(16).

41. Each of the Zonda Plan Debtors that is a corporation is a moneyed, business, or commercial corporation or trust, and therefore, section 1129(a)(16) of the Bankruptcy Code is inapplicable in these Chapter 11 Cases.

OO. Only One Plan – 11 U.S.C. § 1129(c).

42. Because the Plan is the only chapter 11 plan filed in these Chapter 11 Cases, the Plan satisfies section 1129(c) of the Bankruptcy Code.

PP. Principal Purpose of the Plan – 11 U.S.C. § 1129(d).

43. Because the principal purpose of the Plan is not the avoidance of taxes or the avoidance of the application of section 5 of the Securities Act of 1933, the Plan satisfies section 1129(d) of the Bankruptcy Code.

QQ. Small Business Case – 11 U.S.C. § 1129(e).

44. None of these Chapter 11 Cases is a “small business case,” as that term is defined in the Bankruptcy Code, and, accordingly, section 1129(e) of the Bankruptcy Code is inapplicable.

RR. Good Faith Solicitation – 11 U.S.C. § 1125(e).

45. Based on the record before the Court in these Chapter 11 Cases, the Zonda Plan Debtors and their directors, officers, employees, members, agents, advisors, and professionals

have acted in “good faith” within the meaning of section 1125(e) of the Bankruptcy Code in compliance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, the Solicitation Procedures Motion, and the Scheduling Order in connection with all of their respective activities relating to the solicitation of acceptances or rejections of the Plan and their participation in the activities described in section 1125 of the Bankruptcy Code, and are entitled to the protections afforded by section 1125(e) of the Bankruptcy Code and the exculpation provisions in Section 12.5 of the Plan.

SS. Injunctions, Exculpations, and Releases.

46. The Court has jurisdiction under sections 1334(a) and (b) of the United States Code to approve the injunctions or stays, injunction against interference with the Plan, releases, and exculpations as set forth in the Plan, including those set forth in Article XII of the Plan. The Zonda Plan Debtor Release under Section 12.2(a) of the Plan is reasonable in scope and no objections have been filed. The Third Party Release as set forth in Section 12.2(b) of the Plan is subject to the exceptions set forth therein and the exceptions set forth in paragraphs 82 and 83 of this Order, has been provided consensually, is integral to the Plan, and is therefore consistent with prior case law, permissible, and reasonable. The exculpation provisions in Section 12.5 of the Plan are subject to the exceptions set forth therein and in paragraphs 82 and 83 of this Order, are consistent with prior case law, reasonable in scope, integral to the Plan, and appropriate.

TT. Implementation.

47. All documents necessary to implement the Plan, including those contained in the Plan Supplement, and all other relevant and necessary documents have been negotiated in good faith and at arms’ length and shall, upon completion of documentation and execution, be valid, binding, and enforceable agreements and not be in conflict with any federal or state law.

UU. Executory Contracts and Unexpired Leases.

48. The Zonda Plan Debtors have exercised reasonable business judgment in determining whether to assume or reject Executory Contracts and Unexpired Leases pursuant to Section 10.1 of the Plan. Each rejection of an Executory Contract or Unexpired Lease pursuant to Section 10.1 of the Plan shall be legal, valid, and binding upon the Reorganized Zonda Debtors and their successors and assigns and all non-Zonda Plan Debtor parties and their successors and assigns to such Executory Contract or Unexpired Lease, all to the same extent as if such rejection had been effectuated pursuant to an order of the Court under section 365 of the Bankruptcy Code entered before entry of this Confirmation Order.

VV. Good Faith.

49. The Released Parties will be acting in good faith if they proceed to (a) consummate the Plan and the agreements, settlements, transactions, and transfers contemplated thereby, and (b) take the actions authorized and directed by this Confirmation Order or the Plan.

WW. Conditions Precedent to Effective Date.

50. Without limiting any applicable restrictions or rights of certain parties, the conditions precedent to the Effective Date set forth in Section 11.2 of the Plan may be waived in writing in whole or in part by the Zonda Plan Debtors if the Zonda Plan Debtors Prevail in the Zonda Arbitration, or by SHI if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, without notice or order of the Court.

XX. Satisfaction of Confirmation Requirements.

51. The Plan satisfies the requirements for confirmation set forth in section 1129 of the Bankruptcy Code.

YY. Objections.

52. All parties have had a full and fair opportunity to litigate all issues raised, or which might have been raised, in any objection to the Plan, and any such objections have been fully and fairly litigated.

ZZ. Retention of Jurisdiction.

53. The Court may, and upon the Effective Date shall, retain exclusive jurisdiction over all matters arising out of, and related to, the Chapter 11 Cases, including the matters set forth in Section 13.1 of the Plan and section 1142 of the Bankruptcy Code.

ACCORDINGLY, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED THAT:

I. Confirmation.

54. The Plan annexed hereto as Exhibit A and each of its provisions, as modified pursuant to section 1127 of the Bankruptcy Code, are hereby approved and **CONFIRMED** under section 1129 of the Bankruptcy Code. The terms of the Plan and the Plan Supplement, each as may be modified, are incorporated by reference into and are an integral part of the Plan and this Confirmation Order.

II. Plan Supplement.

55. The documents contained in the Plan Supplement and any amendments, modifications, and supplements thereto, and all documents and agreements introduced into evidence by the Zonda Plan Debtors at the Combined Hearing (including all exhibits and attachments thereto and documents referred to therein), and the execution, delivery, and performance thereof by the Zonda Plan Debtors, are authorized and approved.

III. Modifications to the Plan.

56. The modifications to the Plan, including, without limitation, the modifications to the Plan and the Plan Supplement since the commencement of solicitation, constitute technical changes and do not materially adversely affect or change the treatment of any

Claims. Accordingly, pursuant to Bankruptcy Rule 3019 and in accordance with Section 14.2 of the Plan, such modifications do not require additional disclosure under section 1125 of the Bankruptcy Code or re-solicitation of votes under section 1126 of the Bankruptcy Code, nor do they require that Holders of Claims be afforded an opportunity to change previously cast acceptances or rejections of the Plan. To the extent any creditor or party in interest has not accepted the modifications to the Plan in writing, the treatment of Claims of any such creditors under the Plan, as modified, is not adverse and, pursuant to Local Rule 3019-1, Holders of Claims who voted to accept the solicitation version of the Plan are deemed to accept the Plan as modified. Prior to the Effective Date, and subject to the prior written consent of SHI, the Zonda Plan Debtors may make additional appropriate technical adjustments and modifications to the Plan and the documents contained in the Plan Supplement without further order or approval of the Court.

IV. Omission of Reference to Particular Plan Provisions.

57. The failure to specifically describe or include any particular provision of the Plan in this Confirmation Order shall not diminish or impair the effectiveness of such provision, it being the intent of this Court that the Plan be approved and confirmed in its entirety.

V. Solicitation and Notice.

58. The Combined Hearing Notice complied with the terms of the Scheduling Order, was appropriate and satisfactory based on the circumstances of these Chapter 11 Cases, and was in compliance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules. The solicitation of votes on the Plan and the Solicitation Packages complied with the solicitation procedures in the Solicitation Procedures Motion and the Scheduling Order, were appropriate and satisfactory based upon the circumstances of these Chapter 11 Cases, and were in compliance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules. The Zonda Plan Debtors solicited acceptances of the Plan in good faith and

in compliance with the applicable provisions of the Bankruptcy Code, including, without limitation, sections 1125(a) and (e) of the Bankruptcy Code, and any applicable nonbankruptcy law, rule, or regulation governing the adequacy of disclosure in connection with such solicitation. The Zonda Plan Debtors and each of their respective directors, officers, employees, affiliates, agents, financial advisors, professionals, accountants, and attorneys participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the solicitation of votes under the Plan, and therefore are not, and on account of such solicitation will not be, liable at any time for any violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan.

VI. Vesting of Assets.

59. On the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, if the Zonda Plan Debtors Prevail in the Zonda Arbitration, all property of each Zonda Plan Debtor's Estate, including, but not limited to, all rights, claims, and Causes of Action, shall vest in such Reorganized Zonda Debtors free and clear of all Claims, liens, encumbrances, charges, and other interests, except as provided pursuant to the Plan or this Confirmation Order. If the Zonda Plan Debtors Prevail in the Zonda Arbitration, on or after the Effective Date, the Reorganized Zonda Debtors may operate their businesses and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending cases under any chapter or provision of the Bankruptcy Code, except as provided in the Plan or in this Confirmation Order. If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, except as provided in the Plan or this Confirmation Order, on the Effective Date, the proceeds of the Liquidation Trust Funding Amount Escrow Account and the Liquidation Trust Assets shall be transferred to the Liquidation Trust, free and clear as provided in the Plan and the Liquidation Trust Agreement.

60. This Confirmation Order is binding on all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, registrars of patents, trademarks, or other intellectual property, administrative agencies, governmental departments, secretaries of state, federal, state, and local officials, and all other Persons and Entities who may be required by operation of law, the duties of their office, or contract, to accept, file, register, or otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any lease (collectively, the “Recordation Officers”). Each and every Recordation Officer is authorized, from and after the Effective Date, to strike all Claims, Interests, Liens, or other encumbrances in or against the Zonda Plan Debtors’ assets from their records, official and otherwise, without further order of the Court or act of any party. Each and every Recordation Officer is authorized to file, record, and/or register any and all documents and instruments presented to consummate or memorialize the Plan and the Plan Documents.

61. The terms and provisions of the Plan and this Confirmation Order shall upon the Effective Date be binding in all respects upon (a) the Zonda Plan Debtors and their affiliates, (b) all known and unknown creditors of, and holders of equity security interests in, any Zonda Plan Debtor, including any holders of Claims, Interests, Liens, and other encumbrances, (c) the Released Parties, and (d) all interested parties, and all successors and assigns of any of the foregoing.

62. If the Zonda Plan Debtors Prevail in the Zonda Arbitration, the Reorganized Zonda Debtors and the Zonda Plan Debtors, shall be discharged, on the Effective Date, from all Claims, Interests, Liens, other encumbrances, and liabilities of any kind or nature whatsoever, to the fullest extent permitted under section 1141 of the Bankruptcy Code, except as otherwise specifically set forth in the Plan or this Confirmation Order; *provided, however*, for the avoidance

of doubt, if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, and the Liquidation Trust is formed, there shall be no discharge.

63. Pursuant to section 1141(c) and 363(f) of the Bankruptcy Code, on the Effective Date, all Persons are forever prohibited and enjoined from taking any action against the Reorganized Zonda Debtors, the Zonda Plan Debtors, or the Liquidation Trust, as applicable, based on any Claims, Interests, Liens, and other encumbrances, to the extent such Claims, Interests, Liens, and other encumbrances are released or discharged pursuant to the terms of the Plan and this Confirmation Order.

VII. Plan Implementation Authorization.

64. The Reorganized Zonda Debtors, the Zonda Plan Debtors, or the Liquidation Trust, as applicable, and their respective directors, officers, members, agents, and attorneys, and financial advisors are authorized and empowered from and after the date hereof to negotiate, execute, issue, deliver, implement, file, or record any contract, instrument, release, or other agreement or document related to the Plan, including the Liquidation Trust Agreement, any other document included in the Plan Supplement, or any document related or ancillary thereto (each according to their terms), as the same may be modified, amended, and supplemented, and to take any action necessary or appropriate to implement, effectuate, consummate, or further evidence the Plan in accordance with its terms, or take any or all corporate actions authorized to be taken pursuant to the Plan whether or not specifically referred to in the Plan or any Plan Document, without further order of the Court. To the extent applicable, any or all such documents shall be accepted upon presentment by each of the respective state filing offices and recorded in accordance with the applicable law and shall become effective in accordance with their terms and the provisions of applicable law. Pursuant to the applicable provisions of the business corporation laws of the British Virgin Islands, and the general corporate law of Delaware, or any other

jurisdiction, as applicable, no action of the Zonda Plan Debtors' boards of directors or the Reorganized Zonda Debtors' boards of directors will be required to authorize the Reorganized Zonda Debtors, the Zonda Plan Debtors, or the Liquidation Trust, as applicable, to enter into, execute and deliver, adopt, or amend, as the case may be, any such contract, instrument, release, or other agreement or document related to the Plan, and following the Effective Date, each of the Plan Documents will be a legal, valid, and binding obligation of the Reorganized Zonda Debtors, the Zonda Plan Debtors, or the Liquidation Trust, as applicable, enforceable against the Reorganized Zonda Debtors, the Zonda Plan Debtors, or the Liquidation Trust in accordance with the respective terms thereof.

VIII. Restructuring Transactions.

65. If the Zonda Plan Debtors Prevail in the Zonda Arbitration, subject to the terms of the Plan and the Plan Documents, from and after the Effective Date, the Reorganized Zonda Debtors, are authorized to take all actions as may be necessary or appropriate to satisfy the Zonda Plan Debtors' springing obligations under the New First Lien Notes and the New Second Lien PIK Toggle Notes, including, without limitation: (a) the execution and delivery of all appropriate agreements or other documents of merger, consolidation, restructuring, conversion, disposition, transfer, dissolution, or liquidation containing terms that are consistent with the terms of the Plan and that satisfy the requirements of applicable law and any other terms to which the applicable Entities may agree; (b) the execution and delivery of appropriate instruments of transfer, assignment, assumption, or delegation of any asset, property, right, liability, debt, or obligation on terms consistent with the terms of the Plan and having other terms for which the applicable parties agree; (c) rejection or assumption, as applicable, of Executory Contracts and Unexpired Leases; (d) the filing and/or execution of appropriate limited liability company agreements, certificates, or articles of incorporation or organization, reincorporation, merger,

consolidation, conversion, or dissolution pursuant to applicable law, and amendments or amendments and restatements of the foregoing; (e) the consummation of the transactions contemplated by the New First Lien Notes Documentation and the New Second Lien PIK Toggle Notes Documentation, and the execution thereof; and (f) all other actions that the applicable Entities determine to be necessary or appropriate to give effect to the Plan, including making filings or recordings that may be required by applicable law.

IX. Certain Securities Law Matters.

66. If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trust Interests, which will be distributed to the Holders of Allowed Zonda Deficiency Claims on account of such Claims, shall not be “securities” under federal and state securities laws, or to the extent they are “securities,” their issuance shall be exempt from the registration requirements of section 5 of the Securities Act and any other applicable United States laws requiring registration prior to the offering, issuance, distribution, or sale of securities in accordance with, and pursuant to, section 1145 of the Bankruptcy Code. The Plan and Liquidation Trust Agreement prohibit the transfer or assignment of the Liquidation Trust Interests except by will, intestate succession or by operation of law. To the extent that the Liquidation Trust Interests are “securities,” the Liquidation Trust Interests will be not be required to be registered under Section 12(g) of the Exchange Act.

X. Plan Classification Controlling.

67. The classification of Claims and Interests for purposes of the distributions to be made under the Plan shall be governed solely by the terms of the Plan. The classifications set forth on the Ballots tendered to or returned by the Zonda Plan Debtors’ creditors in connection with voting on the Plan (a) were set forth on the Ballots for purposes of voting to accept or reject the Plan, (b) do not necessarily represent, and in no event shall be deemed to modify or otherwise

affect, the actual classification of such Claims and Interests under the Plan for distribution purposes, and (c) shall not be binding on the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust as applicable.

XI. Preservation of Claims and Causes of Action.

68. The preservation of Retained Actions pursuant to Section 7.3 of the Plan, is fair and reasonable and is approved.

XII. General Powers, Rights, and Responsibilities of the Liquidation Trustee.

69. If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trustee shall have authority and right to carry out and implement all provisions of the Plan on behalf of the Zonda Plan Debtors, as provided in the Liquidation Trust Agreement and Section 6.4 of the Plan.

XIII. Directors and Officers of the Reorganized Zonda Debtors or the Zonda Plan Debtors, as Applicable.

70. If the Zonda Plan Debtors Prevail in the Zonda Arbitration, the officers of the respective Zonda Plan Debtors immediately before the Effective Date shall serve as the initial officers of each of the respective Reorganized Zonda Debtors on or after the Effective Date and in accordance with any employment agreement with the Reorganized Zonda Debtors and applicable nonbankruptcy law. After the Effective Date, the selection of officers of the Reorganized Zonda Debtors shall be as provided by their respective organizational documents. If the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration, the Liquidation Trustee will select the composition of the boards of directors and officers of the Zonda Plan Debtors. To the extent applicable, the members of the board of directors for each of the Reorganized Zonda Debtors after the Effective Date shall be determined as set forth in the Reorganized Zonda Debtors' organizational documents. The Zonda Plan Debtors have disclosed the identities of the members of each board of directors of the Reorganized Zonda Debtors if the Zonda Plan Debtors Prevail in

the Zonda Arbitration and if the Zonda Plan Debtors Do Not Prevail in the Zonda Arbitration as required pursuant to section 1129(a)(5) of the Bankruptcy Code.

XIV. Distributions Under the Plan.

71. The provisions of Article VIII and Section 6.4 of the Plan, including, without limitation, the provisions governing distributions, are fair and reasonable and are approved.

XV. Disputed Claims.

72. The provisions of Article IX of the Plan, including, without limitation, the provisions governing procedures for resolving Disputed Claims, are fair and reasonable and are approved.

XVI. Executory Contracts.

73. In accordance with Section 10.1 of the Plan, on the Effective Date, except as otherwise provided in the Plan, each Executory Contract and Unexpired Lease not previously rejected, assumed, or assumed and assigned by the Zonda Plan Debtors during these Chapter 11 Cases or pursuant to the Plan shall be deemed automatically rejected pursuant to sections 365 and 1123 of the Bankruptcy Code, unless such Executory Contract or Unexpired Lease (a) has previously been assumed by order of the Bankruptcy Court in effect as of the Effective Date (which order may be this Confirmation Order); (b) is the subject of a motion to assume filed on or before the Effective Date; (c) is identified on the Schedule of Assumed Executory Contracts or Unexpired Leases filed in the Plan Supplement; or (d) has expired or terminated pursuant to its own terms.

74. Subject to the occurrence of the Effective Date, entry of this Confirmation Order by the Court shall constitute approval of the assumptions provided for in the Plan pursuant to sections 365(a) and 1123 of the Bankruptcy Code and a determination by the Court that the Reorganized Zonda Debtors have provided adequate assurance of future performance under such

assumed Executory Contracts and Unexpired Leases. In accordance with the Plan, all Executory Contracts and Unexpired Leases not listed on the Schedule of Assumed Executory Contracts and Unexpired Leases on the Effective Date shall be deemed rejected by the Zonda Plan Debtors. Any objection to the rejection of an Executory Contract or Unexpired Lease (each, a “Rejection Objection”) shall be scheduled for a hearing before the Court at a time and date to be scheduled by the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, in consultation with the Court.

XVII. Approval of Liquidation Trust.

75. The Formation of the Liquidation Trust pursuant to Article VI of the Plan and the Liquidation Trust Agreement, filed as Exhibit A to the Plan Supplement, is approved.

XVIII. Exemption from Certain Transfer Taxes.

76. If the Zonda Plan Debtors Prevail in the Zonda Arbitration, to the fullest extent permitted by applicable law, all sale transactions and asset transfers consummated by the Zonda Plan Debtors and approved by the Bankruptcy Court on and after the Confirmation Date through and including the Effective Date, including any issuance, sale, and/or transfer effectuated under the Plan, the sale by the Zonda Plan Debtors of any owned property pursuant to section 363(b) or 1123(b)(4) of the Bankruptcy Code, any assumption, assignment, and/or sale by the Zonda Plan Debtors of their interests in Executory Contracts or Unexpired Leases pursuant to section 365(a) of the Bankruptcy Code, and the creation, modification, consolidation, or recording of any mortgage or security interest pursuant to the terms of the Plan shall constitute a “transfer under a plan” within the purview of section 1146 of the Bankruptcy Code, and shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax. This Confirmation Order is and shall be binding upon and shall govern the acts of all entities, including, without limitation, all Recordation Officers.

XIX. Federal Income Tax Treatment of the Liquidation Trust.

77. The Federal Income Tax Treatment of the Liquidation Trust pursuant to Section 6.7 of the Plan is approved.

XX. [Reserved] .

78. [Reserved]

XXI. Term of Injunctions or Stays.

79. Unless otherwise provided in the Plan or in this Confirmation Order, all injunctions or stays arising under or entered during the Chapter 11 Cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the later of the Effective Date and the date indicated in the order providing for such injunction or stay. Notwithstanding anything to the contrary in the Plan or this Confirmation Order, neither the Plan nor this Confirmation Order shall limit, impair, or otherwise affect the Court's ability to enter an order lifting any stay that is in effect.

XXII. Releases, Exculpations, and Injunctions.

80. Subject to this Confirmation Order, the release, exculpation, and injunction provisions set forth in Article XII of the Plan approved and shall be effective and binding on all persons and entities to the extent provided and limited therein and in paragraphs 82 and 83 of this Order.

XXIII. Governmental Units.

81. As to any Governmental Unit, nothing in the Plan or this Confirmation Order shall limit or expand the scope of discharge, release, or injunction to which the Zonda Plan Debtors or Reorganized Zonda Debtors are entitled to under the Bankruptcy Code, if any. The discharge, release, and injunction provisions contained in the Plan and Confirmation Order are not intended and shall not be construed to bar any Governmental Unit from, subsequent to this Confirmation Order, pursuing any police or regulatory action.

82. Accordingly, notwithstanding anything contained in the Plan or this Confirmation Order to the contrary, nothing in the Plan or Confirmation Order shall discharge, release, impair, or otherwise preclude: (a) any liability to any Governmental Unit that is not a “claim” within the meaning of section 101(5) of the Bankruptcy Code; (b) any Claim of any Governmental Unit arising on or after the Confirmation Date; (c) any valid right of setoff or recoupment of any Governmental Unit against any of the Zonda Plan Debtors; or (d) any liability of the Zonda Plan Debtors or Reorganized Zonda Debtors under police or regulatory statutes or regulations to any Governmental Unit as the owner, lessor, lessee, or operator of property that such entity owns, operates, or leases after the Confirmation Date. Nor shall anything in this Confirmation Order or the Plan: (i) enjoin or otherwise bar any Governmental Unit from asserting or enforcing, outside the Bankruptcy Court, any liability described in the preceding sentence; or (ii) divest any court, commission, or tribunal of jurisdiction to determine whether any liabilities asserted by any Governmental Unit are discharged or otherwise barred by this Confirmation Order, the Plan, or the Bankruptcy Code.

83. Moreover, nothing in this Confirmation Order or the Plan shall release or exculpate any non-Zonda Plan Debtor, including any Released Parties, from any liability to any Governmental Unit, including, but not limited to, any liabilities arising under the Internal Revenue Code, the environmental laws, or the criminal laws against the Released Parties, nor shall anything in this Confirmation Order or the Plan enjoin any Governmental Unit from bringing any claim, suit, action, or other proceeding against the Released Parties for any liability whatsoever; *provided, however*, that the foregoing sentence shall not limit the scope of discharge, if any, granted to the Zonda Plan Debtors under sections 524 and 1141 of the Bankruptcy Code.

XXIV. Governmental Approvals.

84. Each federal, state, commonwealth, local, foreign, or other governmental agency is directed and authorized to accept the validity of (a) any and all documents, trust agreements, mortgages, and instruments, and (b) all actions of the Zonda Plan Debtors that are necessary or appropriate to effectuate, implement, or consummate the transactions contemplated by the Plan, this Confirmation Order, and the agreements created or contemplated by the Plan or this Confirmation Order, without payment of any recording tax, stamp tax, transfer tax, or similar tax imposed by state or local law.

XXV. Injunction Against Interference with Plan.

85. Upon entry of this Confirmation Order, all Holders of Claims or Interests and other parties in interest, along with their respective present or former employees, agents, officers, directors, principals, and affiliates, shall be enjoined from taking any actions to interfere with the implementation or consummation of the Plan.

XXVI. Notice of Entry of Confirmation Order and Effective Date.

86. On or before the fourteenth (14th) day following the date of entry of this Confirmation Order, the Zonda Plan Debtors or Reorganized Zonda Debtors, as applicable, shall serve notice of entry of this Confirmation Order pursuant to Bankruptcy Rules 2002(f)(7), 2002(k), and 3020(c) on all creditors and interest holders, the U.S. Trustee, and other parties in interest, by causing notice of entry of this Confirmation Order (the “Notice of Confirmation”), to be delivered to such parties by first-class mail, postage prepaid. The Zonda Plan Debtors or the Reorganized Zonda Debtors, as applicable, shall also post the Notice of Confirmation on the website maintained by the Solicitation Agent, at <http://cases.primeclerk.com/pacificdrilling/> (the “Case Website”). The notice described herein is adequate under the circumstances, and no other or further notice is necessary.

XXVII. Notice of Effective Date.

87. As soon as practicable after the occurrence of the Effective Date, the Reorganized Zonda Debtors or the Liquidation Trust, as applicable, shall serve notice of the Effective Date on all creditors and interest holders, the U.S. Trustee, and other parties in interest, by causing notice of the Effective Date in the form annexed hereto as Exhibit B (“Notice of Effective Date”) to be delivered to such parties by first-class mail, postage prepaid. The Reorganized Zonda Debtors or the Liquidation Trust, as applicable, shall also post the Notice of Effective Date on the Case Website. The Notice of Effective Date shall include notice of the deadline for (a) filing Proofs of Claim arising out of rejection of Executory Contracts or Unexpired Leases upon the Effective Date and (b) filing Administrative Claims.

XXVIII. Retention of Jurisdiction.

88. Pursuant to sections 105(a) and 1142 of the Bankruptcy Code, this Court shall retain exclusive jurisdiction with respect to all matters arising from or related to the Chapter 11 Cases, the Plan, and the implementation of this Confirmation Order, including, without limitation, those matters set forth in Article XIII of the Plan, including, all Retained Actions by or on behalf of the Zonda Plan Debtors, Reorganized Zonda Debtors, or the Liquidation Trust.

XXIX. Payment of Statutory Fees.

89. All fees payable pursuant to section 1930 of title 28 of the United States Code, together with any interest pursuant to section 3717 of title 31 of the United States Code, shall continue to be paid by the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, on the earlier of when due or the Effective Date. All applicable post-confirmation statutory fees shall continue to be paid until the cases are closed, dismissed, or converted to chapter 7.

XXX. Payment of Professionals After the Effective Date.

90. The Reorganized Zonda Debtors or the Liquidation Trust, as applicable, are authorized to pay compensation for services rendered or reimbursement of expenses incurred after the Effective Date in the ordinary course without the need for Bankruptcy Court approval.

XXXI. Funding of Professional Fee Escrow.

91. On the Effective Date, the Zonda Plan Debtors, the Reorganized Zonda Debtors, or the Liquidation Trust, as applicable, shall establish and fund the Professional Fee Escrow with Cash equal to the Professional Fee Escrow Amount.

XXXII. Documents, Mortgages, and Instruments.

92. Each federal, state, commonwealth, local, foreign, or other governmental agency is hereby authorized to accept any and all documents, mortgages, and instruments necessary or appropriate to effectuate, implement, or consummate the transactions contemplated by the Plan.

XXXIII. Activities in Anticipation of the Effective Date.

93. The Zonda Plan Debtors are hereby authorized and empowered to take all necessary steps, and pay all related expenses, in anticipation of the Effective Date, including, without limitation, effectuating the transactions contemplated by the Plan and this Confirmation Order.

XXXIV. Substantial Consummation.

94. On the Effective Date, the Plan shall be deemed to be substantially consummated pursuant to sections 1101 and 1127(b) of the Bankruptcy Code.

XXXV. Severability.

95. This Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may be amended in accordance with Section 14.2 of the Plan, is (a) valid and enforceable pursuant to its terms, (b) integral to the Plan and may

not be deleted or amended other than in accordance with Section 14.2 of the Plan, and (c) non-severable and mutually dependent.

XXXVI. Immediate Binding Effect.

96. Pursuant to section 1141, as applicable, and the other applicable provisions of the Bankruptcy Code, on or after entry of this Confirmation Order and subject to the occurrence of the Effective Date, the terms of the Plan (including all documents and agreements executed pursuant thereto or in connection therewith), the Plan Supplement, and this Confirmation Order shall be immediately effective and enforceable and shall bind the Zonda Plan Debtors, the Reorganized Zonda Debtors, the Liquidation Trust the Released Parties, the Exculpated Parties, all Holders of Claims and Interests (irrespective of whether such Claims or Interests are Impaired under the Plan or whether the Holders of such Claims or Interests accepted or are deemed to have accepted the Plan), any other person giving, acquiring, or receiving property under the Plan, any and all non-Zonda Plan Debtor parties to Executory Contracts and Unexpired Leases with any of the Zonda Plan Debtors, any other party in interest in these Chapter 11 Cases, and the respective heirs, executors, administrators, successors, or assigns, if any, of any of the foregoing. On the Effective Date, the releases, discharges, exculpations, and injunctions set forth in the Plan and approved by this Order shall be effective and binding on Persons who may have had standing to assert any released, discharged, exculpated, or enjoined Causes of Action after the Effective Date.

XXXVII. Conflicts Between Confirmation Order and the Plan.

97. To the extent of any inconsistency between the provisions of the Plan and this Confirmation Order, the terms and provisions contained in this Confirmation Order shall govern. The provisions of this Confirmation Order are integrated with each other and are non-severable and mutually dependent unless expressly stated by further order of this Court.

XXXVIII. Stay of Confirmation.

98. The requirements under Bankruptcy Rule 3020(e) that an order confirming a plan is stayed until the expiration of 14 days after entry of the order are hereby waived. This Confirmation Order shall take effect immediately and shall not be stayed pursuant to Bankruptcy Rules 3020(e), 6004(g), 6006(d), or 7062.

XXXIX. Modifications and Amendments.

99. The Plan may be amended, modified, or supplemented by the Zonda Plan Debtors in accordance with Section 14.2 of the Plan.

XL. Final Order.

100. This Confirmation Order is a final order and the period in which an appeal must be filed shall commence upon the entry hereof.

XLI. Post-Confirmation Reporting.

101. The Zonda Plan Debtors shall continue to file post-confirmation monthly operating reports until the cases are closed, dismissed, or converted to chapter 7, and shall file the reports required under Local Rule 3020.

Dated: January 30, 2019
New York, New York

/s/ Michael E. Wiles

THE HONORABLE MICHAEL E. WILES
UNITED STATES BANKRUPTCY JUDGE

Exhibit A

Modified Amended Joint Plan of Liquidation/Reorganization

Exhibit B

Notice of Effective Date
