ROWAN COMPANIES PLC
Form 10-Q
August 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM_____TO_____

1-5491
Commission File Number
Rowan Companies plc
(Exact name of registrant as specified in its charter)

England and Wales	98-1023315
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2800 Post Oak Boulevard, Suite 5450, Houston, Texas	77056-6189
(Address of principal executive offices)	(Zip Code)

(713) 621-7800
(Registrant's telephone number, including area code)

Inapplicable
(Former name, former address and former fiscal year, if changed since last report)

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer	þ	Accelerated filer	¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company)

Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The number of Class A ordinary shares, $0.125 par value, outstanding at Thursday, July 26, 2018, was 127,053,984, which excludes 1,148,701 shares held by an affiliated employee benefit trust.

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FORWARD-LOOKING STATEMENTS

Statements contained in this quarterly report on Form 10-Q (this "Quarterly Report"), including in the documents incorporated by reference herein, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "could," "may," "might," "should," "will," "forecast," "potential," "outlook," "scheduled," "predict," "will be," "will continue," "will likely result," and similar words and specifically include statements regarding expected financial and operating performance; dividend payments; share repurchases or repayment of debt; business strategies; expected utilization, day rates, revenue, operating expenses, contract terms, contract backlog and fleet status; performance of our joint venture with Saudi Aramco; capital expenditures; tax rates and positions; impairments; insurance coverages; access to financing and funding sources, including borrowings under our Existing Credit Facility and New Credit Facility; the availability, delivery, mobilization, contract commencement, relocation or other movement of rigs and the timing thereof; construction, enhancement, upgrade or repair and costs and timing thereof; the suitability of rigs for future contracts; general market, business and industry conditions, trends and outlook; rig demand; future operations; the impact of increasing regulatory requirements; divestiture of selected assets; expense management; the likely outcome of legal proceedings; the impact of competition and consolidation in the industry; the timing of acquisitions, dispositions and other business transactions; customer financial position; and commodity prices. Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including:

- prices of oil and natural gas and industry expectations about future prices and impacts of regional or global financial or economic downturns;
- changes in the offshore drilling market, including fluctuations in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild drilling units;
- variable levels of drilling activity and expenditures in the energy industry, whether as a result of actions by OPEC, global capital markets and liquidity, application of alternate energy sources, prices of oil and natural gas or otherwise, which may result in decreased demand and/or cause us to idle or stack, sell or scrap additional rigs;
- possible termination, suspension, renegotiation or cancellation of drilling contracts (with or without cause) as a result of general and industry economic conditions, distressed financial condition of our customers, force majeure, mechanical difficulties, delays, labor disturbances, strikes, performance or other reasons; payment or operational delays by our customers; or restructuring or insolvency of significant customers;
- changes or delays in actual contract commencement dates, contract option exercises, contract revenue and contract awards;
- our ability to enter into, and the terms of, future drilling contracts for drilling units whose contracts are expiring and drilling units currently idled or stacked;
- downtime, lost revenue and other risks associated with drilling operations, operating hazards, or rig relocations and transportation, including rig or equipment failure, collisions, damage and other unplanned repairs, the availability of transport vessels, hazards, self-imposed drilling limitations and other delays due to weather conditions, work stoppages or otherwise, and the availability or high cost of insurance coverage for certain offshore perils or associated removal of wreckage or debris and other losses;
- regulatory, legislative or permitting requirements affecting drilling operations and other compliance obligations in the areas in which we operate;
- tax matters, including our effective tax rates, tax positions, results of audits, tax disputes, changes in tax laws, treaties and regulations, tax assessments and liabilities for taxes;
- our ability to realize the expected benefits of our joint venture with Saudi Aramco, including our ability to fund any required capital contributions, and increased risks of concentrated operations in the Middle East;
- access to spare parts, equipment and personnel to maintain, service and upgrade our fleet;
- potential cost overruns and other risks inherent to repair, inspections or upgrade of drilling units, unexpected delays in rig and equipment delivery and engineering or design issues, delays in acceptance by our customers, or delays in the

dates our drilling units will enter a shipyard, be transported and delivered, enter service or return to service;

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- operating hazards, including environmental or other liabilities, risks, expenses or losses, related to well-control issues, collisions, groundings, blowouts, fires, explosions, weather or hurricane delays or damage, losses or liabilities (including wreckage or debris removal) or otherwise;
- our ability to retain highly skilled personnel on commercially reasonable terms, whether due to competition, cost cutting initiatives, labor regulations, unionization or otherwise; our ability to seek and receive visas for our personnel to work in our areas of operation in a timely manner;
- governmental action and political and economic uncertainties, including uncertainty or instability resulting from civil unrest, military or political demonstrations, acts of war, strikes, terrorism, piracy or outbreak or escalation of hostilities or other crises which may result in expropriation, nationalization, confiscation, damage or deprivation of assets, extended business interruptions, suspended operations, or suspension and/or termination of contracts and payment disputes based on force majeure events;
- cyber-breaches of our corporate or offshore control and data networks;
- epidemics or other related travel restrictions that may result in business interruptions or shortages of available labor;
- the outcome of legal proceedings, or other claims or contract disputes, including inability to collect receivables or resolve significant contractual or day rate disputes, any renegotiation, nullification, cancellation or breach of contracts with customers or other parties;
- potential for asset impairments;
- our liquidity, adequacy of cash flows to meet obligations, or our ability to access or obtain financing and other sources of capital, such as in the debt or equity capital markets;
- volatility in currency exchange rates and limitations on our ability to use or convert illiquid currencies;
- effects of accounting changes and adoption of accounting policies;
- potential unplanned expenditures and funding requirements, including investments in pension plans and other benefit plans;
- system implementations and upgrades;
- economic volatility and political, legal and tax uncertainties following the June 23, 2016 vote in the U.K. to exit from the European Union ("Brexit") and any subsequent referendum in Scotland to seek independence from the U.K.;
- other important factors described from time to time in the reports filed by us with the SEC and the NYSE.

Should one or more of these risks or uncertainties materialize or should our underlying assumptions prove incorrect, actual results may vary materially from those indicated.

All forward-looking statements contained in this Quarterly Report speak only as of the date of this report and are expressly qualified in their entirety by such factors. We undertake no obligation to update or revise publicly any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this Quarterly Report, or to reflect the occurrence of unanticipated events, except as required by applicable law.

Other relevant factors are included in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2017.

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GLOSSARY OF TERMS

The following frequently used abbreviations or acronyms are used in this Quarterly Report as defined below:

Abbreviation/Acronym	Definition
2017 Notes	The Company's 5% Senior Notes due 2017
2019 Notes	The Company's 7.875% Senior Notes due 2019
2022 Notes	The Company's 4.875% Senior Notes due 2022
2024 Notes	The Company's 4.75% Senior Notes due 2024
2025 Notes	The Company's 7.375% Senior Notes due 2025
2042 Notes	The Company's 5.4% Senior Notes due 2042
2044 Notes	The Company's 5.85% Senior Notes due 2044
ARO	Saudi Aramco Rowan Offshore Drilling Company
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Board	Board of directors of the Company
Company	Rowan Companies, plc together with its wholly-owned subsidiaries
Company Compensation Committee	Compensation committee of the board of directors of the Company
EBT	Employee benefit trust of the Company
Exchange Act	Securities Exchange Act of 1934
Existing Credit Agreement	The Company's amended and restated senior unsecured revolving credit agreement entered into with a group of lenders on May 22, 2018, which matures January 23, 2021
Existing Credit Facility	Commitments in the amount of $310.7 million provided by a group of lenders under the Existing Credit Agreement
FASB	Financial Accounting Standards Board
IRS	U.S. Internal Revenue Service
New Credit Agreement	The Company's senior unsecured revolving credit agreement entered into with a group of lenders on May 22, 2018, which matures May 22, 2023
New Credit Facility	Commitments in the amount of $955 million provided by a group of lenders under the New Credit Agreement
NYSE	The New York Stock Exchange
OPEC	Organization of Petroleum Exporting Countries
P-Units	Performance Units
RCI	Rowan Companies Inc., a subsidiary of the Company
Rowan plc	Rowan Companies plc
RSUs	Restricted Share Units
SARs	Share Appreciation Rights
Saudi Aramco	Saudi Arabian Oil Company
SEC	The United States Securities and Exchange Commission
Senior Notes	The 2019 Notes, 2022 Notes, 2024 Notes, 2025 Notes, 2042 Notes and 2044 Notes, collectively
Subject Notes	The 2017 Notes, 2019 Notes, 2022 Notes and the 2024 Notes, collectively
TSR	Total Shareholder Return
U.K.	United Kingdom
U.S.	United States
U.S. Tax Act	2017 Tax Cuts and Jobs Act
US GAAP	Accounting principles generally accepted in the United States of America
US GOM	United States Gulf of Mexico
USD	U.S. Dollar

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
REVENUE	$241.3	$320.2	$452.5	$694.5
COSTS AND EXPENSES:				
Direct operating costs (excluding items below)	176.3	168.8	333.7	340.1
Depreciation and amortization	97.4	101.5	195.3	200.6
Selling, general and administrative	25.2	22.2	50.8	46.4
Loss on disposals of property and equipment	2.2	3.1	3.5	6.5
Total costs and expenses	301.1	295.6	583.3	593.6
Equity in earnings of unconsolidated subsidiary	1.6	—	0.3	—
INCOME (LOSS) FROM OPERATIONS	(58.2)	24.6	(130.5)	100.9
OTHER INCOME (EXPENSE):				
Interest expense	(38.9)	(38.9)	(77.4)	(78.5)
Interest income	7.7	3.2	14.6	5.2
Gain on extinguishment of debt	—	2.4	—	2.2
Other - net	8.8	1.4	6.6	2.9
Total other (expense) - net	(22.4)	(31.9)	(56.2)	(68.2)
INCOME (LOSS) BEFORE INCOME TAXES	(80.6)	(7.3)	(186.7)	32.7
Provision (benefit) for income taxes	(3.9)	21.4	2.3	51.1
NET LOSS	$(76.7)	$(28.7)	$(189.0)	$(18.4)
NET LOSS PER SHARE - BASIC AND DILUTED	$(0.60)	$(0.23)	$(1.49)	$(0.15)
WEIGHTED AVERAGE SHARES - BASIC AND DILUTED	127.0	126.3	126.8	126.0

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In millions)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
NET LOSS	$(76.7)	$(28.7)	$(189.0)	$(18.4)
OTHER COMPREHENSIVE INCOME:				
Net changes in pension and other postretirement plan assets and benefit obligations recognized in other comprehensive income, net of income tax expense of $4.2 and $0 for the three months ended June 30, 2018, and 2017, respectively and $4.2 and $0 for the six months ended June 30, 2018, and 2017, respectively (see Note 5).	15.9	—	15.9	—
Net reclassification adjustment for amounts recognized in net loss as a component of net periodic benefit cost, net of income tax expense of $0.5 and $0.5 for the three months ended June 30, 2018, and 2017, respectively, and $1.2 and $1.0 for the six months ended June 30, 2018, and 2017, respectively (see Note 5 and 9).	1.9	0.8	4.7	1.7
	17.8	0.8	20.6	1.7
COMPREHENSIVE LOSS	$(58.9)	$(27.9)	$(168.4)	$(16.7)

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except par value)
(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$1,132.7	$1,332.1
Receivables - trade and other	238.1	212.8
Prepaid expenses and other current assets	15.1	15.5
Total current assets	1,385.9	1,560.4
PROPERTY AND EQUIPMENT:		
Drilling equipment	8,832.3	8,697.8
Other property and equipment	137.3	136.1
Property and equipment - gross	8,969.6	8,833.9
Less accumulated depreciation and amortization	2,471.6	2,281.2
Property and equipment - net	6,498.0	6,552.7
Long-term note receivable from unconsolidated subsidiary	269.6	270.2
Investment in unconsolidated subsidiary	31.2	30.9
Other assets	46.2	44.1
	$8,230.9	$8,458.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	$89.5	$97.2
Deferred revenue	6.8	1.1
Accrued liabilities	131.3	159.1
Total current liabilities	227.6	257.4
Long-term debt	2,510.6	2,510.3
Other liabilities	251.9	293.6
Deferred income taxes - net	11.1	10.9
Commitments and contingent liabilities (Note 6)		
SHAREHOLDERS' EQUITY:		
Class A Ordinary Shares, $0.125 par value; 128.2 and 128.1 shares issued, respectively; 127.0 and 126.3 shares outstanding, respectively	16.0	16.0
Additional paid-in capital	1,493.6	1,488.6
Retained earnings	3,968.9	4,109.7
Cost of 1.2 and 1.8 treasury shares, respectively	(7.8)	(9.3)
Accumulated other comprehensive loss	(241.0)	(218.9)
Total shareholders' equity	5,229.7	5,386.1

	$8,230.9	$8,458.3

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In millions)
(Unaudited)

	Shares outstanding	Class A ordinary shares/ Common stock	Additional paid-in capital	Retained earnings	Treasury shares	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2017	125.5	$ 16.0	$1,471.7	$3,830.4	$ (7.2)	$ (197.0)	$ 5,113.9
Net shares issued (acquired) under share-based compensation plans	0.7	—	(2.2)	—	(2.1)	—	(4.3)
Share-based compensation	—	—	10.6	—	—	—	10.6
Adoption of new accounting standard	—	—	—	206.6	—	—	206.6
Retirement benefit adjustments, net of tax expense of $1.0	—	—	—	—	—	1.7	1.7
Net loss	—	—	—	(18.4)	—	—	(18.4)
Balance, June 30, 2017	126.2	$ 16.0	$1,480.1	$4,018.6	$ (9.3)	$ (195.3)	$ 5,310.1
Balance, January 1, 2018	126.3	$ 16.0	$1,488.6	$4,109.7	$ (9.3)	$ (218.9)	$ 5,386.1
Net shares issued (acquired) under share-based compensation plans	0.7	—	(3.5)	—	1.5	—	(2.0)
Share-based compensation	—	—	8.5	—	—	—	8.5
Adoption of new accounting standards (see Note 1)	—	—	—	51.1	—	(45.6)	5.5
Retirement benefit adjustments, net of tax expense of $5.4	—	—	—	—	—	20.6	20.6
Other	—	—	—	(2.9)	—	2.9	—
Net loss	—	—	—	(189.0)	—	—	(189.0)
Balance, June 30, 2018	127.0	$ 16.0	$1,493.6	$3,968.9	$ (7.8)	$ (241.0)	$ 5,229.7

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six months ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(189.0)	$(18.4)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	195.3	200.6
Equity in earnings of unconsolidated subsidiary	(0.3)	—
Deferred income taxes	(4.4)	36.4
Provision for pension and other postretirement benefits	(4.6)	5.1
Share-based compensation expense	11.0	12.2
Loss on disposals of property and equipment	3.5	6.5
Other	6.5	1.4
Changes in current assets and liabilities:		
Receivables - trade and other	(19.6)	(15.2)
Prepaid expenses and other current assets	1.0	0.2
Accounts payable	(6.1)	1.1
Accrued income taxes	(11.5)	5.1
Other current liabilities	(10.7)	(17.7)
Other postretirement benefit claims paid	(1.0)	(1.8)
Contributions to pension plans	(11.2)	(12.0)
Deferred revenue	5.4	(39.9)
Net changes in other noncurrent assets and liabilities	(10.2)	(25.1)
Net cash provided by (used in) operating activities	(45.9)	138.5
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(76.9)	(57.3)
Purchase of rigs	(70.8)	—
Investment in unconsolidated subsidiary	—	(25.0)
Repayments of note receivable from unconsolidated subsidiary	1.7	—
Proceeds from disposals of property and equipment	2.0	1.3
Net cash used in investing activities	(144.0)	(81.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reductions of long-term debt	—	(163.4)
Debt issue costs	(6.0)	—
Shares repurchased for tax withholdings on vesting of restricted share units	(3.5)	(4.4)
Net cash used in financing activities	(9.5)	(167.8)
DECREASE IN CASH AND CASH EQUIVALENTS	(199.4)	(110.3)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,332.1	1,255.5
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,132.7	$1,145.2

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of Operations, Basis of Presentation and Summary of Significant Accounting Policies
Rowan Companies plc, a public limited company incorporated under the laws of England and Wales, is a global provider of offshore contract drilling services to the oil and gas industry, with a focus on high-specification and harsh-environment jack-up rigs and ultra-deepwater drillships. As of June 30, 2018, the Company operated in three segments: Deepwater, Jack-ups and ARO, the Company's 50/50 joint venture with Saudi Aramco. The Deepwater segment includes four ultra-deepwater drillships. The Jack-ups segment is composed of 23 self-elevating jack-up rigs and includes the impact of the various arrangements with ARO (see Note 3). ARO owns a fleet of five self-elevating jack-up rigs for operation in the Arabian Gulf for Saudi Aramco. The Company contracts its drilling rigs, related equipment and work crews primarily on a day-rate basis in markets throughout the world, currently including the US GOM, U.K. and Norwegian sectors of the North Sea, the Middle East and Trinidad.
The financial statements included in this Quarterly Report are presented in USD and include the accounts of Rowan plc and its direct and indirect subsidiaries. Unless the context otherwise requires, the terms “Rowan,” and “Company” are used to refer to Rowan plc and its consolidated subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.
The financial statements included in this Quarterly Report have been prepared in accordance with US GAAP and the applicable rules and regulations of the SEC. Certain information and notes have been condensed or omitted as permitted by those rules and regulations. The financial information included in this report is unaudited, but management believes the accompanying financial statements contain all adjustments, which are of a normal recurring nature unless otherwise noted, necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. The preparation of the condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company’s results of operations and cash flows for the interim periods are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.
Anadarko Early Termination Revenue
During the quarter ended June 30, 2018, the Company recognized $27.8 million of revenue related to an early termination fee from Anadarko Petroleum Corporation (“Anadarko”) pursuant to the Company’s drilling contract for the drillship Rowan Resolute (the “Anadarko Contract”). Termination of the Anadarko Contract became effective on June 1, 2018. The early termination fee is a lump sum payment for the remainder of the term of the Anadarko Contract at a rate of $418,400 per day. The Anadarko Contract was originally scheduled to terminate on August 6, 2018.
Revenue Recognition
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASC 606), which sets forth a global standard for revenue recognition and replaces most existing industry-specific guidance. ASC 606 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASC 606, effective January 1, 2018, utilizing the modified retrospective approach and applied ASC 606 to all outstanding revenue contracts.
In adopting ASC 606, the Company's revenue recognition differs from its historical revenue recognition pattern primarily as it relates to demobilization revenue. Such revenue, which was recognized upon completion of a contract under legacy accounting, is now estimated at contract inception and recognized over the term of the contract under the new guidance for customer contracts that have unconstrained demobilization provisions. Upon adoption of this

standard as of January 1, 2018, the Company recognized a $5.5 million increase to retained earnings related to unconstrained demobilization provisions. Subsequently, during the first quarter of 2018, the Company received a $5.5 million cash payment for such demobilization related to one of the Company's contracts. The adoption of this standard did not have a material impact on our statements of operations or statements of cash flows.

Typical contractual arrangements

The Company contracts its drilling rigs, related equipment and work crews primarily on a “day rate” basis. Under day rate contracts, the Company generally receives a fixed amount per day for each day it is performing drilling or related services. In addition, customers may pay all or a portion of the cost of moving equipment and personnel to and from the well site. Contracts generally range in duration from one month to multiple years or alternatively may be based on a set number of wells. Both duration types can include additional option periods at the discretion of the customer which can be at a set price or may be determined upon exercise of the option. The contractual day rate generally varies based on the status of the drilling operations and generally includes an operating rate, move rate, repair rate, force majeure, standby rate, or other fixed type of day rate specified in the contract. Other fees may be stipulated in the contract related to mobilization and demobilization of the rig, upfront preparation and/or upgrades, penalties, performance bonuses and reimbursements for third party charges or requested modifications. Termination clauses are also specified and generally allow the customer to cancel for lack of performance by the contractor with no related fee or for convenience for an early termination fee, typically calculated as a standby rate multiplied by the days remaining in the firm term in the contract often reduced by a specified percentage.

Performance obligations and transaction price

Customers generally contract for a comprehensive agreement to provide integrated services to operate a rig and drill a well. Drillers are seen by the operator as the overseer of all services and are compensating the driller to provide that entire suite of services. In identifying performance obligations, ASC 606 series guidance states that a contract may contain a single performance obligation composed of a series of distinct goods or services if 1) each distinct good or service is substantially the same and would meet the criteria to be a performance obligation satisfied over time and 2) each distinct good or service is measured using the same method as it relates to the satisfaction of the overall performance obligation. The Company determined that the delivery of day rate drilling services is within the scope of the series guidance as both criteria noted above are met. Specifically, 1) each distinct increment of service (i.e. hour available to drill) that the driller promises to transfer represents a performance obligation that would meet the criteria for recognizing revenue over time, and 2) the driller would use the same method for measuring progress toward satisfaction of the performance obligation for each distinct increment of service in the series.

Consideration for activities that are not distinct within the scope of our contracts, such as mobilization, demobilization and upgrade/modification, and do not align with a distinct time increment within the contract term are allocated across the single performance obligation and are recognized over the expected recognition period in proportion to the passage of each hour available to drill. Consideration for activities which align with a distinct time increment within the contract term is recognized in the period when the services are performed.

The transaction price for a drilling contract is based on the amount of consideration the Company expects to be entitled for providing drilling services over the specified term and includes both fixed amounts and unconstrained variable amounts. Typically, at contract commencement, the only fixed/known consideration components of a drilling contract are negotiated lump-sum amounts to be received for reimbursement of costs incurred for mobilization, demobilization (where it is contractually guaranteed) and/or rig modifications or upgrades. The Company estimates variable consideration using the expected value method and includes the amount in transaction price to the extent it is not constrained. Variable consideration is generally constrained if it is probable that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with the variable consideration is subsequently resolved.

Recognition of revenue

Drilling services are consumed as the services are performed and generally enhance a well site which the customer/operator controls. Work performed on a well site does not create an asset with an alternative use to the contractor since the well/asset being worked on is owned by the customer. Therefore, the Company's measure of progress for a drilling contract is hours available to drill over the contracted duration. This unit of measure is representative of an output method as described in ASC 606. The following chart details the types of fees found in a typical drilling contract and the related recognition method under ASC 606:

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fee type	Revenue Recognition
Day rate	Recognition is based on the day rates earned/invoiced as it relates to the level of service provided for each fractional-hour throughout the contract.
Mobilization and upgrade/modification	Revenue (both lump-sum and day rate amounts) is estimated at contract inception and included in the transaction price to be recognized over the expected recognition period.
Demobilization	Unconstrained demobilization revenue (both lump-sum and day rate amounts) is estimated at contract inception, included in the transaction price, and recognized over the expected recognition period in proportion to the passage of each hour available to drill.
Bonuses and penalty	Unconstrained bonus and/or penalty revenue is estimated at contract inception and included in the transaction price. Amounts are recognized in the period corresponding to the distinct hourly increment(s) of service provided (i.e. the specific period which the bonus or penalty relates to).
Reimbursement	Recognized (gross of costs incurred), at the point the product or service is consumed, and in the amount billed to the customer.

Future performance obligation and financing arrangements

Due to the recognition of day rate, as described above, the Company's primary future promised service relates to unconstrained demobilization. Under ASC 606 the Company recognizes unconstrained demobilization revenue over the life of the contract whereas in a typical drilling contract the demobilization, and the resulting cash payment for demobilization, does not occur until the end of the contract. At June 30, 2018, the Company did not have any unconstrained demobilization revenue. We have applied the optional exemption afforded in ASU No. 2014-09 and have not disclosed the variable consideration related to the estimated future day rate revenues. Additionally, the Company did not recognize any demobilization revenue into income during the three and six months ended June 30, 2018. However, upon adoption of this standard as of January 1, 2018, the Company recognized a $5.5 million increase to retained earnings related to unconstrained demobilization provisions. Subsequently, during the first quarter of 2018, the Company received a $5.5 million cash payment for such demobilization related to one of the Company's contracts.

Under ASC 606, a significant financing component may exist, regardless of whether the promise is explicitly stated or implied by the payment terms stipulated in a contract, where there is a separation between the timing of services provided and the timing of payment in contracts with terms exceeding one year. Generally, a typical drilling contract stipulates for billings on a monthly basis and payment terms vary by contract and customer but are customarily paid within 90 days. It is rare for a drilling contract to explicitly address a financing component and payments of up-front fees correspond to cash outlays which Rowan must undertake in order to complete a given drilling contract.

Recently Adopted Accounting Pronouncements - In addition to Revenue from Contracts with Customers (ASC 606) (see "Revenue Recognition" above), the Company has recently adopted the following accounting pronouncements:

Statement of Cash Flows - In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (ASC 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight cash flow classification issues with the objective of reducing differences in practice. As of January 1, 2018, the Company adopted this guidance on a retrospective basis with no material impact on its condensed consolidated financial statements.

Statement of Cash Flows Restricted Cash - In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (ASC 230): Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents in the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees with the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. As of January 1, 2018, the Company adopted this guidance on a retrospective basis with no impact on its condensed consolidated financial statements.

Other Income - In February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (“ASU 2017-05”), which clarifies the scope of the original guidance within Subtopic 610-20 that was issued in connection with ASU 2014-09, which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. ASU 2017-05 also adds guidance for partial sales of nonfinancial assets. As of January 1, 2018, the Company adopted this guidance on a modified retrospective basis concurrently with ASC 606. This adoption had no impact on the Company's condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost - In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (ASC 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires entities to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented outside of any subtotal of operating income. Entities will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The ASU also allows only the service cost component to be eligible for capitalization. As of January 1, 2018, the Company adopted this guidance on a retrospective basis with no material impact on its condensed consolidated financial statements.

Accumulated Other Comprehensive Income – In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (ASC 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. As permitted under this ASU, the Company elected early adoption of this ASU as of January 1, 2018 and recorded a $45.6 million increase to Retained earnings as a reclassification from Accumulated other comprehensive income. The stranded tax effects are for the U.S. income tax rate reduction recognized in the Consolidated Statements of Operations for the year ended December 31, 2017 for the deferred tax asset associated with employee benefit plans.

New Accounting Pronouncements - to be adopted

Lease Accounting – In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC 842): Amendments to the FASB ASC, which requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key qualitative and quantitative information about the entity's leasing arrangements. Based on the original guidance, lessees and lessors would have been required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, including a number of optional practical expedients that entities may elect to apply. In July 2018, the FASB issued ASU No. 2018-11, Leases (ASC 842): Targeted Improvements, which provides entities with an option to apply the guidance prospectively, instead of retrospectively, and allows for other classification provisions, as described below. ASC 842 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company currently anticipates that it will elect to recognize its lease asset and lease liabilities on a prospective basis, beginning on January 1, 2019.

Prior to the issuance of ASU No. 2018-11, the Company preliminarily determined that its drilling contracts contained a lease component, and the adoption would require the Company to separately recognize revenue associated with the lease and services components. In July 2018, the FASB issued ASU No. 2018-11, which provides a practical expedient that allows entities to combine lease and non-lease components where the revenue recognition pattern is the same and where the lease component, when accounted for separately, would be considered an operating lease. With respect to the applicability of this practical expedient to the drilling industry, the Company is in the process of evaluating ASU No. 2018-11 and will consult with its peers in the International Association of Drilling Contractors Accounting Sub-committee to discuss the applicability of this practical expedient to its drilling contracts.

The adoption of ASC 842 will have an impact on how the Company's consolidated balance sheets, statements of operations, cash flows, and disclosures contained in its notes to consolidated financial statements will be presented; however, because the Company is currently evaluating the impact of ASU No. 2018-11, it is unable to quantify the overall impact at this time. As a lessee, estimated future minimum lease commitments are approximately $40 million with an estimated present value of approximately $30 million based on the Company's currently identified lease portfolio. The Company will continue to refine its estimate, which is subject to change at the adoption date of ASC 842.

Financial Instruments – In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments, which amends the FASB's guidance on the impairment of financial instruments. The ASU adds to US GAAP an impairment model that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The Company will be required to adopt the amended guidance in annual and interim reports beginning January 1, 2020, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company is in the process of evaluating the impact this amendment will have on its consolidated financial statements.

Note 2 – Contract Assets and Contract Liabilities

Costs incurred for mobilization, upfront modifications/upgrades and contract preparation are direct costs incurred to fulfill contracts and are expensed over the expected recognition period or in the case of capital upgrades or capital modifications such costs are

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

capitalized and depreciated in accordance with the Company's fixed asset capitalization policy. Such costs other than those capitalized as fixed assets are deferred and recorded as contract assets or contract liabilities.
The following table sets forth contract assets and contract liabilities (mobilization and upgrade/modification revenue) on the Condensed Consolidated Balance Sheets (in millions):

	Balance Sheet Classification	June 30, 2018	December 31, 2017
Contract assets			
Current	Prepaid expenses and other current assets	$ 2.4	$ 2.8
Noncurrent	Other assets	0.1	—
		$ 2.5	$ 2.8
Contract liabilities			
Current	Deferred revenue	$ 6.8	$ 1.1
Noncurrent	Other liabilities	0.2	0.5
		$ 7.0	$ 1.6

Presented in the table below are the changes in contract assets during the six months ended June 30, 2018 (in millions):

	June 30, 2018
Deferred mobilization and contract preparation costs	
Beginning balance	$ 2.8
Plus: contractual additions	3.7
Less: amortization	4.0
Ending deferred mobilization and upgrade/modification costs	$ 2.5

Presented in the table below are the changes in contract liabilities (mobilization and upgrade/modification revenue) during the six months ended June 30, 2018 (in millions):

	June 30, 2018
Deferred mobilization and upgrade/modification revenue	
Beginning balance	$ 1.6
Plus: contractual additions	10.0
Less: amortization	4.6
Ending deferred mobilization and upgrade/modification revenue	$ 7.0

Estimated future amortization at June 30, 2018 of our contract assets and contract liabilities to be recognized over the expected recognition period is set for in the following table (in millions):

	Remaining 2018	2019	Total
Amortization of contract liabilities	5.7	1.3	7.0
Amortization of contract assets	2.4	0.1	2.5

No impairment losses were recognized on contract assets during the three and six months ended June 30, 2018.

Note 3 – Equity Method Investments and Variable Interest Entities

On November 21, 2016, Rowan and Saudi Aramco, through their subsidiaries, entered into a Shareholders' Agreement to create a 50/50 joint venture, known as ARO. ARO commenced operations on October 17, 2017, and owns, manages and operates offshore drilling units in Saudi Arabia. The Company accounts for its interest in ARO using the equity method of accounting and only recognizes its portion of equity earnings in the Company's condensed consolidated financial statements. ARO is a variable interest

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

entity; however, the Company is not the primary beneficiary and therefore does not consolidate ARO. The Company's judgment regarding the level of influence over ARO included considering key factors such as: each company's ownership interest, representation on the board of managers of ARO, ability to direct activities that most significantly impact ARO's economic performance, as well as the ability to influence policy-making decisions.

Summarized financial information

Summarized financial information for ARO, as derived from ARO's financial statements, is as follows (in millions):

	Three months ended June 30, 2018	Six months ended June 30, 2018
Revenue	$ 70.8	$ 129.1
Direct operating costs (excluding items below)	35.9	69.3
Depreciation and amortization	16.8	33.4
Selling, general and administrative	6.8	13.2
Loss on disposals of property and equipment	0.9	1.0
Income from operations	10.4	12.2
Interest expense	(5.6)	(11.2)
Provision for income taxes	1.6	0.4
Net income	$ 3.2	$ 0.6
Rowan's equity in earnings from ARO	$ 1.6	$ 0.3

	June 30, 2018	December 31, 2017
Current assets	$ 139.1	$ 108.6
Non-current assets	447.9	459.7
Total assets	$ 587.0	$ 568.3
Current liabilities	$ 49.8	$ 29.2
Non-current liabilities	542.6	545.1
Total liabilities	$ 592.4	$ 574.3

Related party transactions

In connection with the establishment of ARO the Company signed an Asset Transfer and Contribution Agreement. As part of this agreement the Company contributed cash to ARO of $357.7 million in exchange for a 10-year shareholder note receivable from ARO, initially totaling $357.7 million, at a stated interest rate of LIBOR plus two percent. As of June 30, 2018 and December 31, 2017, the outstanding amount for this shareholder note receivable was $269.6 million and $271.3 million, consisting of $269.6 million and $270.2 million, respectively, included in Long-term note receivable from unconsolidated subsidiary on the Company's Condensed Consolidated Balance Sheets. In addition, at December 31, 2017, the Company had a current portion of shareholder note receivable of $1.1 million, which was included in Receivables - trade and other on the Company's Condensed Consolidated Balance Sheets. Interest related to this note is being recognized as a part of Interest income in the Company's Condensed Consolidated Statements of Operations and totaled approximately $2.8 million and $5.6 million for the three and six months ended June 30, 2018, respectively. At June 30, 2018, the Company had an interest receivable from ARO of $4.7 million which is included in Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet.

In conjunction with the establishment of ARO, the Company entered into a series of agreements with ARO including: a Transition Services Agreement, Secondment Agreement and Lease Agreement. Pursuant to these agreements the Company, or its seconded employees, will provide various services to ARO, and in return, the Company is to be provided remuneration for those services. From time to time Rowan may sell equipment or supplies to ARO. Revenue and other amounts recognized by Rowan related to these agreements and transactions is as follows (in millions):

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Three months ended June 30, 2018	Six months ended June 30, 2018
Secondment Revenue - Jack-ups	$ 8.8	$ 21.8
Lease Revenue - Jack-ups	1.1	1.1
Transition Services Revenue - Unallocated	8.9	17.9
Sales of supplies - Jack-ups	0.6	1.9
Total Revenue received from ARO	$ 19.4	$ 42.7
Proceeds from equipment sales to ARO [a]	$ 0.5	$ 1.7

[a] A $0.4 million gain and a $0.2 million loss for the three and six months ended June 30, 2018, respectively, was recognized in Loss on disposals of property and equipment on the Condensed Consolidated Statements of Operations. $0.8 million is included in Receivables - trade and other as of June 30, 2018 for the $1.7 million purchase price proceeds.

Total accounts receivable from ARO totaled approximately $18.2 million and $17.3 million as of June 30, 2018 and December 31, 2017, respectively, and are included in Receivables - trade and other on the Condensed Consolidated Balance Sheets.

The Company also entered into a Rig Management Agreement pursuant to which ARO provides certain rig management services for Rowan's rigs while they are contracted with Saudi Aramco and the Company compensates ARO for the services in which they provide to Rowan. For the three and six months ended June 30, 2018, the Company recognized $12.0 million and $22.6 million, respectively, in Direct operating cost in the Condensed Consolidated Statements of Operations related to these rig management services. Additionally, ARO may sell equipment or supplies to Rowan or purchase such for Rowan, in which case ARO is provided reimbursement. For the three and six months ended June 30, 2018, the Company recognized $4.3 million and $5.7 million, respectively, in Direct operating cost in the Condensed Consolidated Statements of Operations related to these transactions. Accounts payable to ARO totaled approximately $13.3 million and $10.8 million as of June 30, 2018 and December 31, 2017, respectively.

The following summarizes the total assets and liabilities as reflected in the Company's Condensed Consolidated Balance Sheets as well as the Company's maximum exposure to loss related to ARO (in millions). Generally, the Company's maximum exposure to loss is limited to its 1) equity investment in the joint venture, 2) outstanding note receivable and 3) any amounts payable to the Company for services it provides to the joint venture, reduced by payables for services which the Company owes to ARO.

	June 30, 2018	December 31, 2017
Total assets	$ 323.7	$ 319.5
Total liabilities	13.3	10.8
Maximum exposure to loss	$ 310.4	$ 308.7

Note 4 – Earnings Per Share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted income per share includes the additional weighted effect of dilutive securities outstanding during the period, which includes nonvested restricted stock, RSUs, P-Units, share options and SARs granted under share-based compensation plans. The effect of share equivalents is not included in the computation for periods in which a net loss occurs because to do so would be anti-dilutive.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Share options, SARs, nonvested restricted stock, P-Units and RSUs granted under share-based compensation plans are anti-dilutive and excluded from diluted earnings per share when the hypothetical number of shares that could be repurchased under the treasury stock method exceeds the number of shares that can be exercised, or when the Company reports a net loss from continuing operations. Anti-dilutive shares, which could potentially dilute earnings per share in the future, are set forth below (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Share options and appreciation rights	1.5	1.9	1.5	1.9
Nonvested restricted shares and restricted share units	4.0	4.9	3.9	4.6
Total potentially dilutive shares	5.5	6.8	5.4	6.5

Note 5 – Pension and Other Postretirement Benefits

The Company provides defined-benefit pension, health care and life insurance benefits upon retirement for certain full-time employees.

The components of net periodic pension cost were as follows (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Service cost [(1)]	$2.6	$4.0	$5.3	$8.0
Interest cost [(2)]	7.1	6.4	13.4	12.7
Expected return on plan assets [(2)]	(8.7)	(9.5)	(18.1)	(18.9)
Amortization of net loss [(2)]	5.9	5.8	13.7	11.5
Amortization of prior service credit [(2)]	(0.4)	(1.3)	(1.6)	(2.5)
Curtailment gain [(2)]	(11.4)	—	(11.4)	—
Net periodic pension cost	$(4.9)	$5.4	$1.3	$10.8

[(1)] Included in Direct operating costs and Selling, general and administrative on the Condensed Consolidated Statements of Operations

[(2)] Included in Other - net on the Condensed Consolidated Statements of Operations

The components of net periodic cost of other postretirement benefits were as follows (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Service cost [(1)]	$—	$0.1	$—	$0.1
Interest cost [(2)]	0.2	0.3	0.3	0.5
Amortization of net loss [(2)]	0.2	0.1	0.4	0.3
Amortization of prior service credit [(2)]	(3.3)	(3.3)	(6.6)	(6.6)
Total other postretirement benefit cost	$(2.9)	$(2.8)	$(5.9)	$(5.7)

(1) Included in Direct operating costs and Selling, general and administrative on the Condensed Consolidated Statements of Operations

(2) Included in Other - net on the Condensed Consolidated Statements of Operations

Over the past 10 years, there have been various changes to our pension plan which have significantly reduced participant benefits under such plan. Further, on May 11, 2018, the Company communicated changes to the participants in its pension plan, that will "freeze" this plan going forward. Based on these changes, effective as of June 30, 2018, eligible participants will no longer receive pay credits and newly hired employees will not be eligible to participate in the pension plan. For the purposes of remeasurement, the Company used the date of April 30, 2018 as it was the month-end date that is closest to May 11, 2018. The impacts of these changes to the plan as of May 11, 2018, are presented in the table below (in millions):

	Liability increase (decrease)	Accumulated other comprehensive income (loss)	Deferred tax asset decrease (increase)	Income included in Other-net	Income tax expense (increase) decrease
Plan change to projected benefit obligation	$ (1.6)	$ 1.3	$ 0.3	$ —	$ —
Remeasurement gain	(29.9)	23.6	6.3	—	—
Curtailment	—	(9.0)	(1.0)	11.4	(1.4)
Total	$ (31.5)	$ 15.9	$ 5.6	$ 11.4	$ (1.4)

The Company records unrealized gains and losses related to net periodic pension and other postretirement benefit cost net of estimated taxes in Accumulated other comprehensive income (loss). The Company has a valuation allowance against its net U.S. deferred tax asset that is not expected to be realized. A portion of this valuation allowance is related to deferred tax benefits or expense as recorded in Accumulated other comprehensive income (loss).

During the six months ended June 30, 2018, the Company contributed $12.2 million to its pension and other postretirement benefit plans and expects to make additional contributions to such plans totaling approximately $14.8 million for the remainder of 2018.

Note 6 – Commitments and Contingent Liabilities

Letters of credit – The Company periodically employs letters of credit in the normal course of its business and had outstanding letters of credit of approximately $7.7 million at June 30, 2018, of which $5.4 million were issued under the Company's New Credit Facility.

Joint venture funding obligations – Each of Rowan and Saudi Aramco have agreed to take all steps necessary to ensure that ARO purchases at least 20 new build jack-up rigs ratably over 10 years once Saudi Aramco's joint venture to manufacture rigs commences operations. The first rig is expected to be delivered as early as 2021. The partners intend that the newbuild jack-up rigs will be financed out of available cash from operations and/or funds available from third party debt financing. The parties agreed that Saudi Aramco as a customer will provide drilling contracts to ARO in connection with the acquisition of the new rigs, which contracts could be used as security for third party debt financing if needed. If cash from operations or financing is not available to fund the cost of the newbuild jack-up rig, each partner is obligated to contribute funds, in the form of additional shareholder loans, to purchase such rigs, over time of up to a maximum amount of $1.25 billion per partner in the aggregate for all 20 newbuild jack-up rigs, which total investment amount is subject to a reduction formula as rigs are delivered. Further, no shareholder will be required to fund the delivery of more than three rigs during any twelve (12) month period.

Uncertain tax positions – The Company has been advised by the IRS of proposed unfavorable tax adjustments of $85 million including applicable penalties for the open tax years 2009 through 2012. The unfavorable tax adjustments primarily related to the following items: 2009 tax benefits recognized as a result of applying the facts of a third-party tax case that provided favorable tax treatment for certain non-U.S. contracts entered into in prior years to the Company’s situation; transfer pricing; and domestic production activity deduction. The Company has protested the proposed adjustment. However, the IRS does not agree with the Company's protest and they have submitted the proposed unfavorable tax adjustments to be reviewed by the IRS appeals group. In years subsequent to 2012, the Company has similar positions that could be subject to adjustments for the open years. The Company has provided for amounts that it believes will be ultimately payable under the proposed adjustments and intends to vigorously defend its positions; however, if the Company determines the provisions for these matters to be inadequate due to new information or the Company is required to pay a significant amount of additional U.S. taxes and applicable penalties and interest in excess of amounts that have been provided for these matters, the Company's consolidated results of operations and cash flows could be materially and adversely affected.

The gross unrecognized tax benefits excluding penalties and interest are $100 million and $102 million as of June 30, 2018 and December 31, 2017, respectively. The decrease to gross unrecognized tax benefits was primarily due to the lapse in a statute of limitations and audit closures, partially offset by interest, penalties, foreign currency exchange revaluation and tax positions taken related to current year-to-date anticipated transfer pricing positions. If the June 30, 2018, net unrecognized tax benefits excluding penalties and interest were recognized, this would favorably impact the Company's tax provision by $38 million.

It is reasonable that the existing liabilities for the unrecognized tax benefits may increase or decrease over the next 12 months as a result of audit closures and statute expirations; however, the ultimate timing of the resolution and/or closure of audits is highly uncertain.

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Pending or threatened litigation – The Company is involved in various routine legal proceedings incidental to its businesses and vigorously defends its position in all such matters. Although the outcome of such proceedings cannot be predicted with certainty, the Company believes that there are no known contingencies, claims or lawsuits that will have a material adverse effect on its financial position, results of operations or cash flows.

In addition to the legal proceedings described above, the Company is vigorously contesting a claim by a former agent in the Middle East for compensation associated with the Company's termination of the agent's services. In February 2018, the agent made a demand for approximately $45 million, which the Company believes is without merit. The Company is making payments pursuant to its agreements with the agent and has an accrual for the Company's best estimate of the potential liability. Because of the current uncertainty of the basis for the claim and the application of which law may apply to resolving the dispute, the amount of the accrual may be different from the amount of the ultimate liability.

Note 7 – Share-Based Compensation

On February 27, 2018, the Company granted RSUs to employees for annual incentive awards pursuant to its long-term incentive plan with a grant-date fair value aggregating $16.6 million which will be recognized as compensation expense over a weighted-average period of 2.7 years from the grant date. The awards vest ratably over three years except to the extent they may vest earlier under the Company's retirement policy.

Additionally, on February 27, 2018, the Company granted to certain members of management P-Units that have a target value of $100 per unit. The amount ultimately earned is determined by the Company’s absolute TSR performance and relative TSR performance as measured against a group of companies selected by the Company Compensation Committee, over a three-year period ending December 31, 2020. The amount earned could range from zero to $200 per unit depending on the Company's performance. Twenty-five percent of the P-Units’ value is determined by the Company’s absolute TSR performance and relative TSR ranking for each one-year period ended December 31, 2018, 2019, and 2020 and 25% of the P-Units’ value is determined by the Company's absolute TSR performance and relative TSR ranking for the three-year period ended December 31, 2020. P-Units cliff vest and payment is made, if any, on the third anniversary following the grant date. Any employee who terminates employment with the Company prior to the third anniversary for any reason other than retirement will not receive any payment with respect to P-Units unless approved by the Company Compensation Committee. Settlement of the P-Units granted may be in cash, shares or a combination thereof, at the Company Compensation Committee's discretion.

The grant date fair value of P-Units granted on February 27, 2018 was estimated to be $6.4 million. Fair value for P-units are estimated using the Monte Carlo simulation model, which considers the probabilities of the Company’s relative TSR performance and TSR ranking at the end of each performance period, and the amount of the payout at each rank to determine the probability-weighted expected payout. The Company uses liability accounting to account for the P-Units. Compensation is generally recognized on a straight-line basis over a maximum period of three years from the grant date and is adjusted for changes in fair value through the end of the performance period. The Company recognizes compensation cost on the accelerated method for those retirement eligible or who will become retirement eligible during the vesting period as the awards provide for pro-rata vesting rather than full vesting if a retirement eligible employee retires prior to the end of the 36 month service period.

Liabilities for estimated P-Unit obligations at June 30, 2018, for 2018 grants and prior, included $8.6 million and $4.1 million classified as current and noncurrent, respectively, compared to $11.5 million and $10.5 million, respectively, at December 31, 2017. Current and noncurrent estimated P-Unit liabilities are included in Accrued liabilities, and Other liabilities, respectively, in the Condensed Consolidated Balance Sheets.

At June 30, 2018, estimated unrecognized compensation cost related to nonvested share-based compensation arrangements totaled approximately $41.6 million, which is expected to be recognized as compensation expense over a remaining weighted-average period of 2.0 years.

Note 8 – Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by US GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

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- Level 1 – Quoted prices for identical instruments in active markets;
- Level 2 – Quoted market prices for similar instruments in active markets; quoted prices for identical instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as those used in pricing models or discounted cash flow methodologies, for example.

The applicable level within the fair value hierarchy is the lowest level of any input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are presented below (in millions):

		Estimated fair value measurements		
	Fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
June 30, 2018:				
Assets - cash equivalents	$1,119.3	$1,119.3	$ —	$ —
Other assets (Egyptian Pounds)	1.7	1.7	—	—
Other assets (Angolan Kwanza)	2.9	2.9	—	—
December 31, 2017:				
Assets - cash equivalents	$1,332.1	$1,332.1	$ —	$ —
Other assets (Egyptian Pounds)	2.2	2.2	—	—
Other assets (Angolan Kwanza)	4.3	4.3	—	—

At June 30, 2018, and December 31, 2017, the Company held Egyptian pounds in the amount of $1.7 million and $2.2 million, respectively, which are classified as Other assets on the Condensed Consolidated Balance Sheets. The Company ceased drilling operations in Egypt in 2014, and is currently working to obtain access to the funds for use outside Egypt to the extent they are not utilized.

Given stricter foreign currency exchange controls in Angola, the Company determined in May 2017 that its previous method of converting Angola Kwanza to USD is likely no longer feasible. As a result, at June 30, 2018 and December 31, 2017, the Company classified its Angolan Kwanza USD equivalent balance of $2.9 million and $4.3 million, respectively, as non-current assets in Other assets on the Condensed Consolidated Balance Sheets. Currently, the Company considers the amounts to be recoverable and will continue to evaluate options to convert the Angolan Kwanza to USD.

Trade receivables and trade payables, which are required to be measured at fair value, have carrying values that approximate their fair values due to their short maturities.

Other Fair Value Measurements

Financial instruments not required to be measured at fair value consist of the Company’s publicly traded debt securities. The Company’s publicly traded debt securities had a carrying value of $2.511 billion at June 30, 2018, and an estimated fair value at that date aggregating $2.202 billion, compared to a carrying and fair value of $2.510 billion and $2.262 billion, respectively, at December 31, 2017. Fair values of the Company's publicly traded debt securities were provided by a broker who makes a market in such securities and were measured using a market-approach valuation technique, which is a Level 2 fair value measurement.

Concentrations of Credit Risk

The Company invests its excess cash primarily in time deposits and high-quality money market accounts at several large commercial banks with strong credit ratings, and therefore believes that its risk of loss is minimal.

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company’s customers largely consist of major international oil companies, national oil companies and large investment-grade exploration and production companies. The Company routinely evaluates and monitors the credit quality of potential and current customers. The Company maintains reserves for credit losses when necessary and actual losses have been within management's expectations.

Revenue and receivables from transactions with external customers that amount to 10% or more of revenue during the six months ended June 30 are set forth below:

Percentage of revenue from major customers:

Customer	Segment	Six months ended June 30, 2018	2017
Saudi Aramco	Jack-ups	35%	27%
Anadarko	Deepwater	26%	15%
Lundin	Jack-ups	10%	7 %
Repsol	Jack-ups and Deepwater [1]	1 %	10%
Cobalt International	Deepwater	—%	16%

[1] Jack-ups in 2018, Jack-ups and Deepwater in 2017

Percentage of receivables from major customers:

Customer	Segment	June 30, 2018	December 31, 2017
Saudi Aramco	Jack-ups	41 %	34 %
Anadarko	Deepwater	20 %	19 %
Lundin	Jack-ups	7 %	7 %
Repsol	Jack-ups and Deepwater	— %	5 %
Cobalt International	Deepwater	— %	— %

Note 9 – Shareholders' Equity

Reclassifications from Accumulated Other Comprehensive Loss – The following table sets forth the significant amounts reclassified out of each component of accumulated other comprehensive loss and their effect on net income (loss) for the period (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Amounts recognized as a component of net periodic pension and other postretirement benefit cost:				
Amortization of net loss	$(6.1)	$(5.9)	$(14.1)	$(11.8)
Amortization of prior service credit	3.7	4.6	8.2	9.1
Total before income taxes	(2.4)	(1.3)	(5.9)	(2.7)
Income tax benefit	0.5	0.5	1.2	1.0
Total reclassifications for the period, net of income taxes	$(1.9)	$(0.8)	$(4.7)	$(1.7)

The Company records unrealized gains and losses related to net periodic pension and other postretirement benefit cost net of estimated taxes in Accumulated other comprehensive income (loss). The Company has a valuation allowance against its net U.S. deferred tax asset that is not expected to be realized. A portion of this valuation allowance is related to deferred tax benefits or expense as recorded in Accumulated other comprehensive income (loss).

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 10 – Other Financial Statement Disclosures
Accounts Receivable – The following table sets forth the components of Receivables - trade and other (in millions):

	June 30, 2018	December 31, 2017
Trade	$ 216.8	$ 195.8
Income tax	14.5	8.0
Other	6.8	9.0
Total Receivables - trade and other	$ 238.1	$ 212.8

Accrued Liabilities – The following table sets forth the components of Accrued liabilities (in millions):

	June 30, 2018	December 31, 2017
Pension and other postretirement benefits	$ 16.8	$ 27.0
Compensation and related employee costs	46.2	69.0
Interest	32.0	32.0
Income taxes	11.3	15.4
Other	25.0	15.7
Total Accrued liabilities	$ 131.3	$ 159.1

Long-term Debt – Long-term debt consisted of the following (in millions):

	June 30, 2018	December 31, 2017
7.875% Senior Notes, due August 2019 ($201.4 million principal amount; 8.0% effective rate)	$201.0	$ 200.9
4.875% Senior Notes, due June 2022 ($620.8 million principal amount; 4.7% effective rate)	624.2	624.6
4.75% Senior Notes, due January 2024 ($398.1 million principal amount; 4.8% effective rate)	396.1	395.9
7.375% Senior Notes, due June 2025 ($500 million principal amount; 7.4% effective rate)	497.7	497.5
5.4% Senior Notes, due December 2042 ($400 million principal amount; 5.4% effective rate)	395.2	395.1
5.85% Senior Notes, due January 2044 ($400 million principal amount; 5.9% effective rate)	396.4	396.3
Total carrying value	$2,510.6	$ 2,510.3

Credit Facility
On May 22, 2018, the Company amended and restated its Existing Credit Agreement, which permitted, among other things, entry into the New Credit Agreement and a non-pro rata commitment reduction (the "Commitment Reduction") for each lender under the Existing Credit Agreement who became a lender under the New Credit Facility. The Existing Credit Agreement further provided for, among other things; (i) the reduction of the Existing Credit Agreement's letter of credit subfacility to $0, (ii) the Commitment Reduction and (iii) the resignation of Wells Fargo as administrative agent and appointment of Wilmington Trust, National Association, as successor administrative agent under the Existing Credit Agreement. The Commitment Reduction resulted in the lenders under the New Credit Facility having no commitments under the Existing Credit Facility and reduced the aggregate principal amount of commitments under the Existing Credit Facility to $310.7 million. Of the $310.7 million of availability under the Existing Credit Facility, $60.0 million of the availability matures on January 23, 2019, $150.7 million of the availability matures on January 23, 2020, and the remaining $100.0 million of the availability matures on January 23, 2021. Availability under the Existing Credit Facility was $310.7 million at June 30, 2018 as no amounts were drawn.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Advances under the Existing Credit Facility bear interest at LIBOR or base rate as specified in the Existing Credit Agreement plus an applicable margin, which is dependent upon the Company's credit ratings. The applicable margins for LIBOR and base rate advances range from 1.125% - 2.0% and 0.125% - 1.0%, respectively. The Company is also required to pay a commitment fee on undrawn amounts of the Existing Credit Facility, which ranges from 0.125% to 0.35%, depending on the Company's credit ratings.
The Existing Credit Facility requires the Company to maintain a total debt-to-capitalization ratio of less than or equal to 60%. The Company's consolidated debt to total capitalization ratio at June 30, 2018, was 33%. Additionally, the Existing Credit Facility has customary restrictive covenants that, including others, restrict the Company's ability to incur certain debt and liens, enter into certain merger and acquisition agreements, sell, transfer, lease or otherwise dispose of all or substantially all of the Company's assets and substantially change the character of the Company's business from contract drilling.
Availability under the New Credit Facility is $955 million, which matures on May 22, 2023, provided; however, that if the Company's 2022 Notes are not refinanced in full on or prior to February 1, 2022, the maturity date will be February 1, 2022. The New Credit Agreement currently provides for a swingline subfacility in the amount of $50 million, and a letter of credit subfacility in the amount of $129 million, with the ability to increase such amounts (subject to certain lenders agreeing to become issuers of letters of credit following the closing date). Borrowings under the New Credit Facility may be used for working capital and other general corporate purposes. The New Credit Agreement also includes restrictions on borrowings if, after giving effect to any such borrowings and the application of the proceeds thereof, the aggregate amount of the Company’s cash-on-hand, subject to certain exceptions, would exceed $200 million. As of June 30, 2018, no amounts were outstanding and $5.4 million in letters of credit had been issued under the New Credit Facility leaving remaining availability of $949.6 million.
Subject to the successful procurement of additional commitments from new or existing lenders, borrower may elect to increase the maximum amount available under the New Credit Facility from $955 million by an additional amount not to exceed $250 million.

Revolving borrowings under the New Credit Facility bear interest, at the Company's option, at either (a) the sum of LIBOR plus a margin ranging between 2.75% to 4.25%, depending on the credit rating of the Company, or (b) the sum of a base rate specified in the New Credit Agreement, plus a margin ranging between 1.75% to 3.25%, depending on the credit rating of the Company. The Company is also required to pay a commitment fee on undrawn amounts of the New Credit Agreement, which ranges from 0.375% to 0.7% depending on the Company's credit rating.

The New Credit Agreement contains certain financial covenants applicable to the Company, including: (i) a covenant restricting debt to total tangible capitalization to not greater than 55% at the end of each fiscal quarter, (ii) a minimum liquidity requirement of $300 million, (iii) a covenant that the ratio of the net book value of the Company's drilling rigs either marketed or under contract with a customer to the sum of commitments under the New Credit Agreement, the commitments under the Existing Credit Agreement plus any other indebtedness of the borrower and guarantors (other than unsecured intercompany indebtedness that is contractually subordinated to the obligations under the New Credit Agreement) that is secured by a lien, guaranteed by, or has an obligor who is a subsidiary of Rowan plc, in each case, that directly own or operates a drilling rig, is not less than 3:00 to 1:00 at the end of each fiscal quarter (the "Marketed Rig Value Ratio") and (iv) a covenant that the ratio of (A) the net book value of the Company's drilling rigs, subject to certain exclusions, that are directly wholly owned by Rowan plc and its subsidiaries who are borrowers or guarantors under the New Credit Facility to (B) the net book value of all drilling rigs owned by the Company and certain of its local content affiliates, is not less than 80% at the end of each fiscal quarter (the "Guaranteed Rig Value Ratio"). As of June 30, 2018, the Company was in compliance with each of the financial covenants under the New Credit Agreement as follows (dollars in millions):

	Min/Max	Value as of

Financial covenant	Requirement		June 30, 2018	
Total tangible capitalization	55	%	33	%
Liquidity (in millions)	$ 300.0		$2,392.9	
Marketed Rig Value Ratio	3.00		4.18	
Guaranteed Rig Value Ratio	80	%	85	%

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The New Credit Agreement also contains additional covenants generally applicable to the Company and its subsidiaries that the Company considers usual and customary for an agreement of this type, including compliance with laws (including environmental laws, ERISA and anti-corruption and sanctions laws), delivery of quarterly and annual financial statements, maintenance and operation of property, restrictions on investments, asset sales, the incurrence of liens and indebtedness, mergers and other fundamental changes, restricted payments, repurchases and redemptions of indebtedness and equity, sale and leaseback transactions and transactions with affiliates. Borrowings under the New Credit Facility are subject to acceleration upon the occurrence of events of default that the Company considers usual and customary for an agreement of this type.

Debt Reductions
In December 2016, the Company commenced cash tender offers for $750 million aggregate principal amount of the Subject Notes issued by the Company (the "Tender Offers"). The Tender Offers expired on January 3, 2017; however, there was also an early tender expiration on December 16, 2016 which provided for an early tender premium. Subject Notes validly tendered and accepted for purchase prior to the early tender expiration time on December 16, 2016, received tender offer consideration plus an early tender premium. As a result of the Tender Offers, in December 2016, the Company paid $490.5 million to repurchase $463.9 million aggregate principal amount of outstanding Subject Notes, consisting of $265.5 million of the 2017 Notes, $186.7 million of the 2019 Notes, $9.8 million of the 2022 Notes and $1.9 million of the 2024 Notes, and recognized a $33.6 million loss on the early extinguishment of debt which included approximately $5.9 million of bank and legal fees.
In January 2017, at the expiration of the Tender Offers, the Company paid $32.8 million to repurchase an additional $34.6 million aggregate principal amount of outstanding Subject Notes, consisting of $0.1 million of the 2017 Notes, $0.9 million of the 2019 Notes and $33.6 million of the 2022 Notes. The Company recognized a $2.0 million gain on the early extinguishment of debt.
On January 9, 2017, the Company called for redemption $92.1 million aggregate principal amount of the 2017 Notes that remained outstanding and on February 8, 2017, the Company paid $94.0 million to redeem such notes and recognized a $2.1 million loss on early extinguishment of debt.
In the second quarter of 2017, the Company paid $33.5 million in cash to retire $35.8 million aggregate principal amount of the 2022 Notes and recognized a $2.4 million gain on early extinguishment of debt.
Debt Guarantee and Other Provisions
The Senior Notes are RCI's senior unsecured obligations and rank senior in right of payment to all of its subordinated indebtedness and pari passu in right of payment with any of RCI's future senior indebtedness, including any indebtedness under RCI's senior Existing Credit Facility. The Senior Notes rank effectively junior to RCI's future secured indebtedness, if any, to the extent of the value of its assets constituting collateral securing that indebtedness and to all existing and future indebtedness of its subsidiaries (other than indebtedness and liabilities owed to RCI). The Senior Notes are fully and unconditionally guaranteed on a senior and unsecured basis by Rowan plc (see Note 12).
All or part of the Senior Notes may be redeemed at any time for an amount equal to 100% of the principal amount plus accrued and unpaid interest to the redemption date plus the applicable make-whole premium, if any.
The 2025 Notes contain a provision whereby upon a change of control repurchase event, as defined in the indenture governing the 2025 Notes, the Company may be required to make an offer to repurchase all outstanding notes at a price in cash equal to 101% of the aggregate principal amount of the notes repurchased, plus any accrued and unpaid interest to the repurchase date. Otherwise, the 2025 Notes contain substantially the same provisions as the Company's other Senior Notes.
Other provisions of the Company's debt agreements limit the ability of the Company to create liens that secure debt, engage in sale and leaseback transactions, merge or consolidate with another company and, in the event of noncompliance, restrict investment activities and asset purchases and sales, among other things. The Company was in

compliance with its debt covenants at June 30, 2018.

Supplemental Cash Flow Information – Accrued capital expenditures, which are excluded from capital expenditures in the Condensed Consolidated Statements of Cash Flows until settlement, totaled $19.6 million and $12.8 million at June 30, 2018 and 2017, respectively.

On January 5, 2018, the Company purchased two 2013 Le Tourneau Super 116E jack-up rigs, the Bess Brants and Earnest Dees, formerly, P-59 and P-60, respectively, which were both delivered new into service in 2013, in a public auction from a subsidiary

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of Petroleo Brasileiro S.A. (“Petrobras”). The purchase price was $38.5 million per unit, or an aggregate $77.0 million, of which $7.7 million was paid as a deposit in December 2017. The remaining balance of $69.3 million as well as $1.5 million in transaction costs were paid in January 2018.

Income Taxes– In accordance with US GAAP for interim reporting, the Company has historically estimated its full-year effective tax rate and applied this rate to ordinary income or loss for the reporting period. The Company has determined that since small changes in estimated ordinary income would result in significant changes in the estimated annual effective tax rate this historical method would not provide reliable results for the three and six months ended June 30, 2018. Therefore, a discrete year-to-date method of reporting was used for the three and six months ended June 30, 2018. The Company provides for income taxes based upon the tax laws and rates in effect in the countries in which it conducts operations. The amounts of the provisions are impacted by such laws and rates and the availability of deductions, credits and other benefits in each of the various jurisdictions. Overall effective tax rate may therefore vary considerably from quarter to quarter and from year to year based on the actual or projected location of operations, levels of income, intercompany gains or losses, and other factors.

On December 22, 2017, the U.S. government enacted tax legislation commonly referred to as the U.S. Tax Act. The U.S. Tax Act significantly changes U.S. corporate income tax laws including but not limited to reducing the U.S. corporate income tax rate from 35% to 21%, requiring a one-time transition tax on mandatory deemed repatriation of certain unremitted non-U.S. earnings as of December 31, 2017, and changing how non-U.S. subsidiaries are taxed in the U.S. as of January 1, 2017. The Company is applying the guidance in accordance with the SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") that allows provisional estimates for the tax effects of the U.S. Tax Act. As of June 30, 2018, the Company is still in the process of gathering data and completing its analysis on the U.S. Tax Act that includes the one-time transition tax, U.S. tax on non-U.S. subsidiaries, related net operating losses and valuation allowance, and have made no change with respect to the provisional amounts recorded. The provisional estimates will be finalized within one year from the date of enactment as allowed under SAB 118.

The effective tax rate for the three and six months ended June 30, 2018, was 4.9% as a result of tax benefit on pre-tax loss and (1.2)% as a result of tax expense on pre-tax loss, respectively, compared to (294.3)% as a result of tax expense on pre-tax loss and 156.3% as a result of a tax expense on pre-tax income for the comparable prior-year periods ended June 30, 2017.

The Company recognized an income tax benefit of $3.9 million and income tax provision of $2.3 million for the three and six months ended June 30, 2018, respectively, compared to an income tax provision of $21.4 million and $51.1 million for the comparable periods of 2017. The decrease of $25.3 million for the three months ended June 30, 2018, is primarily attributed to a) the current period estimate using a discrete year-to-date interim reporting method and decrease in valuation allowance of the deferred tax asset related to pension plan changes, and b) the impact from the three months ended June 30, 2017 of additional deferred tax expense related to restructuring and an increase in valuation allowance on Luxembourg deferred tax assets. The decrease of $48.8 million for the six months ended June 30, 2018, is primarily attributed to a) the current period estimate using a discrete year-to-date interim reporting method and decrease in valuation allowance of the deferred tax asset related to pension plan changes, and b) the impact from the six months ended June 30, 2017 of additional deferred tax expense related to restructuring and an increase in valuation allowance on Luxembourg deferred tax assets.

The Company has not provided deferred income taxes on certain undistributed earnings of non-U.K. subsidiaries. No subsidiary of RCI has a plan to distribute earnings to RCI in a manner that would cause those earnings to be subject to U.S., U.K., or other local country taxation. If facts and circumstances cause a change in expectations regarding future tax consequences, the resulting tax impact could have a material effect on the Company's consolidated financial statements.

Note 11 – Segment Information and Disaggregation of Revenue

Prior to ARO commencing operations on October 17, 2017 (see Note 3), the Company operated in two segments: Deepwater and Jack-ups. The Company now operates in three principal operating segments: Deepwater, which consists of its drillship operations, Jack-ups, which is composed of the Company's jack-up operations and results associated with the Company's arrangements with ARO primarily under the Transition Services Agreement (direct operating costs only), Rig Management Agreement, Rig Lease Agreement and Secondment Agreement (see Note 3), and ARO, the Company's 50/50 joint venture with Saudi Aramco. ARO was formed to own, manage and operate offshore drilling units in Saudi Arabia. These segments provide one primary service – contract drilling. The Company evaluates performance primarily based on income from operations.

Depreciation and amortization and Selling, general and administrative expenses related to the Company's corporate function and other administrative offices have not been allocated to its operating segments for purposes of measuring segment operating income

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

and are included in "Unallocated and other." In addition, revenue and general and administrative costs related to providing transition services to ARO are included in "Unallocated and other" (see Note 3). "Other operating items - expense" consists of, to the extent applicable, loss on disposals of property and equipment. Segment results are presented below (in millions):

	Three months ended June 30,						
	Deepwater	Jack-ups	ARO	Unallocated and other	Reportable segments total	Eliminations and adjustments	Consolidated
2018							
Revenue	$65.8	$166.6	$70.8	$ 8.9	$ 312.1	$ (70.8)	$ 241.3
Operating expenses:							
Direct operating costs (excluding items below)	40.8	135.5	35.9	—	212.2	(35.9)	176.3
Depreciation and amortization	27.0	69.9	16.8	0.5	114.2	(16.8)	97.4
Selling, general and administrative	—	—	6.8	25.2	32.0	(6.8)	25.2
Other operating items - expense	—	2.2	0.9	—	3.1	(0.9)	2.2
Equity in earnings of unconsolidated subsidiary	—	—	—	—	—	1.6	1.6
Income (loss) from operations	$(2.0)	$(41.0)	$10.4	$ (16.8)	$ (49.4)	$ (8.8)	$ (58.2)
2017							
Revenue	$122.7	$197.5	$—	$ —	$ 320.2	$ —	$ 320.2
Operating expenses:							
Direct operating costs (excluding items below)	39.0	129.8	—	—	168.8	—	168.8
Depreciation and amortization	28.4	72.4	—	0.7	101.5	—	101.5
Selling, general and administrative	—	—	—	22.2	22.2	—	22.2
Other operating items - (income) expense	—	3.2	—	(0.1)	3.1	—	3.1
Income (loss) from operations	$55.3	$(7.9)	$—	$ (22.8)	$ 24.6	$ —	$ 24.6

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Six months ended June 30,						
	Deepwater	Jack-ups	ARO	Unallocated and other	Reportable segments total	Eliminations and adjustments	Consolidated
2018							
Revenue	$117.9	$316.7	$129.1	$ 17.9	$ 581.6	$ (129.1)	$ 452.5
Operating expenses:							
Direct operating costs (excluding items below)	69.8	263.9	69.3	—	403.0	(69.3)	333.7
Depreciation and amortization	53.9	140.2	33.4	1.2	228.7	(33.4)	195.3
Selling, general and administrative	—	—	13.2	50.8	64.0	(13.2)	50.8
Other operating items - expense	—	3.5	1.0	—	4.5	(1.0)	3.5
Equity in earnings of unconsolidated subsidiary	—	—	—	—	—	0.3	0.3
Income (loss) from operations	$(5.8)	$(90.9)	$12.2	$ (34.1)	$ (118.6)	$ (11.9)	$ (130.5)
2017							
Revenue	$283.4	$411.1	$—	$ —	$ 694.5	$ —	$ 694.5
Operating expenses:							
Direct operating costs (excluding items below)	83.9	256.2	—	—	340.1	—	340.1
Depreciation and amortization	56.7	142.5	—	1.4	200.6	—	200.6
Selling, general and administrative	—	—	—	46.4	46.4	—	46.4
Other operating items - (income) expense	—	6.6	—	(0.1)	6.5	—	6.5
Income (loss) from operations	$142.8	$5.8	$—	$ (47.7)	$ 100.9	$ —	$ 100.9

The classifications of revenue among geographic areas in the tables which follow (in millions) were determined based on segment and physical location of assets. Because the Company evaluates performance primarily based on income from operations and the Company's offshore drilling rigs are mobile, classifications by area are dependent on the rigs' location at the time revenue is earned and may vary from one period to the next.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Deepwater Revenue:				
United States	$65.8	$120.3	$117.9	$281.0
Other	—	2.4	—	2.4
Total	$65.8	$122.7	$117.9	$283.4

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Jack-ups Revenue:				
Saudi Arabia	$94.1	$93.3	$182.0	$187.5
Norway	24.6	43.9	63.4	95.1
Trinidad	31.7	34.6	43.3	76.0
United Kingdom	11.5	13.7	21.9	29.2
United States	4.7	11.9	6.1	23.2
Other	—	0.1	—	0.1
Total	$166.6	$197.5	$316.7	$411.1

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Unallocated and Other Revenue:				
Saudi Arabia	$8.9	$ —	$17.9	$ —
Total	$8.9	$ —	$17.9	$ —

Revenue from the Unallocated and other segment consists of transition services for ARO. Fees for these related services are recognized as the service is performed and billed on a monthly basis.

Note 12 – Guarantees of Registered Securities

Rowan plc and its 100%-owned subsidiary, RCI, have entered into agreements providing for, among other things, the full, unconditional and irrevocable guarantee by Rowan plc of the prompt payment, when due, of any amount owed to the holders of RCI's Senior Notes.

The condensed consolidating financial information that follows is presented on the equity method of accounting in accordance with Rule 3-10 of Regulation S-X in connection with Rowan plc’s guarantee of the Senior Notes and reflects the corporate ownership structure as of June 30, 2018. Financial information for the three and six months ended June 30, 2017, has been recast to reflect changes to the corporate ownership structure that occurred in the fourth quarter of 2017 and second quarter of 2018. The Condensed Consolidating Balance Sheets as of December 31, 2017 have been recast to reflect changes to the corporate ownership structure that occurred in the second quarter of 2018 as if the corporate ownership structure was in place at January 1, 2015. In addition, the Condensed Consolidating Statements of Operations and Condensed Consolidating Statements of Other Comprehensive Income (Loss) for the three and six months ended June 30, 2017, have been adjusted for the adoption of new accounting standards (see Note 1 for additional information).

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Operations
Three months ended June 30, 2018
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUE	$ —	$ 0.3	$ 241.2	$ (0.2)	$ 241.3
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	(0.2)	176.4	0.1	176.3
Depreciation and amortization	—	—	97.4	—	97.4
Selling, general and administrative	5.3	0.2	20.0	(0.3)	25.2
Loss on disposals of property and equipment	—	0.7	1.5	—	2.2
Total costs and expenses	5.3	0.7	295.3	(0.2)	301.1
Equity in earnings of unconsolidated subsidiary	—	—	1.6	—	1.6
LOSS FROM OPERATIONS	(5.3)	(0.4)	(52.5)	—	(58.2)
OTHER INCOME (EXPENSE):					
Interest expense	—	(38.0)	(1.3)	0.4	(38.9)
Interest income	—	0.9	7.2	(0.4)	7.7
Other - net	5.1	(2.4)	6.1	—	8.8
Total other income (expense), net	5.1	(39.5)	12.0	—	(22.4)
LOSS BEFORE INCOME TAXES	(0.2)	(39.9)	(40.5)	—	(80.6)
Provision (benefit) for income taxes	—	(6.5)	2.6	—	(3.9)
Equity in earnings (losses) of subsidiaries, net of tax	(76.5)	44.0	—	32.5	—
NET INCOME (LOSS)	$ (76.7)	$ 10.6	$ (43.1)	$ 32.5	$ (76.7)

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Operations
Three months ended June 30, 2017
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUE	$—	$23.1	$ 320.3	$ (23.2)	$ 320.2
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	(4.5)	191.1	(17.8)	168.8
Depreciation and amortization	—	5.3	96.0	0.2	101.5
Selling, general and administrative	5.9	4.0	17.9	(5.6)	22.2
Loss on disposals of property and equipment	—	1.5	1.6	—	3.1
Total costs and expenses	5.9	6.3	306.6	(23.2)	295.6
INCOME (LOSS) FROM OPERATIONS	(5.9)	16.8	13.7	—	24.6
OTHER INCOME (EXPENSE):					
Interest expense	—	(39.0)	(0.1)	0.2	(38.9)
Interest income	—	1.0	2.4	(0.2)	3.2
Gain on extinguishment of debt	—	2.4	—	—	2.4
Other - net	5.2	(4.8)	1.0	—	1.4
Total other income (expense) - net	5.2	(40.4)	3.3	—	(31.9)
INCOME (LOSS) BEFORE INCOME TAXES	(0.7)	(23.6)	17.0	—	(7.3)
Provision (benefit) for income taxes	—	(1.0)	22.6	(0.2)	21.4
Equity in earnings (losses) of subsidiaries, net of tax	(28.0)	5.6	—	22.4	—
NET LOSS	$(28.7)	$(17.0)	$ (5.6)	$ 22.6	$ (28.7)

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Operations
Six months ended June 30, 2018
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUE	$—	$ 2.0	$ 452.5	$ (2.0)	$ 452.5
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	—	333.7	—	333.7
Depreciation and amortization	—	—	195.3	—	195.3
Selling, general and administrative	12.7	0.5	39.6	(2.0)	50.8
Loss on disposals of property and equipment	—	0.6	2.9	—	3.5
Total costs and expenses	12.7	1.1	571.5	(2.0)	583.3
Equity in earnings of unconsolidated subsidiary	—	—	0.3	—	0.3
INCOME (LOSS) FROM OPERATIONS	(12.7)	0.9	(118.7)	—	(130.5)
OTHER INCOME (EXPENSE):					
Interest expense	—	(76.5)	(1.8)	0.9	(77.4)
Interest income	—	2.0	13.5	(0.9)	14.6
Other - net	10.0	(7.8)	4.4	—	6.6
Total other income (expense) - net	10.0	(82.3)	16.1	—	(56.2)
LOSS BEFORE INCOME TAXES	(2.7)	(81.4)	(102.6)	—	(186.7)
Provision (benefit) for income taxes	—	(7.5)	9.8	—	2.3
Equity in earnings (losses) of subsidiaries, net of tax	(186.3)	99.2	—	87.1	—
NET INCOME (LOSS)	$(189.0)	$ 25.3	$ (112.4)	$ 87.1	$ (189.0)

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Operations
Six months ended June 30, 2017
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	$—	$37.6	$ 694.8	$ (37.9)	$ 694.5
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	0.8	370.7	(31.4)	340.1
Depreciation and amortization	—	10.0	190.4	0.2	200.6
Selling, general and administrative	11.8	1.9	39.4	(6.7)	46.4
Loss on disposals of property and equipment	—	1.7	4.8	—	6.5
Total costs and expenses	11.8	14.4	605.3	(37.9)	593.6
INCOME (LOSS) FROM OPERATIONS	(11.8)	23.2	89.5	—	100.9
OTHER INCOME (EXPENSE):					
Interest expense	—	(78.6)	(0.2)	0.3	(78.5)
Interest income	—	1.7	3.8	(0.3)	5.2
Gain on extinguishment of debt	—	2.2	—	—	2.2
Other - net	10.3	(9.6)	2.2	—	2.9
Total other income (expense) - net	10.3	(84.3)	5.8	—	(68.2)
INCOME (LOSS) BEFORE INCOME TAXES	(1.5)	(61.1)	95.3	—	32.7
Provision (benefit) for income taxes	—	(10.2)	62.3	(1.0)	51.1
Equity in earnings (losses) of subsidiaries, net of tax	(16.9)	19.1	—	(2.2)	—
NET INCOME (LOSS)	$(18.4)	$(31.8)	$ 33.0	$ (1.2)	$ (18.4)

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Comprehensive Income (Loss)
Three months ended June 30, 2018
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME (LOSS)	$ (76.7)	$ 10.6	$ (43.1)	$ 32.5	$ (76.7)
OTHER COMPREHENSIVE INCOME:					
Net changes in pension and other postretirement plan assets and benefit obligations recognized in other comprehensive income, net of income taxes	15.9	15.9	—	(15.9)	15.9
Net reclassification adjustment for amounts recognized in net income (loss) as a component of net periodic benefit cost, net of income taxes	1.9	1.9	—	(1.9)	1.9
	17.8	17.8	—	(17.8)	17.8
COMPREHENSIVE INCOME (LOSS)	$ (58.9)	$ 28.4	$ (43.1)	$ 14.7	$ (58.9)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Comprehensive Loss
Three months ended June 30, 2017
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET LOSS	$ (28.7)	$ (17.0)	$ (5.6)	$ 22.6	$ (28.7)
OTHER COMPREHENSIVE INCOME:					
Net reclassification adjustment for amounts recognized in net loss as a component of net periodic benefit cost, net of income taxes	0.8	0.8	—	(0.8)	0.8
COMPREHENSIVE LOSS	$ (27.9)	$ (16.2)	$ (5.6)	$ 21.8	$ (27.9)

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Comprehensive Income (Loss)
Six months ended June 30, 2018
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME (LOSS)	$(189.0)	$ 25.3	$ (112.4)	$ 87.1	$ (189.0)
OTHER COMPREHENSIVE INCOME:					
Net changes in pension and other postretirement plan assets and benefit obligations recognized in other comprehensive income, net of income taxes	15.9	15.9	—	(15.9)	15.9
Net reclassification adjustment for amounts recognized in net income (loss) as a component of net periodic benefit costs, net of income taxes	4.7	4.7	—	(4.7)	4.7
	20.6	20.6	—	(20.6)	20.6
COMPREHENSIVE INCOME (LOSS)	$(168.4)	$ 45.9	$ (112.4)	$ 66.5	$ (168.4)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Comprehensive Income (Loss)
Six months ended June 30, 2017
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME (LOSS)	$(18.4)	$(31.8)	$ 33.0	$ (1.2)	$ (18.4)
OTHER COMPREHENSIVE INCOME:					
Net reclassification adjustment for amounts recognized in net income (loss) as a component of net periodic benefit cost, net of income taxes	1.7	1.7	—	(1.7)	1.7
COMPREHENSIVE INCOME (LOSS)	$(16.7)	$(30.1)	$ 33.0	$ (2.9)	$ (16.7)

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
June 30, 2018
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$ 0.1	$ 38.7	$ 1,093.9	$ —	$ 1,132.7
Receivables - trade and other	0.1	1.0	237.0	—	238.1
Prepaid expenses and other current assets	—	4.9	10.2	—	15.1
Total current assets	0.2	44.6	1,341.1	—	1,385.9
Property and equipment - gross	—	259.3	8,710.3	—	8,969.6
Less accumulated depreciation and amortization	—	134.2	2,337.4	—	2,471.6
Property and equipment - net	—	125.1	6,372.9	—	6,498.0
Investments in consolidated subsidiaries	5,249.5	6,500.1	—	(11,749.6)	—
Due from affiliates	0.2	740.6	12.5	(753.3)	—
Long-term note receivable from unconsolidated subsidiary	—	—	269.6	—	269.6
Investment in unconsolidated subsidiary	—	—	31.2	—	31.2
Other assets	—	33.6			