

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

ROWAN COMPANIES PLC
Form 10-Q
November 03, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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
(State or other jurisdiction of
incorporation or organization)

98-1023315
(I.R.S. Employer
Identification No.)

2800 Post Oak Boulevard, Suite 5450, Houston, Texas
(Address of principal executive offices)
(713) 621-7800
(Registrant's telephone number, including area code)

77056-6189
(Zip 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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

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

The number of Class A ordinary shares, \$0.125 par value, outstanding at October 30, 2015, was 124,813,549, which excludes 1,133,875 shares held by an affiliated employee benefit trust.

Table of Contents

ROWAN COMPANIES PLC

TABLE OF CONTENTS

	Page
<u>PART I</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements (Unaudited):</u>
	<u>Condensed Consolidated Balance Sheets – September 30, 2015, and December 31, 2014</u> 3
	<u>Condensed Consolidated Statements of Income – Three and nine months ended September 30, 2015 and 2014</u> 4
	<u>Condensed Consolidated Statements of Comprehensive Income – Three and nine months ended September 30, 2015 and 2014</u> 2
	<u>Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2015 and 2014</u> 6
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity – Nine months ended September 30, 2015 and 2014</u> 7
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u> 8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 26
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 37
<u>Item 4.</u>	<u>Controls and Procedures</u> 37
<u>PART II</u>	<u>OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u> 37
<u>Item 1A.</u>	<u>Risk Factors</u> 38
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 39
<u>Item 6.</u>	<u>Exhibits</u> 39
	<u>SIGNATURES</u> 40

Table of Contents

FORWARD-LOOKING STATEMENTS

Statements contained in this report regarding future financial performance, results of operations and other statements that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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," "continue," "will likely result," and similar words and specifically include statements regarding expected financial performance; dividend and share repurchases or debt retirement; growth strategies; expected utilization, day rates, revenues, operating expenses, contract terms, contract backlog, capital expenditures, tax rates and positions, insurance coverages, access to financing and funding sources; the availability, delivery, mobilization, contract commencement, relocation or other movement of rigs and the timing thereof; future rig construction (including construction in progress and completion thereof), 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 and complexity; expected contributions from our new rigs and our entry into the ultra-deepwater market; divestiture of selected assets; expense management; the likely outcome of legal proceedings or insurance or other claims and the timing thereof; activity levels in the offshore drilling market; customer drilling programs; 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;

- changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild drilling rigs and reactivation of rigs;

- variable levels of drilling activity and expenditures, whether as a result of actions by OPEC, global capital markets and liquidity, prices of oil and natural gas or otherwise, which may cause us to idle or stack additional rigs;

- drilling permit and operations delays, moratoria or suspensions, new and future regulatory, legislative or permitting requirements (including requirements related to certification and testing of blowout preventers and other equipment or otherwise impacting operations), future lease sales, changes in laws, rules and regulations that have or may impose increased financial responsibility, additional oil spill contingency plan requirements and other governmental actions that may result in claims of force majeure or otherwise adversely affect our existing drilling contracts;

- governmental regulatory, legislative and permitting requirements affecting drilling operations or compliance obligations in the areas in which our rigs operate;

- tax matters, including our effective tax rates, tax positions, results of audits, changes in tax laws, treaties and regulations, tax assessments and liabilities for taxes;

- 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 limited availability of transport vessels, hazards, self-imposed drilling limitations and other delays due to weather conditions or otherwise, and the limited availability or high cost of insurance coverage for certain offshore perils or associated removal of wreckage or debris and other losses;

- access to spare parts, equipment and personnel to maintain, upgrade and service our fleet;

possible cancellation or suspension of drilling contracts as a result of economic conditions in the industry, force majeure, mechanical difficulties, delays, performance or other reasons;

potential cost overruns and other risks inherent to shipyard rig construction, repair or enhancement, unexpected delays in rig and equipment delivery and engineering or design issues following shipyard delivery, or delays in the dates our rigs will enter a shipyard, be transported and delivered, enter service or return to service;

changes or delays in actual contract commencement dates; contract terminations, contract extensions, contract option exercises, contract revenues, contract awards; the termination of contracts or renegotiation of contract terms by customers, or payment or operational delays by our customers;

1

Table of Contents

operating hazards, including environmental or other liabilities, risks, expenses or losses, whether related to well-control issues, or storm or hurricane damage, losses or liabilities (including wreckage or debris removal), collisions, or otherwise;

our ability to retain highly skilled personnel on commercially reasonable terms, whether due to competition from other contract drillers, labor regulations 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, political demonstrations, strikes, or outbreak or escalation of armed hostilities or other crises in oil or natural gas producing areas in which we operate, which may result in extended business interruptions, suspended operations, or claims by our customers of a force majeure situation and payment disputes;

terrorism, piracy, cyber-breaches, outbreaks of any disease or epidemic and other related travel restrictions, political instability, hostilities, acts of war, nationalization, expropriation, confiscation or deprivation of our assets or military action impacting our operations, assets or financial performance in any of our areas of operations;

the outcome of legal proceedings, or other claims or contract disputes, including any inability to collect receivables or resolve significant contractual or day rate disputes, any purported renegotiation, nullification, cancellation or breach of contracts with customers or other parties, and any failure to negotiate or complete definitive contracts following announcements of receipt of letters of intent;

potential for additional long-lived asset impairments;

impacts of any global financial or economic downturn;

volatility in currency exchange rates;

effects of accounting changes and adoption of accounting policies;

costs and uncertainties associated with our redomestication, or changes in laws that could reduce or eliminate the anticipated benefits of the transaction;

potential unplanned expenditures and funding requirements, including investments in pension plans and other benefit plans; and

other important factors described from time to time in the reports filed by us with the Securities and Exchange Commission and the New York Stock Exchange.

Such risks and uncertainties are beyond our ability to control, and in many cases we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward-looking statements. 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. You should not place undue reliance on forward-looking statements. In addition to the risks, uncertainties and assumptions described above, you should also carefully read and consider the risk factors and forward-looking statement disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2014. We disclaim any obligation to update or revise any forward-looking statements except as required by applicable law or regulation.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except shares)

(Unaudited)

	September 30, 2015	December 31, 2014
CURRENT ASSETS:		
Cash and cash equivalents	\$290,481	\$339,154
Receivables - trade and other	508,338	545,204
Prepaid expenses and other current assets	37,529	29,253
Deferred tax assets - net	—	27,485
Total current assets	836,348	941,096
PROPERTY, PLANT AND EQUIPMENT:		
Drilling equipment	8,893,342	7,639,171
Construction in progress	—	1,023,646
Other property and equipment	140,086	137,365
Property, plant and equipment - gross	9,033,428	8,800,182
Less accumulated depreciation and amortization	1,564,710	1,367,970
Property, plant and equipment - net	7,468,718	7,432,212
Other assets	36,609	37,884
TOTAL ASSETS	\$8,341,675	\$8,411,192
CURRENT LIABILITIES:		
Accounts payable - trade	\$118,976	\$102,773
Deferred revenues	48,204	36,189
Accrued liabilities	151,491	194,259
Total current liabilities	318,671	333,221
Long-term debt	2,806,686	2,807,324
Other liabilities	380,558	368,266
Deferred income taxes - net	190,822	210,982
Commitments and contingent liabilities (Note 4)		
SHAREHOLDERS' EQUITY:		
Class A Ordinary Shares, \$0.125 par value, 125,947,424 and 124,828,807 shares issued at September 30, 2015, and December 31, 2014, respectively	15,743	15,604
Additional paid-in capital	1,453,024	1,436,910
Retained earnings	3,398,078	3,466,993
Cost of 1,140,567 and 264,903 treasury shares at September 30, 2015, and December 31, 2014, respectively	(12,044)	(7,990)
Accumulated other comprehensive loss	(209,863)	(220,118)

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

Total shareholders' equity	4,644,938	4,691,399
TOTAL LIABILITIES AND EQUITY	\$8,341,675	\$8,411,192

See Notes to Unaudited Condensed Consolidated Financial Statements.

3

Table of ContentsROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
REVENUES	\$545,436	\$467,692	\$1,601,211	\$1,268,172
COSTS AND EXPENSES:				
Direct operating costs (excluding items below)	247,642	246,907	757,320	711,854
Depreciation and amortization	104,109	81,503	289,189	230,054
Selling, general and administrative	29,671	33,040	88,415	92,057
Loss on disposals of property and equipment	2,250	58	2,075	1,720
Proceeds from litigation settlement	—	—	—	(20,875)
Material charges and other operating expenses	332,347	—	337,347	8,300
Total costs and expenses	716,019	361,508	1,474,346	1,023,110
INCOME (LOSS) FROM OPERATIONS	(170,583)	) 106,184	126,865	245,062
OTHER INCOME (EXPENSE):				
Interest expense, net of interest capitalized	(41,344)	) (25,656)	) (104,930)	) (74,308)
Interest income	230	372	820	1,721
Other - net	(1,754)	) 269	(2,875)	) (627)
Total other income (expense) - net	(42,868)	) (25,015)	) (106,985)	) (73,214)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(213,451)	) 81,169	19,880	171,848
Provision (benefit) for income taxes	25,996	(38,428)	) 50,923	(36,165)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(239,447)	) 119,597	(31,043)	) 208,013
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	—	—	—	4,023
NET INCOME (LOSS)	\$(239,447)	) \$119,597	\$(31,043)	) \$212,036
INCOME (LOSS) PER SHARE - BASIC:				
Income (loss) from continuing operations	\$(1.92)	) \$0.96	\$(0.25)	) \$1.68
Discontinued operations	\$—	\$—	\$—	\$0.03
Net income (loss)	\$(1.92)	) \$0.96	\$(0.25)	) \$1.71
INCOME (LOSS) PER SHARE - DILUTED:				
Income (loss) from continuing operations	\$(1.92)	) \$0.96	\$(0.25)	) \$1.67
Discontinued operations	\$—	\$—	\$—	\$0.03
Net income (loss)	\$(1.92)	) \$0.96	\$(0.25)	) \$1.70

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

CASH DIVIDENDS DECLARED PER SHARE	\$0.10	\$0.10	\$0.30	\$0.20
-----------------------------------	--------	--------	--------	--------

See Notes to Unaudited Condensed Consolidated Financial Statements.

4

Table of ContentsROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
NET INCOME (LOSS)	\$(239,447	) \$119,597	\$(31,043	) \$212,036
OTHER COMPREHENSIVE INCOME:				
Net reclassification adjustment for amounts recognized in net income (loss) as a component of net periodic benefit cost, net of income tax expense of \$1,854 and \$1,313 for the three months ended September 30, 2015 and 2014, and \$5,502 and \$3,899 for the nine months ended September 30, 2015 and 2014, respectively	3,456	2,453	10,255	7,281
COMPREHENSIVE INCOME (LOSS)	\$(235,991	) \$122,050	\$(20,788	) \$219,317

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of ContentsROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2015	2014
CASH PROVIDED BY OPERATIONS:		
Net income (loss)	\$(31,043	) \$212,036
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	290,067	230,054
Deferred income taxes	(722	) (42,678)
Provision for pension and other postretirement benefits	23,796	18,715
Share-based compensation expense	24,594	23,904
Loss (gain) on disposals of property, plant and equipment	2,075	(193)
Other postretirement benefit claims paid	(3,538	) (3,129)
Contributions to pension plans	(10,976	) (54,251)
Asset impairment charges	329,781	8,300
Changes in current assets and liabilities:		
Receivables - trade and other	36,866	(165,648)
Prepaid expenses and other current assets	(8,276	) 4,708
Accounts payable	28,324	(23,162)
Accrued income taxes	3,249	(4,401)
Deferred revenues	12,015	(22,712)
Other current liabilities	(40,147	) 18,198
Net changes in other noncurrent assets and liabilities	2,806	481
Net cash provided by operations	658,871	200,222
CASH USED IN INVESTING ACTIVITIES:		
Capital expenditures	(674,816	) (1,367,414)
Proceeds from disposals of property, plant and equipment	5,144	9,767
Net cash used in investing activities	(669,672	) (1,357,647)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Proceeds from borrowings	220,000	793,380
Repayments of borrowings	(220,000) —
Dividends paid	(37,872	) (25,123)
Debt issue costs	—	(687)
Excess tax benefit from share-based compensation	—	15
Proceeds from exercise of share options	—	4,725
Net cash provided by (used in) financing activities	(37,872	) 772,310
DECREASE IN CASH AND CASH EQUIVALENTS	(48,673	) (385,115)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	339,154	1,092,844
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$290,481	\$707,729

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (In thousands)
 (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, 2014	124,237	\$15,597	\$1,407,031	\$3,619,540	\$(5,962)	\$(142,445)	\$4,893,761
Net shares issued (acquired) under share-based compensation plans	291	7	1,566	—	(1,265)	—	308
Share-based compensation	—	—	22,000	—	—	—	22,000
Excess tax benefit from share-based compensation plans	—	—	15	—	—	—	15
Retirement benefit adjustments, net of taxes of \$3,899	—	—	—	—	—	7,281	7,281
Dividends	—	—	—	(25,123)	—	—	(25,123)
Other	—	—	—	—	—	(287)	(287)
Net income	—	—	—	212,036	—	—	212,036
Balance, September 30, 2014	124,528	\$15,604	\$1,430,612	\$3,806,453	\$(7,227)	\$(135,451)	\$5,109,991
Balance, January 1, 2015	124,564	\$15,604	\$1,436,910	\$3,466,993	\$(7,990)	\$(220,118)	\$4,691,399
Net shares issued (acquired) under share-based compensation plans	243	139	397	—	(4,054)	—	(3,518)
Share-based compensation	—	—	18,262	—	—	—	18,262
Excess tax deficit from share-based compensation plans	—	—	(2,545)	—	—	—	(2,545)
Retirement benefit adjustments, net of taxes of \$5,502	—	—	—	—	—	10,255	10,255
Dividends	—	—	—	(37,872)	—	—	(37,872)
Net loss	—	—	—	(31,043)	—	—	(31,043)
Balance, September 30, 2015	124,807	\$15,743	\$1,453,024	\$3,398,078	\$(12,044)	\$(209,863)	\$4,644,938

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of Operations and Basis of Presentation

Rowan Companies plc, a public limited company incorporated under the laws of England and Wales, is a leading offshore drilling contractor for the oil and gas industry. Our fleet currently consists of 32 mobile offshore drilling units, including 28 self-elevating jack-up drilling units and four ultra-deepwater drillships. We contract our drilling rigs, related equipment and work crews primarily on a day rate basis in markets throughout the world, currently in the U.S. Gulf of Mexico (US GOM), the United Kingdom (U.K.) and Norwegian sectors of the North Sea, the Middle East, Southeast Asia and Trinidad.

The financial statements included in this Form 10-Q are presented in United States (U.S.) dollars and include the accounts of Rowan Companies plc (“Rowan plc”) and its subsidiaries. Unless the context otherwise requires, the terms “Company,” “we,” “us” and “our” are used to refer to Rowan plc and its consolidated subsidiaries. Intercompany balances and transactions are eliminated in consolidation.

The financial statements included in this Form 10-Q have been prepared without audit in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and the applicable rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and notes have been condensed or omitted as permitted by those rules and regulations. 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 results for the interim periods presented. 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, 2014.

New Accounting Standards – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which sets forth a global standard for revenue recognition and replaces most existing industry-specific guidance. We will be required to adopt the new standard in annual and interim periods beginning January 1, 2018. We are currently evaluating the potential effect of the new standard.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. We will be required to adopt the new standard in annual and interim periods beginning January 1, 2016. We do not expect adoption of the new standard will have a material effect on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. Under this ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 did not address the presentation of debt issuance costs associated with line-of-credit arrangements, which was addressed in ASU No. 2015-15, issued in August 2015. Under ASU 2015-15, entities may continue to present debt issuance costs related to line-of-credit arrangements as an asset and amortize the deferred costs ratably over the term of the line-of-credit arrangement, regardless of whether there were any outstanding borrowings under the arrangement. We will be required to adopt the new standards in annual and interim periods retrospectively beginning January 1, 2016, with early adoption permitted. We do not expect adoption will have a material effect on our financial statements.

Note 2 – Earnings Per Share

The following table sets forth a reconciliation of basic and diluted shares (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Average common shares outstanding	124,770	124,256	124,480	124,011
Effect of dilutive securities - share-based compensation	—	794	—	835
Average shares for diluted computations	124,770	125,050	124,480	124,846

8

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

There were no adjustments to net income required for purposes of computing diluted earnings per share.

Share options, appreciation rights and restricted share units granted under share-based compensation plans are antidilutive 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. Antidilutive shares, which could potentially dilute earnings per share in the future, are set forth below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Share options and appreciation rights	1,339	1,092	1,372	1,092
Restricted share units	1,168	—	1,702	—
Total potentially dilutive shares	2,507	1,092	3,074	1,092

Note 3 – Pension and Other Postretirement Benefits

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

Net periodic pension cost recognized during the periods included the following components (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Service cost	\$4,281	\$3,701	\$12,705	\$10,981
Interest cost	8,035	8,272	23,843	24,547
Expected return on plan assets	(10,645)	) (10,479)	) (31,589)	) (31,094)
Amortization of net loss	6,450	4,947	19,139	14,684
Amortization of prior service credit	(1,140)	) (1,134)	) (3,381)	) (3,366)
Total net pension cost	\$6,981	\$5,307	\$20,717	\$15,752

Other postretirement benefit cost recognized during the periods included the following components (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Service cost	\$327	\$272	\$971	\$809
Interest cost	711	774	2,109	2,297
Amortization of net loss	—	(40)	) (2)	) (119)
Amortization of prior service credit	—	(8)	) —	) (24)
Total other postretirement benefit cost	\$1,038	\$998	\$3,078	\$2,963

During the nine months ended September 30, 2015, the Company contributed \$14.5 million to its pension and other postretirement benefit plans and expects to make additional contributions to such plans totaling approximately \$1.7 million for the remainder of 2015.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 4 – Commitments and Contingent Liabilities

Uncertain tax positions – In 2009, the Company recognized certain tax benefits as a result of applying the facts of a third-party tax case to the Company’s situation. That case provided a more favorable tax treatment for certain foreign contracts entered into in prior years. Our position was challenged by the U.S. Internal Revenue Service. We appealed their findings and reached a settlement agreement in September 2014 with respect to three of the four years under review in the amount of approximately \$36 million, including interest, which we collected in October 2014. A remaining year continues to be under examination. We plan to vigorously defend our position.

Other matters – On March 22, 2015, while working for Cobalt International Energy, Inc. (“Cobalt”) in the Gulf of Mexico, the Rowan Reliance drillship experienced a loss of seal in the riser connection system which resulted in a spill of approximately 2,200 barrels of synthetic oil based mud. During the third quarter, we reached an agreement with Cobalt with respect to the operating days and day rate applicable over the period of time of the incident, and such amounts were previously reflected in the first and second quarter financial statements.

On April 21, 2015 the Bureau of Safety and Environmental Enforcement (BSEE) informed the Company it will conduct a Quality Control - Failure Incident Team (QC-FIT) evaluation of the incident, and the Company is cooperating with BSEE in the evaluation.

In November 2013, one of our subsidiaries hired HS Ocean Group Ltd. (“HSOG”) to perform rig refurbishment work on the Rowan Gorilla III in La Brea, Trinidad. On April 24, 2014, the subsidiary terminated the contract with HSOG, and HSOG commenced an arbitration proceeding. The Company had previously recognized an estimated liability in connection with termination of the contract, which liability was subsequently increased by \$5.0 million in the second quarter of 2015. During the third quarter of 2015, we agreed to a final settlement and increased the liability by \$2.6 million in the quarter. Such amounts are included in material charges and other operating expenses in the Condensed Consolidated Statement of Income.

Letters of credit – We periodically employ letters of credit in the normal course of our business, and had outstanding letters of credit of approximately \$11.0 million at September 30, 2015.

We are involved in various other legal proceedings incidental to our business and are vigorously defending our position in all such matters. Although the outcome of such proceedings cannot be predicted with certainty, we do not expect resolution of these matters to have a material effect on our financial position, results of operations or cash flows.

Note 5 – Share-Based Compensation

On February 26, 2015, the Company granted restricted share units (RSUs) to employees for annual incentive awards pursuant to our long-term incentive plan with a grant-date fair value aggregating \$22.5 million. The awards vest ratably over three years except to the extent they may vest earlier under our retirement policy. The aggregate grant-date fair value, net of estimated forfeitures, was \$21.2 million, which will be recognized as compensation expense over a weighted-average period of 2.7 years from the grant date.

Each RSU awarded to employees is granted in tandem with a corresponding dividend equivalent which entitles the employee to receive an amount in cash equal to any cash dividends paid by the Company with respect to the underlying shares. Dividend equivalents are payable as and when the RSUs vest. Any dividend equivalent amounts

are forfeited if the corresponding RSUs are forfeited or do not vest. The Company has been paying a regular quarterly cash dividend since May 2014.

Additionally, on February 26, 2015, the Company granted to certain members of management performance units (P-Units) that have a target value of \$100 per unit. The amount ultimately earned with respect to the P-Units will depend on the Company's total shareholder return (TSR) ranking compared to a group of peer companies over a three-year period ending December 31, 2017, and could range from zero to \$200 per unit depending on performance. Twenty-five percent of the P-Units' value is determined by the Company's relative TSR ranking for each one-year period ended December 31, 2015, 2016, and 2017, respectively, and 25% of the P-Units' value is determined by the relative TSR ranking for the three-year period ending December 31, 2017. Vesting of awards and any payment with respect to the P-Units would not occur until the third anniversary following the grant date and would be settled in cash.

The grant-date fair value of the P-Units was estimated to be \$9.0 million. Fair value was estimated using a Monte Carlo simulation model, which considers the probabilities of the Company's TSR ranking at the end of each performance period and the amount of

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 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 vesting date.

Estimated liabilities for outstanding P-Units aggregated \$16.1 million and \$11.6 million, at September 30, 2015, and December 31, 2014, respectively.

At September 30, 2015, the Company had approximately \$45.6 million of estimated unrecognized share-based compensation, which is expected to be recognized as compensation expense over a remaining weighted-average period of 1.7 years.

Note 6 – 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:

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 and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	Carrying value	Estimated fair value measurements		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
September 30, 2015:				
Assets - cash equivalents	\$269,317	\$269,317	\$—	\$—
Other assets	13,977	13,977	—	—
December 31, 2014:				
Assets - cash equivalents	\$314,570	\$314,570	\$—	\$—
Other assets	16,304	16,304	—	—

At September 30, 2015 and December 31, 2014, we held Egyptian pounds in the amount of \$14.0 million and \$16.3 million, respectively, which are classified as other noncurrent assets. We ceased drilling operations in Egypt in 2014, and are currently working to repatriate the funds to the extent they are not utilized.

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.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other Fair Value Measurements

Financial instruments not required to be measured at fair value consist of the Company's publicly traded debt securities. Our publicly traded debt securities are classified as long-term debt and had a carrying value of \$2.807 billion at September 30, 2015, and an estimated fair value at that date aggregating \$2.201 billion, compared to a carrying and fair value of \$2.807 billion and \$2.755 billion, respectively, at December 31, 2014. Fair values of our 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. Fair value was determined by adding a spread based on actual trades for that security (or a trader quote where actual trades were unavailable) to the applicable benchmark Treasury security with a comparable maturity in order to derive a current yield. The yield is then used to determine a price given the individual security's coupon rate and maturity. Such inputs are considered "significant other observable inputs" which are categorized as Level 2 inputs in the fair value hierarchy.

Note 7 – Shareholders' Equity

We maintain an affiliated employee benefit trust (EBT) to hold shares for future use to satisfy our obligations to deliver shares in connection with awards granted under our long-term incentive plans. At September 30, 2015 and December 31, 2014, the EBT held 1,140,567 and 264,903 shares, respectively. In February 2015, pursuant to authority granted by the Board, we issued 1.1 million Class A ordinary shares, \$0.125 par value per share, in a noncash transaction and immediately transferred them to the EBT. Shares held by the Company's EBT are not eligible to vote or to receive dividends and are classified as treasury shares in the condensed consolidated balance sheet.

Pursuant to authority previously granted, our Board of Directors may increase our share capital through the issuance of additional shares, up to an aggregate 150,000,000 shares (at current nominal value of \$0.125 per share) without obtaining further shareholder approval. This authority expires in May 2017 unless reapproved by shareholders.

On January 29, May 1, and July 30, 2015, the Board of Directors approved quarterly cash dividends of \$0.10 per Class A ordinary share, which were paid on March 3, May 26, and August 25, 2015, to shareholders of record at the close of business on February 9, May 12, and August 11, 2015, respectively.

On October 29, 2015, the Board of Directors approved a quarterly cash dividend of \$0.10 per Class A ordinary share, payable on November 23, 2015, to shareholders of record at the close of business on November 9, 2015.

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 for the period. The amounts reclassified are included in the computation of net periodic pension costs (see Note 3 – Pension and Other Postretirement Benefits). Amounts in parentheses are charges against income (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Amounts recognized as a component of net periodic pension and other postretirement benefit cost:				
Amortization of net loss	\$ (6,450	) \$ (4,909	) \$ (19,138	) \$ (14,570

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

Amortization of prior service credit	1,140	1,142	3,381	3,390	
Total before income taxes	(5,310	) (3,767	) (15,757	) (11,180)
Income tax benefit	1,854	1,314	5,502	3,899	
Total reclassifications for the period, net of income taxes	\$(3,456	) \$(2,453	) \$(10,255	) \$(7,281)

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 8 – Other Financial Statement Disclosures

Accounts Receivable – The following table sets forth the components of Receivables - trade and other (in thousands):

	September 30, 2015	December 31, 2014
Trade	\$486,193	\$524,712
Income tax	9,900	6,315
Other	12,245	14,177
Total receivables - trade and other	\$508,338	\$545,204

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

	September 30, 2015	December 31, 2014
Pension and other postretirement benefits	\$17,897	\$26,219
Compensation and related employee costs	66,144	88,186
Interest	35,578	47,414
Income taxes	16,514	13,265
Other	15,358	19,175
Total accrued liabilities	\$151,491	\$194,259

Derivative Instruments – A substantial majority of our revenues are received in U.S. dollars, which is our functional currency. However, in many of our international operations, we are required to pay certain employees (and related payroll liabilities) and suppliers in local currency. We are exposed to foreign currency exchange risk to the extent the amount of our monetary assets denominated in the foreign currency differs from our obligations in that foreign currency. In order to mitigate the effect of exchange rate risk, we attempt to limit foreign currency holdings to the extent they are needed to pay liabilities denominated in the foreign currency. In addition, we may periodically enter into spot purchases or short-term derivative transactions, such as forward exchange contracts. A forward exchange contract obligates us to exchange a predetermined amount of a specified currency at a stated exchange rate by a stated date or to make a U.S. dollar payment equal to the value of such exchange. We do not enter into such transactions for the purpose of speculation, trading or investing in the market. We believe that our use of forward exchange contracts reduces our exposure to foreign currency exchange rate risk and does not expose us to material credit risk or other material market risk. Our forward exchange contracts typically mature within one month.

As of September 30, 2015, we had outstanding forward exchange contracts maturing on October 30, 2015, in the aggregate notional amount of \$20.2 million consisting of \$7.1 million in Norwegian kroner, \$6.2 million in Saudi riyals, \$5.3 million in British pounds sterling, \$1.0 million in euros, and \$0.6 million in other currencies. The forward exchange contracts were not designated nor accounted for as hedges; changes in fair value were therefore recognized currently in earnings and included in other income and expense. At September 30, 2015, we recognized an accrued liability and related loss on outstanding contracts in the amount of \$45 thousand.

Discontinued Operations – In February 2014, the Company sold a land rig it retained in the 2011 sale of its manufacturing operations. The net carrying value was \$4.1 million, consisting of a \$24.2 million asset previously classified as assets of discontinued operations, less \$20.1 million of deferred revenues previously classified as liabilities of discontinued operations. The Company received \$6.0 million in cash resulting in a \$4.0 million gain, net

of tax effects, which was recognized in the nine months ended September 30, 2014.

Supplemental Cash Flow Information – Accrued capital expenditures, which are excluded from capital expenditures in the Condensed Consolidated Statements of Cash Flows until settlement, totaled \$36.5 million and \$48.9 million at September 30, 2015 and 2014, respectively. Interest capitalized in connection with rig construction projects totaled \$16.2 million for the nine

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

months ended September 30, 2015, as compared to \$15.5 million and \$46.0 million for the three and nine months ended September 30, 2014. We did not capitalize any interest in the three months ended September 30, 2015.

Income Taxes – In accordance with US GAAP for interim reporting, the Company estimates its full-year effective tax rate and applies this rate to its year-to-date pretax income. In addition, the Company separately calculates the tax impact of unusual items, if any. We provide for income taxes based upon the tax laws and rates in effect in the countries in which we conduct operations. The amounts of our provisions are impacted by such laws and rates and the availability of deductions, credits and other benefits in each of the various jurisdictions. Our 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 and other factors.

Our effective tax rate was (12.2)% and 256.2%, respectively, for the three and nine months ended September 30, 2015, compared to (47.3)% and (21.0)%, respectively, for the comparable prior-year periods. The higher effective tax rate for the nine months ended September 30, 2015 was primarily due to the establishment of a valuation allowance on the U.S. deferred tax assets, impairments of assets in foreign jurisdictions with no tax benefits, and an increase in income in high-tax jurisdictions, offset by additional tax benefit for the U.S.-impaired assets and an increase in income in low-tax jurisdictions. The negative effective rates for the 2014 periods were primarily the result of a favorable settlement agreement reached with the U.S. Internal Revenue Service (IRS) in the third quarter of 2014 in connection with U.S. tax return issues of certain prior-year periods.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. The significant pieces of negative evidence evaluated were the cumulative loss in the U.S. incurred over the three-year period ended September 30, 2015, and the forecast taxable losses based on information as of September 30, 2015. Such evidence limits our ability to consider other positive evidence.

On the basis of this evaluation, as of September 30, 2015, an additional valuation allowance of \$75.4 million on the U.S. deferred tax assets has been recorded for the nine months ended September 30, 2015 to recognize only the portion of the deferred tax assets that more likely than not will be realized. The amount of the deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative evidence in the form of cumulative losses is no longer present, and additional weight may be given to evidence such as our projections for growth.

The Company has not provided for deferred income taxes on undistributed earnings of its non-U.K. subsidiaries, including non-U.S. entities under Rowan Companies, Inc. (RCI), except for a portion of its Saudi Arabia operating entity's earnings that are expected to be distributed in 2015. It is the Company's policy and intention, except as noted above, to permanently reinvest outside the U.S. the earnings of non-U.S. entities directly or indirectly owned by RCI. Generally, earnings of non-U.K. entities in which RCI does not have a direct or indirect ownership interest can be distributed to the Company without imposition of either U.K. or local country tax.

In December 2014, the U.K. Treasury released a draft proposal that would impose tax on groups that use certain tax planning techniques that are perceived as diverting profits from the U.K. The Diverted Profit Tax rule was included in the 2015 Finance Bill, and on March 26, 2015, the legislation received Royal Assent with an effective date of April 1, 2015. We do not believe the legislation will have a material impact on our financial statements.

Proceeds from Litigation Settlement – In the first quarter of 2014, we settled our litigation with the owners and operators of a tanker that collided with the Rowan EXL I in May 2012 and received \$20.9 million in cash as compensation for damages incurred in 2012 for repair costs to and loss of use of the rig. Such amount was recognized as a component of operating income in the nine months ended September 30, 2014.

Material Charges and Other Operating Expenses – We review the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable.

During the quarter ended September 30, 2015, we conducted an impairment test of our assets and determined that the carrying values for ten of our jack-up drilling units aggregating \$458 million were not recoverable from their undiscounted cash flows and exceeded the rigs' estimated fair values measured under an income approach. As a result, we recognized a noncash impairment charge of \$329.8 million in the third quarter of 2015. Our estimate of fair value required us to use significant unobservable inputs, which are internally developed assumptions not observable in the market, including assumptions related to future demand for drilling services, estimated availability of rigs, and future day rates, among others.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In addition, material charges for the three and nine months ended September 30, 2015, included adjustments in the amount of \$2.6 million and \$7.6 million, respectively, to an estimated liability in connection with a shipyard dispute (see Note 4).

Material charges for the nine months ended September 30, 2014 included an \$8.3 million noncash impairment charge for the carrying value of the Company's sole aircraft, which had been used to support operations. The asset had a carrying value of \$12.7 million prior to the write-down. The amount of the impairment was based on actual sales prices for similar equipment obtained from a third-party dealer of such equipment. The aircraft was sold later in 2014 at an immaterial loss.

Note 9 – Guarantees of Registered Securities

RCI, a 100%-owned Delaware subsidiary of Rowan plc, is the issuer of all of our publicly traded debt securities consisting of the following series: 5% Senior Notes due 2017; 7.875% Senior Notes due 2019; 4.875% Senior Notes due 2022; 4.75% Senior Notes due 2024; 5.4% Senior Notes due 2042; and 5.85% Senior Notes due 2044 (the “Senior Notes”). The Senior Notes and amounts outstanding under our revolving credit facility are guaranteed by Rowan plc on a full, unconditional and irrevocable basis.

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.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
September 30, 2015
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	\$ 793	\$ 18,156	\$ 271,532	\$—	\$ 290,481
Receivables - trade and other	110	2,673	505,555	—	508,338
Other current assets	572	25,842	11,115	—	37,529
Total current assets	1,475	46,671	788,202	—	836,348
Property, plant and equipment - gross	—	576,017	8,457,411	—	9,033,428
Less accumulated depreciation and amortization	—	236,711	1,327,999	—	1,564,710
Property, plant and equipment - net	—	339,306	7,129,412	—	7,468,718
Investments in subsidiaries	4,618,762	5,998,404	—	(10,617,166)	—
Due from affiliates	31,038	1,341,153	57,793	(1,429,984)	—
Other assets	—	20,460	16,149	—	36,609
	\$ 4,651,275	\$ 7,745,994	\$ 7,991,556	\$ (12,047,150)	\$ 8,341,675
CURRENT LIABILITIES:					
Accounts payable - trade	\$ 1,488	\$ 13,755	\$ 103,733	\$—	\$ 118,976
Deferred revenues	—	—	48,204	—	48,204
Accrued liabilities	630	95,938	54,923	—	151,491
Total current liabilities	2,118	109,693	206,860	—	318,671
Long-term debt	—	2,806,686	—	—	2,806,686
Due to affiliates	128	59,020	1,370,836	(1,429,984)	—
Other liabilities	4,091	321,216	55,251	—	380,558
Deferred income taxes - net	—	517,450	142,872	(469,500)	190,822
Shareholders' equity	4,644,938	3,931,929	6,215,737	(10,147,666)	4,644,938
	\$ 4,651,275	\$ 7,745,994	\$ 7,991,556	\$ (12,047,150)	\$ 8,341,675

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
December 31, 2014
(in thousands)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	\$45,909	\$48,580	\$244,665	\$—	\$339,154
Receivables - trade and other	26	4,317	540,861	—	545,204
Other current assets	424	47,986	8,328	—	56,738
Total current assets	46,359	100,883	793,854	—	941,096
Property, plant and equipment - gross	—	610,063	8,190,119	—	8,800,182
Less accumulated depreciation and amortization	—	271,293	1,096,677	—	1,367,970
Property, plant and equipment - net	—	338,770	7,093,442	—	7,432,212
Investments in subsidiaries	4,624,874	5,863,509	—	(10,488,383)	—
Due from affiliates	36,586	1,412,860	71,867	(1,521,313)	—
Other assets	—	18,103	19,781	—	37,884
	\$4,707,819	\$7,734,125	\$7,978,944	\$(12,009,696)	\$8,411,192
CURRENT LIABILITIES:					
Accounts payable - trade	\$912	\$8,576	\$93,285	\$—	\$102,773
Deferred revenues	—	—	36,189	—	36,189
Accrued liabilities	400	100,167	93,692	—	194,259
Total current liabilities	1,312	108,743	223,166	—	333,221
Long-term debt	—	2,807,324	—	—	2,807,324
Due to affiliates	9,282	45,457	1,466,574	(1,521,313)	—
Other liabilities	5,826	312,575	49,865	—	368,266
Deferred income taxes - net	—	507,281	167,094	(463,393)	210,982
Shareholders' equity	4,691,399	3,952,745	6,072,245	(10,024,990)	4,691,399
	\$4,707,819	\$7,734,125	\$7,978,944	\$(12,009,696)	\$8,411,192

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Three months ended September 30, 2015
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	\$—	\$ 15,886	\$ 543,591	\$(14,041)	\$545,436
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	946	259,448	(12,752)	247,642
Depreciation and amortization	—	6,819	97,189	101	104,109
Selling, general and administrative	5,433	(1,690)	27,318	(1,390)	29,671
Loss on disposals of property and equipment	—	482	1,768	—	2,250
Material charges and other operating expenses	—	—	332,347	—	332,347
Total costs and expenses	5,433	6,557	718,070	(14,041)	716,019
INCOME (LOSS) FROM OPERATIONS	(5,433)	9,329	(174,479)	—	(170,583)
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(41,344)	(13,914)	13,914	(41,344)
Interest income	495	13,186	463	(13,914)	230
Other - net	5,599	(5,642)	(1,711)	—	(1,754)
Total other income (expense) - net	6,094	(33,800)	(15,162)	—	(42,868)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	661	(24,471)	(189,641)	—	(213,451)
Provision (benefit) for income taxes	—	24,898	(11,764)	12,862	25,996
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	661	(49,369)	(177,877)	(12,862)	(239,447)
EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX	(240,108)	(182,064)	—	422,172	—
NET INCOME (LOSS)	\$(239,447)	\$(231,433)	\$(177,877)	\$409,310	\$(239,447)

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Three months ended September 30, 2014
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	\$—	\$17,437	\$468,013	\$(17,758)	\$467,692
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	(2,247)	266,104	(16,950)	246,907
Depreciation and amortization	—	3,439	78,213	(149)	81,503
Selling, general and administrative	6,020	319	27,360	(659)	33,040
Loss (gain) on disposals of property and equipment	—	74	(16)	—	58
Material charges and other operating expenses	—	—	—	—	—
Total costs and expenses	6,020	1,585	371,661	(17,758)	361,508
INCOME (LOSS) FROM OPERATIONS	(6,020)	15,852	96,352	—	106,184
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(25,657)	(713)	714	(25,656)
Interest income	71	746	269	(714)	372
Other - net	9,798	(9,793)	264	—	269
Total other income (expense) - net	9,869	(34,704)	(180)	—	(25,015)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,849	(18,852)	96,172	—	81,169
(Benefit) provision for income taxes	—	(27,095)	252	(11,585)	(38,428)
NET INCOME FROM CONTINUING OPERATIONS	3,849	8,243	95,920	11,585	119,597
DISCONTINUED OPERATIONS, NET OF TAX	—	—	—	—	—
EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX	115,748	34,944	—	(150,692)	—
NET INCOME	\$119,597	\$43,187	\$95,920	\$(139,107)	\$119,597

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Nine months ended September 30, 2015
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	\$—	\$49,222	\$ 1,600,037	\$(48,048)	\$1,601,211
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	5,816	795,998	(44,494)	757,320
Depreciation and amortization	—	14,787	273,588	814	289,189
Selling, general and administrative	16,651	375	75,757	(4,368)	88,415
Loss on disposals of property and equipment	—	486	1,589	—	2,075
Material charges and other operating expenses	—	—	337,347	—	337,347
Total costs and expenses	16,651	21,464	1,484,279	(48,048)	1,474,346
INCOME (LOSS) FROM OPERATIONS	(16,651)	27,758	115,758	—	126,865
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(104,930)	(20,455)	20,455	(104,930)
Interest income	753	19,753	769	(20,455)	820
Other - net	16,804	(16,760)	(2,919)	—	(2,875)
Total other income (expense) - net	17,557	(101,937)	(22,605)	—	(106,985)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	906	(74,179)	93,153	—	19,880
Provision for income taxes	—	27,305	30,452	(6,834)	50,923
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	906	(101,484)	62,701	6,834	(31,043)
EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX	(31,949)	(158,557)	—	190,506	—
NET INCOME (LOSS)	\$(31,043)	\$(260,041)	\$ 62,701	\$ 197,340	\$(31,043)

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Nine months ended September 30, 2014
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	\$—	\$46,854	\$ 1,269,101	\$(47,783)	\$1,268,172
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	7,243	749,886	(45,275)	711,854
Depreciation and amortization	—	13,152	217,403	(501)	230,054
Selling, general and administrative	17,563	3,650	72,851	(2,007)	92,057
Loss on disposals of property and equipment	—	402	1,318	—	1,720
Proceeds from litigation settlement	—	—	(20,875)	—	(20,875)
Material charges and other operating expenses	—	—	8,300	—	8,300
Total costs and expenses	17,563	24,447	1,028,883	(47,783)	1,023,110
INCOME (LOSS) FROM OPERATIONS	(17,563)	22,407	240,218	—	245,062
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(74,309)	(1,304)	1,305	(74,308)
Interest income	274	1,746	1,006	(1,305)	1,721
Other - net	16,798	(16,782)	(643)	—	(627)
Total other income (expense) - net	17,072	(89,345)	(941)	—	(73,214)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(491)	(66,938)	239,277	—	171,848
(Benefit) provision for income taxes	—	(48,367)	37,618	(25,416)	(36,165)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(491)	(18,571)	201,659	25,416	208,013
DISCONTINUED OPERATIONS, NET OF TAX	—	4,023	—	—	4,023
EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX	212,527	52,525	—	(265,052)	—
NET INCOME	\$212,036	\$37,977	\$ 201,659	\$(239,636)	\$212,036

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
 Statements of Comprehensive Income
 Three months ended September 30, 2015
 (in thousands)
 (unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME (LOSS)	\$(239,447)	\$(231,433)	\$(177,877)	\$409,310	\$(239,447)
OTHER COMPREHENSIVE INCOME: Net reclassification adjustments for amount recognized in net income as a component of net periodic benefit cost, net of income taxes	3,456	3,456	—	(3,456)	3,456
COMPREHENSIVE INCOME (LOSS)	\$(235,991)	\$(227,977)	\$(177,877)	\$405,854	\$(235,991)

Rowan Companies plc and Subsidiaries
 Statements of Comprehensive Income
 Three months ended September 30, 2014
 (in thousands)
 (unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME (LOSS)	\$119,597	\$43,187	\$95,920	\$(139,107)	\$119,597
OTHER COMPREHENSIVE INCOME: Net reclassification adjustments for amount recognized in net income as a component of net periodic benefit cost, net of income taxes	2,453	2,453	—	(2,453)	2,453
COMPREHENSIVE INCOME (LOSS)	\$122,050	\$45,640	\$95,920	\$(141,560)	\$122,050

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Statements of Comprehensive Income
Nine months ended September 30, 2015
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME (LOSS)	\$(31,043)	\$(260,041)	\$ 62,701	\$ 197,340	\$(31,043)
OTHER COMPREHENSIVE INCOME: Net reclassification adjustments for amount recognized in net income as a component of net periodic benefit cost, net of income taxes	10,255	10,255	—	(10,255)	10,255
COMPREHENSIVE INCOME (LOSS)	\$(20,788)	\$(249,786)	\$ 62,701	\$ 187,085	\$(20,788)

Rowan Companies plc and Subsidiaries
Statements of Comprehensive Income
Nine months ended September 30, 2014
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME	\$212,036	\$37,977	\$ 201,659	\$(239,636)	\$212,036
OTHER COMPREHENSIVE INCOME: Net reclassification adjustments for amount recognized in net income as a component of net periodic benefit cost, net of income taxes	7,281	7,281	—	(7,281)	7,281
COMPREHENSIVE INCOME	\$219,317	\$45,258	\$ 201,659	\$(246,917)	\$219,317

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
 Consolidating Statements of Cash Flows
 Nine months ended September 30, 2015
 (in thousands)
 (unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarant subsidiaries	Consolidating adjustments	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$(3,776)	\$22,571	\$687,535	\$(47,459)	\$658,871
INVESTING ACTIVITIES:					
Property, plant and equipment additions	—	(14,836)	(659,980)	—	(674,816)
Proceeds from disposals of property, plant and equipment	—	2,836	2,308	—	5,144
Advances on subsidiary notes receivables	—	(481,300)	—	481,300	—
Collections on subsidiary notes receivables	7,000	434,190	—	(441,190)	—
Investments in consolidated subsidiaries	—	(36,704)	—	36,704	—
Net cash used in investing activities	7,000	(95,814)	(657,672)	76,814	(669,672)
FINANCING ACTIVITIES:					
Advances (to) from affiliates	(10,468)	42,819	(30,810)	(1,541)	—
Contributions from parent	—	—	36,704	(36,704)	—
Proceeds from borrowings	—	220,000	481,300	(481,300)	220,000
Repayments of borrowings	—	(220,000)	(441,190)	441,190	(220,000)
Dividends paid	(37,872)	—	(49,000)	49,000	(37,872)
Net cash used in financing activities	(48,340)	42,819	(2,996)	(29,355)	(37,872)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(45,116)	(30,424)	26,867	—	(48,673)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	45,909	48,580	244,665	—	339,154
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$793	\$18,156	\$271,532	\$—	\$290,481

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Consolidating Statements of Cash Flows
Nine months ended September 30, 2014
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$66,891	\$294,344	\$ 432,075	\$(593,088)	\$200,222
INVESTING ACTIVITIES:					
Property, plant and equipment additions	—	(15,995)	(1,351,419)	—	(1,367,414)
Proceeds from disposals of property, plant and equipment	—	6,955	2,812	—	9,767
Investments in consolidated subsidiaries	—	(105,261)	—	105,261	—
Net cash used in investing activities	—	(114,301)	(1,348,607)	105,261	(1,357,647)
FINANCING ACTIVITIES:					
Advances (to) from affiliates	(20,771)	(927,293)	532,376	415,688	—
Contributions from parent	—	—	105,261	(105,261)	—
Proceeds from borrowings	—	793,380	—	—	793,380
Debt issue costs	—	(687)	—	—	(687)
Dividends paid	(25,123)	(75,000)	(102,400)	177,400	(25,123)
Excess tax benefit from share-based compensation	—	15	—	—	15
Proceeds from exercise of share options	4,725	—	—	—	4,725
Net cash provided by (used in) financing activities	(41,169)	(209,585)	535,237	487,827	772,310
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,722	(29,542)	(381,295)	—	(385,115)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,292	92,116	936,436	—	1,092,844
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$90,014	\$62,574	\$ 555,141	\$—	\$707,729

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements as of and for the three and nine months ended September 30, 2015, included in this Form 10-Q and with our annual report on Form 10-K for the year ended December 31, 2014. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" in Item 1A of our annual report, as updated in our subsequent quarterly reports. See "Forward-Looking Statements."

OVERVIEW

We are a global provider of offshore oil and gas contract drilling services with a focus on high-specification and premium jack-up drilling rigs and high-specification ultra-deepwater drillships, which our customers use for both exploratory and development drilling. We currently own and operate a fleet of 32 mobile offshore drilling units, including 28 self-elevating jack-up drilling units and four ultra-deepwater drillships. We provide our contract drilling services in a single, global operating segment, which involves contracting our drilling units, related equipment and work crews on primarily a day rate basis.

Rowan and its predecessors have been engaged in the contract drilling of oil and gas wells since 1923. Historically, our primary focus has been on high-specification and premium jack-up rigs. In 2009, we initiated a new strategic plan that included divesting non-core assets and investing in ultra-deepwater assets, with a goal of balancing our earnings from jack-ups and deepwater rigs over the long term. In 2011 and 2012, we entered into contracts for the construction of four ultra-deepwater drillships, which were delivered in 2014 and 2015:

- the Rowan Renaissance, which commenced drilling operations offshore West Africa in April 2014 and relocated to the US GOM in mid-2015;
- the Rowan Resolute, which commenced operations in the US GOM in October 2014;
- the Rowan Reliance, which commenced operations in the US GOM in February 2015; and
- the Rowan Relentless, which commenced operations in the US GOM in June 2015.

In addition to our four ultra-deepwater drillships operating in the US GOM, as of October 14, 2015 (the date of our most recent Fleet Status Report), we had six jack-ups in the North Sea, eleven in the Middle East, five in the US GOM (including two cold-stacked), three in Malaysia (including one cold-stacked), two in Trinidad, and one in Malta. Effective July 1, 2015, we retired two of the oldest rigs in our jack-up fleet, the Rowan Juneau and Rowan Alaska, and sold them on July 31, 2015 under an agreement that prohibits their future use as drilling units.

Operations summary – Revenues for the three months ended September 30, 2015, increased by \$78 million, or by 17%, to \$545 million over the comparable prior-year period primarily as a result of the commencement of operations of the Rowan Resolute in 2014 and the Rowan Reliance and Rowan Relentless in 2015. The Company incurred a net loss from continuing operations in the amount of \$239 million in the three months ended September 30, 2015 compared to net income of \$120 million in the same period of the prior year. The three months ended September 30, 2015, included a noncash asset impairment charge on ten of our jack-up drilling units aggregating \$330 million. This charge was primarily the result of continued low level of commodity prices, customer feedback indicating lower capital expenditures in 2016 than previously estimated and the expected delivery of a large number of newbuild jack-up rigs over the next few years.

Revenues for the nine months ended September 30, 2015, increased by \$333 million, or by 26%, to \$1.601 billion over the comparable prior-year period primarily as a result of the addition of the drillships. The Company reported a \$31 million net loss from continuing operations for the nine months ended September 30, 2015, primarily as a result of the impairment charge recognized during the quarter, compared to income of \$208 million in the comparable period of 2014.

Revenue-producing days declined by 5% to 2,275 for the three months ended September 30, 2015, from 2,396 in the third quarter of 2014. For the nine months ended September 30, 2015, revenue-producing days increased to 6,924 or by 2% from 6,762 in the comparable prior-year period. For the nine-month period, increases primarily attributable to the addition of the drillships and the return to work of jack-ups previously in shipyards for major repair work were partially offset by overall declines attributable to the remainder of the jack-up fleet.

Table of Contents

MARKET OUTLOOK

The business environment for offshore drillers continues to be challenging as commodity prices remain low and the supply of offshore drilling rigs significantly outweighs demand. Beginning in June 2014, the prices of crude oil and natural gas, key factors in determining our customer activity levels, began to decline rapidly to levels that have failed to stimulate meaningful incremental contracting activity. As a result, operators worldwide reduced capital expenditure budgets for 2015 and beyond, cut operating costs and postponed drilling programs, resulting in reduced demand for offshore drilling services, downward pressure on industry day rates and rig utilization, and the cold-stacking and retirement of rigs in the worldwide fleet. In response to jack-up market conditions, in 2015 we reduced day rates on certain drilling contracts, though some were in exchange for extended contract duration; experienced idle time on several units; retired two of our older jack-ups (which we sold in the third quarter of 2015 for use other than for drilling operations), and cold-stacked other jack-ups. Given the current outlook, we will likely enter into contracts for certain of our drilling rigs at substantially lower day rates; we may have difficulty securing new drilling contracts; we may experience extended periods of idle time for other drilling rigs and experience difficulty in securing suitable contracts for reactivating our currently stacked rigs; or we may stack or retire additional jack-up units. Additionally, customers may continue to seek to renegotiate or terminate existing contracts.

A significant contributing factor to the softness in the offshore drilling market has been the influx of 213 newbuild jack-ups and 152 newbuild floaters delivered since early 2006. The addition of newbuild units, combined with numerous rigs rolling off contract, has increased competition for contracts, putting additional downward pressure on day rates and utilization. Further, as of October 13, 2015, there were approximately 127 jack-up rigs under construction worldwide for delivery through 2020 (34% of the currently utilized jack-up fleet of approximately 370 rigs), approximately 56 of which are considered high-specification (78% of the delivered high-specification fleet). Currently, there are approximately 36 competitive newbuild jack-up rigs scheduled for delivery during the remainder of 2015, all of which are without contracts. For the floater market there are approximately 75 floaters under construction worldwide for delivery through 2020 (36% of the currently utilized floater fleet of approximately 207 rigs). Following the negotiated delivery delays on several units into future years, there are approximately six competitive newbuild floaters scheduled for delivery during the remainder of the year with two of those units under contract.

We expect that the business environment for the remainder of 2015 and into 2016 will remain challenging and in the absence of a recovery in crude oil prices, will likely deteriorate further. However, we believe we are well-positioned strategically given our current backlog of \$4.1 billion as of October 14, 2015, solid operational reputation, and modern fleet of high-specification jack-ups and state-of-the-art ultra-deepwater drillships. While challenging market conditions persist, we continue to focus on operating efficiencies and cost control, which could include stacking or retiring additional drilling rigs.

Backlog

Our backlog by geographic area as of the date of our most recent Fleet Status Report is presented below (in millions):

	October 14, 2015		
	Jack-ups	Drillships	Total
US GOM	\$28,578	\$1,654,192	\$1,682,770
Middle East	1,566,042	—	1,566,042
North Sea	713,980	—	713,980
Trinidad	138,322	—	138,322
Southeast Asia	12,441	—	12,441
Total backlog	\$2,459,363	\$1,654,192	\$4,113,555

Table of Contents

We estimate our backlog will be realized as follows (in millions):

	October 14, 2015		Total
	Jack-ups	Drillships	
2015	\$258,186	\$190,548	\$448,734
2016	978,207	885,342	1,863,549
2017	565,504	561,988	1,127,492
2018	308,408	16,314	324,722
2019 and later years	349,058	—	349,058
Total backlog	\$2,459,363	\$1,654,192	\$4,113,555

Our backlog at February 19, 2015, as reported in our 2014 Form 10-K totaled \$5.1 billion, consisting of \$2.9 billion and \$2.2 billion for our jack-up and drillship fleets, respectively.

About 78% of our remaining available rig days in 2015 and 64% of available rig days in 2016 were under contract or commitment as of October 14, 2015, excluding cold-stacked rigs. As of that date, we had three rigs that were cold-stacked and four rigs that were available.

Table of Contents

KEY PERFORMANCE MEASURES

The following table sets forth certain key performance measures by rig classification:

	Three months ended September 30,		Nine months ended September 30,		
	2015	2014	2015	2014	
Revenues (in thousands):					
Ultra-deepwater drillships	\$215,872	\$52,676	\$514,042	\$78,387	
High specification jack-ups ⁽¹⁾	244,071	306,840	820,372	893,879	
Premium jack-ups ⁽²⁾	73,554	86,898	230,331	234,913	
Conventional jack-ups	—	10,055	716	29,309	
Subtotal - Day rate revenues	533,497	456,469	\$1,565,461	\$1,236,488	
Other revenues ⁽³⁾	11,939	11,223	35,750	31,684	
Total revenues	\$545,436	\$467,692	\$1,601,211	\$1,268,172	
Revenue-producing days: ⁽⁴⁾					
Ultra-deepwater drillships	353	79	830	122	
High specification jack-ups	1,266	1,495	4,021	4,391	
Premium jack-ups	655	730	2,063	1,996	
Conventional jack-ups	—	92	10	253	
Total revenue-producing days	2,275	2,396	6,924	6,762	
Average day rate: ⁽⁵⁾					
Ultra-deepwater drillships	\$610,850	\$660,170	\$619,402	\$640,980	
High specification jack-ups	\$192,740	\$205,284	\$204,010	\$203,588	
Premium jack-ups	\$112,250	\$119,147	\$111,654	\$117,709	
Conventional jack-ups	\$—	\$109,299	\$72,975	\$115,855	
Total fleet	\$234,505	\$190,526	\$226,097	\$182,869	
Utilization: ⁽⁶⁾					
Ultra-deepwater drillships	96	% 87	% 93	% 76	%
High specification jack-ups	72	% 86	% 78	% 85	%
Premium jack-ups	89	% 99	% 94	% 91	%
Conventional jack-ups	—	% 33	% 2	% 31	%
Total fleet	77	% 84	% 78	% 81	%

(1) We define high-specification jack-ups as those that have hook-load capacity of at least two million pounds.

(2) We define premium jack-ups as those cantilevered rigs capable of operating in water depths of 300 feet or more.

(3) Other revenues, which are primarily revenues received for contract reimbursable costs, are excluded from the computation of average day rate.

(4) Total revenue-producing days may not total due to rounding.

(5) Average day rate is computed by dividing day rate revenues by the number of revenue-producing days, including fractional days. Day rate revenues include the contractual rates and amounts received in lump sum, such as for rig mobilization or capital improvements, which are amortized over the initial term of the contract. Revenues attributable to reimbursable expenses are excluded from average day rates.

(6) Utilization is the number of revenue-producing days, including fractional days, divided by the aggregate number of calendar days in the period, or, with respect to newly constructed rigs, the number of calendar days in the period from the date the rig was placed in service.

Table of Contents

The following information is presented by geographic area:

	Three months ended September 30,		Nine months ended September 30,		
	2015	2014	2015	2014	
Revenues (in thousands):					
North Sea	\$ 129,627	\$ 117,283	\$ 421,744	\$ 328,024	
Middle East ⁽¹⁾	117,811	125,121	346,632	362,751	
US GOM	198,817	61,900	434,617	182,757	
Southeast Asia	23,473	57,303	84,521	166,113	
West Africa	37,872	52,676	153,438	78,387	
Other international ⁽²⁾	25,895	42,186	124,509	118,456	
Subtotal - Day rate revenues	533,497	456,469	1,565,461	1,236,488	
Other revenues ⁽³⁾	11,939	11,223	35,750	31,684	
Total revenues	545,436	\$ 467,692	\$ 1,601,211	\$ 1,268,172	
Revenue-producing days: ⁽⁴⁾					
North Sea	473	414	1,506	1,161	
Middle East	903	887	2,617	2,599	
US GOM	529	429	1,333	1,208	
Southeast Asia	158	368	553	1,054	
West Africa	62	80	243	122	
Other international	151	219	672	617	
Total revenue-producing days	2,275	2,396	6,924	6,762	
Average day rate: ⁽⁵⁾					
North Sea	\$ 274,300	\$ 283,614	\$ 280,002	\$ 282,503	
Middle East	\$ 130,467	\$ 141,140	\$ 132,452	\$ 139,559	
US GOM	\$ 375,836	\$ 144,224	\$ 325,971	\$ 151,284	
Southeast Asia	\$ 148,563	\$ 155,715	\$ 152,957	\$ 157,554	
West Africa	\$ 610,839	\$ 660,166	\$ 632,030	\$ 640,982	
Other international	\$ 171,490	\$ 192,788	\$ 185,299	\$ 192,127	
Total fleet	\$ 234,504	\$ 190,526	\$ 226,097	\$ 182,869	
Utilization: ⁽⁶⁾					
North Sea	86	% 75	% 92	% 71	%
Middle East	98	% 96	% 96	% 95	%
US GOM	72	% 67	% 57	% 63	%
Southeast Asia	43	% 100	% 51	% 97	%
West Africa	100	% 87	% 100	% 76	%
Other international	49	% 79	% 79	% 75	%
Total fleet	77	% 84	% 78	% 81	%

(1) Our rigs operating in the Middle East are located in Saudi Arabia and Qatar.

(2) "Other international" includes two rigs operating in Trinidad. Additionally, a third rig operated in Egypt and Morocco in 2014 and Tunisia in 2015.

(3) Other revenues, which are primarily revenues received for contract reimbursable costs, are excluded from the computation of average day rate.

(4) Total revenue-producing days may not total due to rounding.

(5) Average day rate is computed by dividing day rate revenues by the number of revenue-producing days, including fractional days. Day rate revenues include the contractual rates and amounts received in lump sum, such as for rig mobilization or capital improvements, which are amortized over the initial term of the contract. Revenues attributable to reimbursable expenses are excluded from average day rates.

(6) Utilization is the number of revenue-producing days, including fractional days, divided by the aggregate number of calendar days in the period, or, with respect to newly constructed rigs, the number of calendar days in the period from the date the rig was placed in service.

30

Table of Contents

RESULTS OF OPERATIONS

Three months ended September 30, 2015, compared to three months ended September 30, 2014

Operating income – Components of operating income (loss) as a percentage of revenues for the three months ended September 30, 2015 and 2014 are highlighted below (dollars in thousands):

	Three months ended September 30, 2015		Three months ended September 30, 2014		
	Amount	% of Revenues	Amount	% of Revenues	
Revenues	\$545,436	100	% \$467,692	100	%
Direct operating costs (excluding items below)	(247,642)	-45	% (246,907)	-53	%
Depreciation expense	(104,109)	-19	% (81,503)	-17	%
Selling, general and administrative expenses	(29,671)	-5	% (33,040)	-7	%
Net loss on disposals of property and equipment	(2,250)	—	% (58)	—	%
Material charges and other operating expenses	(332,347)	-61	% —	—	%
Operating income (loss)	\$ (170,583)	-31	% \$106,184	23	%

Revenues – Revenues for the three months ended September 30, 2015, increased by \$77.7 million or 17% compared to the three months ended September 30, 2014, as a result of the following (in millions):

	Increase (decrease)
Addition of the Rowan Renaissance, Rowan Resolute, Rowan Reliance and Rowan Relentless	\$163.2
Lower jack-up utilization	(68.8)
Lower average day rates	(17.4)
Revenues for reimbursable costs and other, net	0.7
Net increase	\$77.7

The number of revenue-producing days decreased by 121, or approximately 5%, to 2,275 for the three months ended September 30, 2015, compared to the comparable prior-year period. The commencement of operations of the drillships in 2014 and 2015 accounted for an additional 274 revenue producing days in the current-year quarter compared to the third quarter of 2014.

Operating costs – Operating costs for the three months ended September 30, 2015, increased by \$0.7 million or 0.3% compared to the three months ended September 30, 2014 as a result of the following (in millions):

	Increase (decrease)
Addition of the Rowan Resolute, Rowan Reliance and Rowan Relentless	\$38.6
Decrease due to idle or cold-stacked rigs	(18.6)
Other, net	(19.3)
Net increase	\$0.7

For purposes of this discussion, we define our operating margin as revenues in excess of operating costs, excluding depreciation, selling, general and administrative expenses, gains and losses on asset disposals, litigation settlement, and material charges and other operating expenses. Operating margin as we have computed it is a non-GAAP financial measure. The impacts on operating margin of those excluded items are discussed separately below. Such items have

been excluded solely to simplify the discussion. Our operating margin, as we have defined it, increased to approximately 55% of revenues in the third quarter of 2015 from 47% in the third quarter of 2014. Margins were favorably impacted as a result of the commencement of operations of the drillships in

Table of Contents

2014 and 2015; significant cost reduction measures including reductions in headcount, a wage and salary freeze, and the cold-stacking of rigs; and the impact of favorable foreign exchange rates and reduced maintenance expense, among others.

Depreciation – Depreciation increased by \$22.6 million or 28% compared to the third quarter of 2014 due to the addition of the drillships and capital improvements to the fleet.

Selling, general and administrative expenses – Selling, general and administrative expenses decreased by \$3.4 million, or 10% from the prior-year period, due primarily to cost-reduction measures implemented in 2014 and 2015, which included reductions in headcount and wage and salary freezes among other things.

Material charges and other operating expense – Material charges for the three months ended September 30, 2015, included a \$329.8 million noncash impairment charge to reduce the carrying values of ten of our jack-up drilling units and a \$2.6 million adjustment to a liability in connection with resolution of a shipyard dispute (see Note 8 and Note 4, respectively, to the financial statements).

Income taxes – Our effective tax rate was (12.2)% for the three months ended September 30, 2015, compared to (47.3)% for the three months ended September 30, 2014. The higher effective tax rate for the current-year period was primarily due to establishing an additional valuation allowance on the U.S. deferred tax assets, impairments of assets in foreign jurisdictions with no tax benefits, and an increase in income in high-tax jurisdictions, offset by additional tax benefit for the U.S. impaired assets and an increase in income in low-tax jurisdictions. The negative effective rate for 2014 was primarily the result of a favorable settlement agreement reached with the U.S. Internal Revenue Service in the third quarter of 2014 in connection with U.S. tax return issues of certain prior-year periods.

Excluding the impact of the material charges and valuation allowance charges in 2015 and the IRS settlement agreement in 2014, our effective tax rate was 7.5% and 9.5% for the three months ended September 30, 2015 and 2014, respectively. The lower effective tax rate for the current year quarter compared to the prior year period was due primarily to the increase in income in low-tax jurisdictions. The tax impact of the material charges of (\$58.3) million and valuation allowance charges of \$75.4 million in 2015 and the favorable IRS settlement agreement of \$46 million in 2014 resulted in a net tax expense of \$17.1 million and a tax benefit of \$46 million for the three months ended September 30, 2015 and 2014, respectively.

Nine months ended September 30, 2015, compared to nine months ended September 30, 2014

Operating income – Components of operating income as a percentage of revenues for the nine months ended September 30, 2015 and 2014 are highlighted below (dollars in thousands):

	Nine months ended September 30, 2015		Nine months ended September 30, 2014		
	Amount	% of Revenues	Amount	% of Revenues	
Revenues	\$1,601,211	100	% \$1,268,172	100	%
Direct operating costs (excluding items below)	(757,320)	) -47	% (711,854)	) -56	%
Depreciation expense	(289,189)	) -18	% (230,054)	) -18	%
Selling, general and administrative expenses	(88,415)	) -6	% (92,057)	) -7	%
Loss on disposals of property and equipment	(2,075)	) —	% (1,720)) —	%
Proceeds from litigation settlement	—	—	% 20,875	2	%
Material charges and other operating expenses	(337,347)	) -21	% (8,300)	) -1	%

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

Operating income	\$126,865	8	%	\$245,062	19	%
------------------	-----------	---	---	-----------	----	---

32

Table of Contents

Revenues – Revenues for the nine months ended September 30, 2015, increased by \$333.0 million or 26% compared to the prior-year period as a result of the following (in millions):

	Increase (decrease)
Addition of the Rowan Renaissance, Rowan Resolute, Rowan Reliance and Rowan Relentless	\$435.7
Lower jack-up utilization	(95.1)
Lower average day rates	(11.6)
Revenues for reimbursable costs and other, net	4.0
Net increase	\$333.0

The number of revenue-producing days increased by 162, or approximately 2%, to 6,924 for the nine months ended September 30, 2015, compared to the comparable prior-year period. Increases in activity due to the commencement of operations of the drillships, which contributed 708 incremental days, and the return to work of jack-up rigs previously in shipyards for repairs were partially offset by lower activity for our other jack-ups.

Operating costs – Operating costs for the nine months ended September 30, 2015, increased by \$45.5 million or 6% compared to the comparable prior-year period as a result of the following (in millions):

	Increase (decrease)
Addition of the Rowan Renaissance, Rowan Resolute, Rowan Reliance and Rowan Relentless	\$116.7
Return to work of the Rowan Gorilla III, Rowan Gorilla VI and the Rowan Viking	37.4
Decrease due to idle or cold-stacked rigs	(52.7)
Other, net	(55.9)
Net increase	\$45.5

As previously noted, we define our operating margin as revenues in excess of operating costs, excluding depreciation, selling, general and administrative expenses, gains and losses on asset disposals, litigation settlements, and material charges and other operating expenses. Our operating margin, as defined above, increased to approximately 53% of revenues in the first nine months of 2015 compared to 44% in the first nine months of 2014. Margins were favorably impacted as a result of the commencement of operations of the drillships; significant cost reduction measures including reductions in headcount, a wage and salary freeze, and the cold stacking of rigs; and the impact of favorable foreign exchange rates and reduced maintenance expense, among others.

Depreciation – Depreciation increased by \$59.1 million or 26% compared to the first nine months of 2014 due to the addition of the drillships and capital improvements to the fleet.

Selling, general and administrative expenses – Selling, general and administrative expenses declined by \$3.6 million from the prior-year period, due primarily to cost-reduction measures including reductions in headcount and wage and salary freezes.

Proceeds from litigation settlement – In the first quarter of 2014, we settled our litigation with the owners and operators of a tanker that collided with the Rowan EXL I in May 2012 and received \$20.9 million in cash as compensation for damages incurred in 2012 for repair costs to and loss of use of the rig. Such amount was recognized as a component of operating income in the nine months ended September 30, 2014.

Material charges and other operating expense – Material charges for the nine months ended September 30, 2015, included a \$329.8 million noncash impairment charge to reduce the carrying values of ten of our jack-up drilling units

and a \$7.6 million adjustment to a liability in connection with resolution of a shipyard dispute (see Note 8 and Note 4, respectively, to the financial statements).

Material charges for the nine months ended September 30, 2014, included an \$8.3 million noncash impairment charge for the carrying value of the Company's sole aircraft, which had been used to support operations.

Income taxes – Our effective tax rate was 256.2% for the nine months ended September 30, 2015, compared to (21.0)% for the nine months ended September 30, 2014. The higher effective rate for 2015 was primarily due to establishing a valuation allowance

Table of Contents

on the U.S. deferred tax assets, impairments of assets in the foreign jurisdictions with no tax benefits, and the increase in income in high-tax jurisdictions, offset by additional tax benefit for the U.S. impaired assets and an increase in income in low-tax jurisdictions. The negative effective rate for 2014 was primarily the result of a favorable settlement agreement reached with the U.S. Internal Revenue Service in the third quarter of 2014 in connection with U.S. tax return issues of certain prior-year periods.

Excluding the impact of the material charges and valuation allowance charges in 2015 and the IRS tax settlement agreement in 2014, our effective tax rate was 9.7% and 5.8% for the nine months ended September 30, 2015 and 2014, respectively. The higher effective tax rate for the current year period compared to the prior year was due primarily to the increase in income in high-tax jurisdictions, partially offset by an increase in income in low-tax jurisdictions. The tax impact of the material charges of (\$58.3) million and valuation allowance charges of \$75.4 million in 2015 and the favorable IRS settlement agreement of \$46 million in 2014 resulted in a net tax expense of \$17.1 million and a tax benefit of \$46 million for the nine months ended September 30, 2015 and 2014, respectively.

Rig Utilization

Idle Days – We define idle days as the time a rig is not under contract and available to work. Idle days exclude cold-stacked rigs, which are not marketed. Our jack-up rigs experienced 373 idle days in both the second and third quarters of 2015, or 13.7% and 14.5%, respectively, of total available jack-up rig-days, compared to no idle days in the third quarter 2014. Our drillships were fully contracted during the quarters.

Out-of-Service Days – We define out-of-service days as those days when a rig is (or is planned to be) out of service and is not able to earn revenue. The Company may be compensated for certain out-of-service days, such as for shipyard stays or for rig transit periods preceding a contract; however, recognition of any such compensation is deferred and recognized over the primary term of the drilling contract.

Our fleetwide out-of-service days increased slightly to 3.3% of available rig days in the third quarter 2015 from 2.3% in the second quarter 2015, as compared to approximately 9% in the third quarter 2014. We estimate planned out-of-service days to be in the 3% range for the remainder of 2015 for inspections and special surveys, customer required equipment upgrades and other equipment modifications.

Operational Downtime – We define operational downtime as the unbillable time due to equipment breakdowns or procedural failures when a rig is under contract. Our fleet operational downtime, which is in addition to out-of-service days, decreased slightly to 1.5% for the third quarter 2015 from 2.8% in the second quarter 2015, as compared to approximately 1% of in-service days for the third quarter 2014. We estimate operational downtime for our jack-up fleet will typically approximate 2.5% of operating days on a go-forward basis. We estimate that operational downtime for our newly constructed ultra-deepwater drillships will be less than 5% of operating days following an initial break-in period of operations, which could range from approximately six months to one year following the commencement of operations, during which time the actual rate could be somewhat higher.

LIQUIDITY AND CAPITAL RESOURCES

Although our business is cyclical, we have historically relied on our cash flow from continuing operations to meet liquidity needs and fund the majority of our ongoing cash requirements. We have maintained a strong financial position through the disciplined and conservative use of debt, which has provided us the ability in recent years to achieve future growth potential through rig acquisitions and newbuild rig construction. Over the last five years, a substantial portion of our operating cash flow, together with debt financings, has been used to implement our ultra-deepwater strategy with the construction of four newbuild drillships. Additionally, we reinstated our quarterly dividend in May 2014.

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

During the nine months ended September 30, 2015, our primary sources of cash were \$659 million generated from operating activities plus \$339 million of available cash at the beginning of the year. From these amounts we used \$675 million for capital expenditures (including \$537 million for drillship construction) and \$38 million for dividends.

During the nine months ended September 30, 2014, our primary sources of cash were \$200 million generated from operating activities and \$793 million of long-term debt financings. From this amount, together with existing cash balances, we used \$1.4 billion for capital expenditures (including \$1.0 billion for drillship construction) and \$25 million for dividends.

Table of Contents

We expect to fund our cash requirements over the next twelve months, including capital expenditures and debt service, from available cash and cash flows from operating activities. To the extent we have excess available cash, we may consider the retirement of debt.

A comparison of key balance sheet amounts and ratios follows (dollars in millions):

	September 30, 2015	December 31, 2014	
Cash and cash equivalents	\$290.5	\$339.2	
Current assets	\$836.3	\$941.1	
Current liabilities	\$318.7	\$333.2	
Current ratio	2.62	2.82	
Long-term debt	\$2,806.7	\$2,807.3	
Shareholders' equity	\$4,644.9	\$4,691.4	
Debt to capitalization ratio	38	% 37	%

Sources and uses of cash and cash equivalents were as follows (in millions):

	Nine months ended September 30, 2015	2014	
Net cash provided by operating activities	\$658.9	\$200.2	
Capital expenditures	(674.8	) (1,367.4)
Proceeds from borrowings, net of issue costs, less repayments	—	792.7	
Payment of cash dividends	(37.9	) (25.1)
Proceeds from disposals of property and equipment	5.1	9.8	
Proceeds from exercise of share options	—	4.7	
Total net use	\$(48.7	) \$(385.1)

Operating Cash Flows

Cash flows from operations increased by approximately \$458.6 million to \$658.9 million in the nine months ended September 30, 2015, from \$200.2 million in the comparable prior-year period primarily due to the commencement of operations of the drillships and from working capital.

The Company has not provided for deferred income taxes on undistributed earnings of its non-U.K. subsidiaries, including non-U.S. entities under RCI, except for a portion of its Saudi Arabia operating entity's earnings that are expected to be distributed in 2015. It is the Company's policy and intention, except as noted above, to permanently reinvest outside the U.S. the earnings of non-U.S. entities directly or indirectly owned by RCI. Generally, earnings of non-U.K. subsidiaries in which RCI does not have a direct or indirect ownership interest can be distributed to the Company without imposition of either U.K. or local country tax.

As of December 31, 2014, RCI's portion of the unremitted earnings of its non-U.S. entities in which it has a direct or indirect ownership interest was approximately \$205 million. Should the non-U.S. entities of RCI make a distribution from these earnings, we may be subject to additional U.S. income taxes. It is not practicable to estimate the amount of deferred tax liability related to the undistributed earnings, and RCI's non-U.S. entities have no plan to distribute earnings in a manner that would cause them to be subject to U.S., U.K. or other local country taxation except as noted above in Saudi Arabia.

At September 30, 2015, non-U.S. entities directly or indirectly owned by RCI held approximately \$136 million of the \$290 million of consolidated cash and cash equivalents. Management believes we have significant net assets,

liquidity, contract backlog and/or other financial resources available to meet our operational and capital investment requirements and otherwise allow us to continue to maintain our policy of reinvesting such undistributed earnings outside the U.K. and U.S. indefinitely.

Table of Contents

Investing Activities

With the delivery of our fourth and final drillship on March 31, 2015, we concluded our current ultra-deepwater drillship construction program. We took delivery of the first three drillships during 2014.

Capital expenditures – Capital expenditures totaled \$675 million for the first nine months of 2015, and included the following:

\$537 million for construction of the Rowan Reliance and Rowan Relentless, including costs for mobilization, commissioning, riser gas-handling equipment, software certifications and spares.

\$102 million for improvements to the existing fleet, including contractually required modifications; and

\$36 million for rig equipment inventory and other.

For the remainder of 2015, we estimate our capital expenditures to be approximately \$80 million, consisting of approximately \$12 million in connection with the Company's final drillship and in support of our deepwater operations. The remaining \$68 million is related to existing fleet maintenance capital and worldwide spares.

Financing Activities

Borrowings – We have a revolving credit facility with a current aggregate maximum capacity of \$1.5 billion. The facility has an accordion feature that may permit us to increase the borrowing capacity to \$1.75 billion, subject to obtaining lender commitments. The maximum amount of draws that may be outstanding is \$1.5 billion through January 22, 2019, and \$1.44 billion thereafter through the final maturity date of January 23, 2020.

Dividends – On January 29, 2015, the Board of Directors approved a quarterly cash dividend of \$0.10 per share, which was paid on March 3, 2015, to shareholders of record at the close of business on February 9, 2015.

On May 1, 2015, the Board of Directors approved a quarterly cash dividend of \$0.10 per share, which was paid on May 26, 2015, to shareholders of record at the close of business on May 12, 2015.

On July 30, 2015, the Board of Directors approved a quarterly cash dividend of \$0.10 per share, which was paid on August 25, 2015, to shareholders of record at the close of business on August 11, 2015.

On October 29, 2015, the Board of Directors approved a quarterly cash dividend of \$0.10 per share, payable on November 23, 2015, to shareholders of record at the close of business on November 9, 2015. The payment is expected to total approximately \$12.7 million, based on the number of eligible shares currently outstanding.

Debt compliance and other – Restrictive provisions in our credit facility limit consolidated debt to 60% of book capitalization. Our consolidated debt to total capitalization ratio at September 30, 2015 was 38%. We were in compliance with our debt covenants at September 30, 2015, and we do not expect to encounter difficulty complying in the following twelve-month period.

On May 14, 2015, we filed an automatically effective shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission, which provides us the ability to issue debt securities, equity securities, guarantees and/or units of securities in one or more offerings. The registration statement, as amended, expires in May 2018.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

The Company's significant accounting policies are presented in Note 2 of "Notes to Consolidated Financial Statements" in Item 8 of our 2014 Form 10-K. These policies, and management judgments, assumptions and estimates made in their application underlie reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. We believe that our most critical accounting policies and management estimates involve carrying values of long-lived assets, pension and other postretirement benefit liabilities and costs (specifically, assumptions used in actuarial calculations), and income taxes (particularly our estimated reserves for uncertain tax positions), as changes in such policies and/or estimates would produce significantly different amounts from those reported herein.

During the quarter ended September 30, 2015, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates were based.

Table of Contents

NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which sets forth a global standard for revenue recognition and which replaces most existing industry-specific guidance. We will be required to adopt the new standard in annual and interim periods beginning January 1, 2018. We are currently evaluating the potential effect of the new guidance.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. We will be required to adopt the new standard in annual and interim periods beginning January 1, 2016. We do not expect adoption of the new standard will have a material effect on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. Under this ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 did not address the presentation of debt issuance costs associated with line-of-credit arrangements, which was addressed in ASU No. 2015-15, issued in August 2015. Under ASU 2015-15, entities may continue to present debt issuance costs related to line-of-credit arrangements as an asset and amortize the deferred costs ratably over the term of the line-of-credit arrangement, regardless of whether there were any outstanding borrowings under the arrangement. We will be required to adopt the new standards in annual and interim periods retrospectively beginning January 1, 2016, with early adoption permitted. We do not expect adoption will have a material effect on our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk – Our outstanding debt at September 30, 2015, consisted of long-term, fixed-rate debt with a carrying value of \$2.807 billion and a weighted-average annual interest rate of 5.6%. Due to the fixed-rate nature of our debt, we believe the risk of loss due to changes in market interest rates is not material.

Currency exchange rate risk – A substantial majority of our revenues are received in U.S. dollars, which is our functional currency. However, in many of our international operations, we are required to pay certain employees (and related payroll liabilities) and suppliers in local currency. We are exposed to foreign currency exchange risk to the extent the amount of our monetary assets denominated in the foreign currency differs from our obligations in that foreign currency. In order to mitigate the effect of exchange rate risk, we attempt to limit foreign currency holdings to the extent they are needed to pay liabilities denominated in the foreign currency. In addition, we may periodically enter into spot purchases or short-term derivative transactions, such as forward exchange contracts. A forward exchange contract obligates us to exchange a predetermined amount of a specified currency at a stated exchange rate by a stated date or to make a U.S. dollar payment equal to the value of such exchange. The currencies included in these forward contracts have generally been stable currencies, including the British pound sterling, Norwegian kroner and Saudi riyal and to a lesser extent, the Singapore dollar, Canadian dollar, and the Qatari rial. We take delivery of the currencies rather than make a U.S. dollar payment for any net difference in value and utilize the currencies in our operations generally in the month of delivery or early the following month. We do not enter into such transactions for the purpose of speculation, trading or investing in the market. We believe that our use of forward exchange contracts reduces our exposure to foreign currency exchange rate risk and does not expose us to material credit risk or other material market risk. Our forward exchange contracts typically mature within one month.

Item 4. Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as

defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2015.

There have been no changes to our internal controls over financial reporting during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Table of Contents

There were no new material legal proceedings filed during the quarter, nor any material developments to proceedings reported in prior periods.

Item 1A. Risk Factors

There are numerous factors that affect our business and results of operations, many of which are beyond our control. Security holders and potential investors in our securities should carefully consider the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2014, in addition to other information in such annual report and in our Quarterly Reports on Form 10-Q. These risk factors are important factors that could cause our actual results to differ materially from those currently anticipated or expected.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table presents information with respect to acquisitions of our shares for the third quarter of 2015:

Month ended	Total number of shares acquired ¹	Average price paid per share ¹	Total number of shares purchased as part of publicly announced plans or programs ²	Approximate dollar value of shares that may yet be purchased under the plans or programs ²
Balance forward				\$—
July 31, 2015	158	\$20.07	—	—
August 31, 2015	3,836	17.52	—	—
September 30, 2015	—	—	—	—
Total	3,994	\$17.62	—	—

¹ The total number of shares acquired includes (i) shares acquired from employees by an affiliated employee benefit trust (EBT) upon forfeiture of nonvested awards or in satisfaction of tax withholding requirements and (ii) shares purchased, if any, pursuant to a publicly announced share repurchase program. The price paid for shares acquired as a result of forfeitures is the par value of \$0.125 per share. The price paid for shares acquired in satisfaction of withholding taxes is the share price on the date of the transaction. In February 2015, the Company issued 1.1 million shares to the EBT, which shares were acquired at a price equal to the par value of \$0.125 per share. There were no shares repurchased under any share repurchase program during the third quarter of 2015.

² The ability to make share repurchases is subject to the discretion of the Board of Directors and the limitations set forth in the Companies Act, which generally provide that share repurchases may only be made out of distributable reserves. In addition, U.K. law also generally prohibits a company from repurchasing its own shares through “off market purchases” without the prior approval of shareholders, which approval is valid for a maximum period of five years. Prior to and in connection with the redomestication, the Company obtained approval to purchase its own shares. To effect such repurchases, the Company entered into a purchase agreement with a specified dealer in July 2012, pursuant to which the Company may purchase up to a maximum of 50,000,000 shares over a five-year period, subject to an annual cap of 10% of the shares outstanding at the beginning of each applicable year. Subject to Board approval, share repurchases may be commenced or suspended from time to time without prior notice and, in accordance with the shareholder approval and U.K. law, any shares repurchased by the Company will be cancelled. The authority to repurchase shares terminates in April 2017 unless otherwise reapproved by the Company’s shareholders prior to that time. U.K. law prohibits the Company from conducting “on market purchases” because its shares are not traded on a recognized investment exchange in the U.K.

The declaration and payment of dividends require authorization of the Board of Directors and such dividends on issued share capital may be paid only out of Rowan plc’s “distributable reserves” on its statutory balance sheet. Rowan plc is not permitted to pay dividends out of share capital, which includes share premiums. The amount, or continuance, of future dividends will depend on our results of operations, financial condition, cash requirements, future business prospects, contractual restrictions, anticipated capital needs and other factors deemed relevant by our Board of Directors. We may decide to change or cancel future dividends at any time.

Item 6. Exhibits

The following is a list of exhibits filed with this Form 10-Q:

31.1* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed or furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROWAN COMPANIES PLC
(Registrant)

Date: November 3, 2015

/s/ STEPHEN M.
BUTZ
Stephen M. Butz
Executive Vice President,
Chief Financial Officer and
Treasurer

Date: November 3, 2015

/s/ GREGORY M. HATFIELD
Gregory M. Hatfield
Vice President and Controller
(Chief Accounting Officer)