

VALARIS



**Boldly
First**

**2019 ANNUAL REPORT &
UNITED KINGDOM STATUTORY ACCOUNTS**

SHAREHOLDER INFORMATION

Annual General Meeting

The annual general meeting of shareholders will be held at 110 Cannon Street, London EC4N 6EU, United Kingdom, at 12:00 p.m. London time, on 15 June 2020.

Transfer Agent

Registered holders of our shares may direct their questions to Computershare.
Computershare Trust Company, N.A.
P.O. Box 43001
Providence, RI 02940-3001

Email: web.queries@computershare.com

Hours: Monday through Friday, 8:30 a.m. to 6 p.m. (ET)

Corporate Governance, Board and Board Committees

The corporate governance section of our website, www.valaris.com, contains information regarding (i) the composition of our Board of Directors and board committees, (ii) corporate governance in general, (iii) shareholder communications with the Board, (iv) the Valaris Code of Business Conduct, (v) the Valaris Corporate Governance Policy, (vi) Ethics Hotline reporting provisions, and (vii) the charters of the board committees. A direct link to the company's SEC filings, including reports required under Section 16 of the Securities Exchange Act of 1934, is located in the Investors section. Copies of these documents may be obtained without charge by contacting Valaris' Investor Relations Department. Reasonable expenses will be charged for copies of exhibits listed in the back of SEC Forms 10-K and 10-Q. Please list the exhibits you would like to receive and submit your request in writing to Valaris' Investor Relations Department at the address below. We will notify you of the cost and furnish the requested exhibits upon receipt of payment.

Valaris Investor Relations Department

5847 San Felipe, Suite 3300
Houston, Texas 77057-3008
(713) 789-1400
www.valaris.com

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Board of Directors and Officers

Dear Fellow Shareholders,

Over the past year, the company has undergone a tremendous amount of change as we continue navigating dynamic market conditions. In April 2019, we merged two leading offshore drillers – Ensco and Rowan – to form a larger, more diverse organization that would become Valaris. By coming together, we created a leader in offshore drilling services with the world's largest rig fleet and global operations. I am writing to update you on the company's priorities and provide my perspectives on the outlook for our industry.

Integration & Synergies

One of the compelling rationales for the merger was the realization of significant synergies from effectively combining the two legacy organizations. I am pleased to report that we have made significant headway in executing our integration plans and delivering on these synergies. The focus of our integration plan was to bring the companies together with minimal disruptions to the business while achieving \$165 million of combinational synergies on an annual run-rate basis.

As of the end of 2019, we had completed more than 80% of our onshore merger activities and were roughly halfway through our rig-based integration. We reached 80% of our synergy target, with an annual run-rate synergy capture of approximately \$135 million. This synergy capture is a significant accomplishment, and I would like to thank our employees for their unrelenting commitment and dedication towards achieving these milestones.

While there is more to be done to complete the original integration plan, we are looking beyond that and working to make Valaris an even more effective organization as the industry cost leader. To this end, we kicked off the next phase in our integration plan, which focused on improving performance and building organizational capabilities. Through this process, we are making Valaris more agile and responsive as an organization, which will help us to harness the company's potential.

As a result of this next phase of the integration, we announced late last year that we expect to achieve further cost savings that will exceed \$100 million on an annual run-rate basis by mid-2021. Combined with the initially targeted merger synergies, these additional savings would result in capturing cost savings or recurring EBITDA improvements of at least \$265 million per year as compared to pre-merger levels.

Fleet Management

With Valaris' enhanced scale following the merger, we are better able to serve a variety of customer needs in key offshore regions around the world. While the company has a diverse rig fleet, we are focused on the most modern offshore drilling assets. Modern rigs are best suited to meet the highly technical needs of our customers, who continue to prefer these rigs as evidenced by significantly higher levels of utilization compared to older assets.

In 2019, we signed new contracts and extensions for our core group of modern shallow-water jackups and deepwater floaters that added more than \$1.6 billion of contracted revenue backlog. In addition, we continued to take appropriate action to retire older rigs from the global drilling supply. In the past year, we retired 5 jackups and 2 floaters, bringing the total retirements from Valaris and its predecessor companies to 32 rigs since July 2014.

Financial Management

Another area of significant focus for the company is managing our costs in light of market conditions. The company pursued this focus in several ways, including removing older, less capable assets from our rig fleet to reduce stacking costs. We also scrutinized all investments in our rig fleet and reduced planned capital expenditures.

To enhance the governance of our capital structure and financial strategies, our Board of Directors formed a Finance Committee last year and a Special Committee in early 2020. Our Finance Committee includes three newly appointed directors that bolster the Board's oversight capabilities due to the depth of their experience in equity and debt capital markets. Our Special Committee will assist the Board in evaluating potential transactions in light of the industry challenges described below.

ARO Drilling

ARO Drilling is Valaris' 50/50 joint venture with Saudi Aramco, which owns and operates offshore drilling rigs for the largest customer for jackups in the world. In total, ARO Drilling operates a fleet of 16 jackups, seven of which are owned by ARO Drilling and another nine that are leased from Valaris. Valaris operates another seven jack-ups in Saudi Arabia independent of ARO Drilling.

The most meaningful driver of ARO Drilling's long-term value creation potential is through its newbuild construction program. ARO Drilling recently reached a significant milestone with the order of its first two newbuild rigs earlier this year. Upon delivery, each rig will commence an eight-year contract with Saudi Aramco with operating day rates that effectively pay back the rigs' construction costs in the first six years of these contracts. After completing these initial eight-year contracts, each rig will receive an additional eight-year contract provided it meets specific technical requirements and a preference for new contracts working for Saudi Aramco after that. This newbuild program is expected to provide visible fleet and cash flow growth for ARO Drilling and its shareholders in the years to come. We look forward to working alongside ARO Drilling and Saudi Aramco on this critical program so that we deliver on the long-term potential of this strategic partnership.

Industry Outlook

As we look forward, we expect the broader offshore drilling industry to face substantial challenges. While the market for rigs showed some signs of improvement as we began the year, more recent events have significantly impacted the supply and demand balance for hydrocarbons and created volatility in the commodity markets. In turn, this has led many customers of offshore drilling services to lower their 2020 capital expenditure plans meaningfully.

In light of these market conditions, we are focusing our efforts on what is within our control. First and foremost, we must continue delivering safe and reliable services to customers. Second, we will take appropriate actions so that we are the industry cost leader. In an oversupplied and highly competitive market like the one we now find ourselves in, we must remain focused on differentiating Valaris by actively managing our costs, including our efforts to capture combinational synergies and make the organization even more streamlined and effective. On behalf of our entire global workforce, thank you for your support.

Sincerely,



Thomas Burke
President and Chief Executive Officer
Valaris plc

April 27, 2020

FORWARD-LOOKING STATEMENTS

Statements contained in this report 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," "likely," "plan," "project," "could," "may," "might," "should," "will" and similar words and specifically include statements regarding expected financial performance; synergies and expected additional cost savings; dividends; expected utilization, day rates, revenues, operating expenses, cash flow, contract terms, contract backlog, capital expenditures, insurance, financing and funding; expected work commitments, awards and contracts; the timing of availability, delivery, mobilization, contract commencement or relocation or other movement of rigs and the timing thereof; future rig construction (including work-in-progress and completion thereof), enhancement, upgrade or repair and timing and cost thereof; the suitability of rigs for future contracts; the offshore drilling market, including supply and demand, customer drilling programs, stacking of rigs, effects of new rigs on the market and effects of declines in commodity prices; performance of our joint venture with Saudi Arabian Oil Company ("Saudi Aramco"); expected divestitures of assets; general market, business and industry conditions, trends and outlook; future operations; the impact of increasing regulatory complexity; the outcome of tax disputes, assessments and settlements; our program to high-grade the rig fleet by investing in new equipment and divesting selected assets and underutilized rigs; expense management; and the likely outcome of litigation, legal proceedings, investigations or insurance or other claims or contract disputes and the timing thereof.

Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, particularly in light of our projected negative cash flows in 2020 and highly leveraged balance sheet, including: our ability to successfully integrate the business, operations and employees of Rowan Companies Limited (formerly Rowan Companies plc) ("Rowan") and the Company (as defined herein) to realize synergies and cost savings in connection with the Rowan Transaction (as defined herein); changes in future levels of drilling activity and capital expenditures by our customers, whether as a result of global capital markets and liquidity, prices of oil and natural gas or otherwise, which may cause us to idle or stack additional rigs; changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild drilling rigs; downtime and other risks associated with offshore rig operations, including rig or equipment failure, damage and other unplanned repairs, the limited availability of transport vessels, hazards, self-imposed drilling limitations and other delays due to severe storms and hurricanes and the limited availability or high cost of insurance coverage for certain offshore perils, such as hurricanes in the Gulf of Mexico or associated removal of wreckage or debris; governmental action, terrorism, piracy, military action and political and economic uncertainties, including uncertainty or instability resulting from the U.K.'s withdrawal from the European Union, civil unrest, political demonstrations, mass strikes, or an escalation or additional outbreak of armed hostilities or other crises in oil or natural gas producing areas of the Middle East, North Africa, West Africa or other geographic areas, which may result in expropriation, nationalization, confiscation or deprivation or destruction of our assets; or suspension and/or termination of contracts based on force majeure events or adverse environmental safety events; risks inherent to shipyard rig construction, repair, modification or upgrades, unexpected delays in equipment delivery, engineering, design or commissioning issues following delivery, or changes in the commencement, completion or service dates; possible cancellation, suspension, renegotiation or termination (with or without cause) of drilling contracts as a result of general and industry-specific economic conditions, mechanical difficulties, performance or other reasons; our ability to enter into, and the terms of, future drilling contracts, including contracts for our newbuild units and acquired rigs, for rigs currently idled and for rigs whose contracts are expiring; any failure to execute definitive contracts following announcements of letters of intent, letters of award or other expected work commitments; the outcome of litigation, legal proceedings, investigations or other claims or contract disputes, including any inability to collect receivables or resolve significant contractual or day rate disputes, any renegotiation, nullification, cancellation or breach of contracts with customers or other parties and any failure to execute definitive contracts following announcements of letters of intent; governmental regulatory, legislative and permitting requirements affecting drilling operations, including limitations on drilling locations (such as the Gulf of Mexico during hurricane season) and regulatory measures to limit or reduce greenhouse gases; potential impacts on our business resulting from climate-change or greenhouse gas legislation or regulations, and the impact on our business from climate-change related physical changes or changes in weather patterns; new and future regulatory, legislative or permitting requirements, future lease sales, changes in laws, rules and regulations that have or may impose increased financial responsibility, additional oil spill abatement contingency plan capability requirements and other governmental actions that may result in claims of force majeure or otherwise adversely affect our existing drilling contracts, operations or financial results; our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise; environmental or other liabilities, risks, damages or losses, whether related to storms, hurricanes or other weather-related events (including wreckage or debris removal), collisions, groundings, blowouts, fires, explosions, other accidents, terrorism or otherwise, for which insurance coverage and contractual indemnities may be insufficient, unenforceable or otherwise unavailable; our ability to obtain financing, service our indebtedness, fund negative cash flow and capital expenditures and pursue other business opportunities may be limited by our significant debt levels, debt agreement restrictions and the credit ratings assigned to our debt by independent credit rating agencies; the adequacy of sources of liquidity for us and our customers; 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; our ability to realize the expected benefits of our joint venture with Saudi Aramco, including our ability to fund any required capital contributions; delays in contract commencement dates or the cancellation of drilling programs by operators; activism by our security holders; economic volatility and political, legal and tax uncertainties following the June 23, 2016, vote in the U.K. to exit from the European Union; the occurrence of cybersecurity incidents, attacks or other breaches to our information technology systems, including our rig operating systems; adverse changes in foreign currency exchange rates, including their effect on the fair value measurement of our derivative instruments; the occurrence or threat of epidemic or pandemic diseases and any government response to such occurrence or threat and the impacts of such events on oil prices and the demand for offshore drilling services; and potential long-lived asset impairments, including the impact of any impairment on our compliance with debt covenants.

In addition to the numerous risks, uncertainties and assumptions described above, you should also carefully read and consider "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this Form 10-K. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

Contract Drilling Fleet

The following table provides certain information about the rigs in our drilling fleet by reportable segment as of February 13, 2020:

Rig Name	Rig Type	Year Built/ Rebuilt	Design	Maximum Water Depth/ Drilling Depth	Location	Status
<u>Floater</u>						
VALARIS DS-3	Drillship	2010	Dynamically Positioned	10,000'/40,000'	Spain	Preservation stacked ⁽¹⁾
VALARIS DS-4	Drillship	2010	Dynamically Positioned	10,000'/40,000'	Spain	Available
VALARIS DS-5	Drillship	2011	Dynamically Positioned	10,000'/40,000'	Spain	Preservation stacked ⁽¹⁾
VALARIS DS-6	Drillship	2012	Dynamically Positioned	10,000'/40,000'	Spain	Available
VALARIS DS-7	Drillship	2013	Dynamically Positioned	10,000'/40,000'	Egypt	Under contract
VALARIS DS-8	Drillship	2015	Dynamically Positioned	10,000'/40,000'	Angola	Under contract
VALARIS DS-9	Drillship	2015	Dynamically Positioned	10,000'/40,000'	Brazil	Under contract
VALARIS DS-10	Drillship	2018	Dynamically Positioned	10,000'/40,000'	Nigeria	Under contract
VALARIS DS-11	Drillship	2013	Dynamically Positioned	12,000'/40,000'	Spain	Available
VALARIS DS-12	Drillship	2013	Dynamically Positioned	12,000'/40,000'	Egypt	Under contract
VALARIS DS-13	Drillship	Under construction	Dynamically Positioned	12,000'/40,000'	South Korea	Under construction ⁽²⁾
VALARIS DS-14	Drillship	Under construction	Dynamically Positioned	12,000'/40,000'	South Korea	Under construction ⁽²⁾
VALARIS DS-15	Drillship	2014	Dynamically Positioned	12,000'/40,000'	Gulf of Mexico	Under contract
VALARIS DS-16	Drillship	2014	Dynamically Positioned	12,000'/40,000'	Gulf of Mexico	Under contract
VALARIS DS-17	Drillship	2014	Dynamically Positioned	12,000'/40,000'	Spain	Available
VALARIS DS-18	Drillship	2015	Dynamically Positioned	12,000'/40,000'	Gulf of Mexico	Under contract
VALARIS 5004	Semisubmersible	1982/2001/2014	F&G Enhanced Pacesetter	1,500'/25,000'	Mediterranean	Under contract
VALARIS 8500	Semisubmersible	2008	Dynamically Positioned	8,500'/35,000'	Gulf of Mexico	Preservation stacked ⁽¹⁾
VALARIS 8501	Semisubmersible	2009	Dynamically Positioned	8,500'/35,000'	Gulf of Mexico	Preservation stacked ⁽¹⁾
VALARIS 8502	Semisubmersible	2010/2012	Dynamically Positioned	8,500'/35,000'	Gulf of Mexico	Preservation stacked ⁽¹⁾
VALARIS 8503	Semisubmersible	2010	Dynamically Positioned	8,500'/35,000'	Gulf of Mexico	Under contract
VALARIS 8504	Semisubmersible	2011	Dynamically Positioned	8,500'/35,000'	Malaysia	Available
VALARIS 8505	Semisubmersible	2012	Dynamically Positioned	8,500'/35,000'	Mexico	Under contract
VALARIS 8506	Semisubmersible	2012	Dynamically Positioned	8,500'/35,000'	Gulf of Mexico	Preservation stacked ⁽¹⁾
VALARIS DPS-1	Semisubmersible	2012	Dynamically Positioned	10,000'/35,000'	Australia	Under contract
VALARIS MS-1	Semisubmersible	2011	F&G ExD Millennium	8200'/32,000'	Malaysia	Available
<u>Jackups</u>						
VALARIS JU-22	Jackup	1980	LT 116-C	250'/25,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-36	Jackup	1981	LT 116-C	250'/25,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-37	Jackup	1981	LT 116-C	250'/25,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-54	Jackup	1982/1997/2014	F&G L-780 MOD II-C	300'/25,000'	Saudi Arabia	Under contract
VALARIS JU-67	Jackup	1976/2005	MLT 84-CE	400'/30,000'	Indonesia	Under contract
VALARIS JU-70	Jackup	1981/1996/2014	Hitachi K1032N	250'/30,000	United Kingdom	Preservation stacked ⁽¹⁾
VALARIS JU-71	Jackup	1982/1995/2012	Hitachi K1032N	225'/25,000'	United Kingdom	Preservation stacked ⁽¹⁾
VALARIS JU-72	Jackup	1981/1996	Hitachi K1025N	225'/25,000'	United Kingdom	Under contract
VALARIS JU-75	Jackup	1999	MLT Super 116-C	400'/30,000'	Gulf of Mexico	Under contract
VALARIS JU-76	Jackup	2000	MLT Super 116-C	350'/30,000'	Saudi Arabia	Under contract

Rig Name	Rig Type	Year Built/ Rebuilt	Design	Maximum Water Depth/ Drilling Depth	Location	Status
Jackups						
VALARIS JU-84	Jackup	1981/2005/2012	MLT 82-SD-C	250'/25,000'	Saudi Arabia	Under contract
VALARIS JU-87	Jackup	1982/2006	MLT 116-C	350'/25,000'	Gulf of Mexico	Under contract
VALARIS JU-88	Jackup	1982/2004/2014	MLT 82-SD-C	250'/25,000'	Saudi Arabia	Under contract
VALARIS JU-92	Jackup	1982/1996	MLT 116-C	225'/25,000'	United Kingdom	Under contract
VALARIS JU-100	Jackup	1987	MLT 150-88-C	328'/25,000'	United Kingdom	Under contract
VALARIS JU-101	Jackup	2000	KFELS MOD V-A	400'/30,000'	United Kingdom	Under contract
VALARIS JU-102	Jackup	2002	KFELS MOD V-A	400'/30,000'	Gulf of Mexico	Under contract
VALARIS JU-104	Jackup	2002	KFELS MOD V-B	400'/30,000'	UAE	Available
VALARIS JU-105	Jackup	2002	KFELS MOD V-B	400'/30,000'	Singapore	Preservation stacked ⁽¹⁾
VALARIS JU-106	Jackup	2005	KFELS MOD V-B	400'/30,000'	Indonesia	Under contract
VALARIS JU-107	Jackup	2006	KFELS MOD V-B	400'/30,000'	Australia	Under contract
VALARIS JU-108	Jackup	2007	KFELS MOD V-B	400'/30,000'	Saudi Arabia	Under contract
VALARIS JU-109	Jackup	2008	KFELS MOD V-Super B	350'/35,000'	Angola	Under contract
VALARIS JU-110	Jackup	2015	KFELS MOD V-B	400'/30,000'	Qatar	Under contract
VALARIS JU-111	Jackup	2003	KFELS MOD V-B	400'/36,000'	Malta	Cold stacked
VALARIS JU-113	Jackup	2012	Pacific Class 400	400'/30,000'	Philippines	Cold stacked
VALARIS JU-114	Jackup	2012	Pacific Class 400	400'/30,000'	Philippines	Cold stacked
VALARIS JU-115	Jackup	2013	Pacific Class 400	400'/30,000'	Thailand	Under contract
VALARIS JU-116	Jackup	2008	LT 240- C	375'/35,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-117	Jackup	2009	LT 240- C	350'/35,000'	Trinidad	Under contract
VALARIS JU-118	Jackup	2011	LT 240- C	350'/35,000	Trinidad	Available
VALARIS JU-120	Jackup	2013	KFELS Super A	400'/40,000'	United Kingdom	Under contract
VALARIS JU-121	Jackup	2013	KFELS Super A	400'/40,000'	Netherlands	Under contract
VALARIS JU-122	Jackup	2014	KFELS Super A	400'/40,000'	United Kingdom	Under contract
VALARIS JU-123	Jackup	2019	KFELS Super A	400'/40,000'	United Kingdom	Under contract
VALARIS JU-140	Jackup	2016	Cameron Letourneau Super 116E	400'/30,000'	Saudi Arabia	Under contract
VALARIS JU-141	Jackup	2016	Cameron Letourneau Super 116E	400'/30,000'	Saudi Arabia	Under contract
VALARIS JU-142	Jackup	2008	LT Super 116-E	400'/30,000'	Malta	Cold stacked
VALARIS JU-143	Jackup	2010	LT Super 116-E	400'/30,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-144	Jackup	2010	LT Super 116-E	400'/30,000'	Mexico	Under contract
VALARIS JU-145	Jackup	2010	LT Super 116-E	400'/30,000'	Gulf of Mexico	Available
VALARIS JU-146	Jackup	2011	LT Super 116-E	400'/30,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-147	Jackup	2013	LT Super 116-E	400'/30,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-148	Jackup	2013	LT Super 116-E	400'/30,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-247	Jackup	1998	LT Super Gorilla	400'/30,000'	United Kingdom	Under contract
VALARIS JU-248	Jackup	2000	LT Super Gorilla	400'/30,000'	United Kingdom	Under contract
VALARIS JU-249	Jackup	2002	LT Super Gorilla	400'/30,000'	United Kingdom	Under contract
VALARIS JU-250	Jackup	2003	LT Super Gorilla XL	400'/30,000'	Saudi Arabia	Leased to ARO drilling
VALARIS JU-290	Jackup	2010	KEFLS N Class	400'/30,000'	Norway	Under contract
VALARIS JU-291	Jackup	2011	KEFLS N Class	400'/30,000'	Norway	Under contract
VALARIS JU-292	Jackup	2011	KEFLS N Class	400'/30,000'	Norway	Under contract

⁽¹⁾ Prior to stacking, upfront steps are taken to preserve the rig. This may include a quayside power source to dehumidify key equipment and/or provide electric current to the hull to prevent corrosion. Also, certain equipment may be removed from the rig for storage in a temperature-controlled environment. While stacked,

large equipment that remains on the rig is periodically inspected and maintained by Valaris personnel. These steps are designed to reduce time and lower cost to reactivate the rig when market conditions improve.

- (2) Rig is currently under construction and is not contracted.

The equipment on our drilling rigs includes engines, draw works, derricks, pumps to circulate drilling fluid, well control systems, drill string and related equipment. The engines power a top-drive mechanism that turns the drill string and drill bit so that the hole is drilled by grinding subsurface materials, which are then returned to the rig by the drilling fluid. The intended water depth, well depth and geological conditions are the principal factors that determine the size and type of rig most suitable for a particular drilling project.

Floater rigs consist of drillships and semisubmersibles. Drillships are purpose-built maritime vessels outfitted with drilling apparatus. Drillships are self-propelled and can be positioned over a drill site through the use of a computer-controlled propeller or "thruster" dynamic positioning systems. Our drillships are capable of drilling in water depths of up to 12,000 feet and are suitable for deepwater drilling in remote locations because of their superior mobility and large load-carrying capacity. Although drillships are most often used for deepwater drilling and exploratory well drilling, drillships can also be used as a platform to carry out well maintenance or completion work such as casing and tubing installation or subsea tree installations.

Semisubmersibles are MODUs with pontoons and columns that are partially submerged at the drilling location to provide added stability during drilling operations. Semisubmersibles are held in a fixed location over the ocean floor either by being anchored to the sea bottom with mooring chains or dynamically positioned by computer-controlled propellers or "thrusters" similar to that used by our drillships. Moored semisubmersibles are most commonly used for drilling in water depths of 4,499 feet or less. However, VALARIS MS-1, which is a moored semisubmersible, is capable of deepwater drilling in water depths greater than 5,000 feet. Dynamically positioned semisubmersibles generally are outfitted for drilling in deeper water depths and are well-suited for deepwater development and exploratory well drilling. Further, we have three hybrid semisubmersibles, VALARIS 8503, VALARIS 8504 and VALARIS 8505, which leverage both moored and dynamically positioned configurations. This hybrid design provides multi-faceted drilling solutions to customers with both shallow water and deepwater requirements.

Jackup rigs stand on the ocean floor with their hull and drilling equipment elevated above the water on connected leg supports. Jackups are generally preferred over other rig types in shallow water depths of 400 feet or less, primarily because jackups provide a more stable drilling platform with above water well-control equipment. Our jackups are of the independent leg design where each leg can be fixed into the ocean floor at varying depths and equipped with a cantilever that allows the drilling equipment to extend outward from the hull over fixed platforms enabling safer drilling of both exploratory and development wells. The jackup hull supports the drilling equipment, jacking system, crew quarters, storage and loading facilities, helicopter landing pad and related equipment and supplies.

Over the life of a typical rig, many of the major systems are replaced due to normal wear and tear or technological advancements in drilling equipment. We believe all our rigs are in good condition. As of February 21, 2020, we owned all rigs in our fleet. We also manage the drilling operations for two rigs owned by third-parties.

We lease our executive offices in London, England in addition to office space in Houston, Aberdeen, Abu Dhabi, Australia, Dubai, Indonesia, Malaysia, Malta, Mexico, Nigeria, The Netherlands, Saudi Arabia, Singapore, Thailand, Vietnam and Qatar. We own offices and other facilities in Louisiana, Angola, Australia and Brazil.

Selected Financial Data

The financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data."

	Year Ended December 31,				
	2019	2018	2017	2016	2015
(in millions, except per share amounts)					
Consolidated Statement of Operations Data					
Revenues	\$ 2,053.2	\$ 1,705.4	\$ 1,843.0	\$ 2,776.4	\$ 4,063.4
Operating expenses					
Contract drilling (exclusive of depreciation)	1,806.0	1,319.4	1,189.5	1,301.0	1,869.6
Loss on impairment	104.0	40.3	182.9	—	2,746.4
Depreciation	609.7	478.9	444.8	445.3	572.5
General and administrative	188.9	102.7	157.8	100.8	118.4
Total operating expenses	2,708.6	1,941.3	1,975.0	1,847.1	5,306.9
Equity in Earnings of ARO	(12.6)	—	—	—	—
Operating income (loss)	(668.0)	(235.9)	(132.0)	929.3	(1,243.5)
Other income (expense), net	604.2	(303.0)	(64.0)	68.2	(227.7)
Income tax expense (benefit)	128.4	89.6	109.2	108.5	(13.9)
Income (loss) from continuing operations	(192.2)	(628.5)	(305.2)	889.0	(1,457.3)
Income (loss) from discontinued operations, net ⁽¹⁾	—	(8.1)	1.0	8.1	(128.6)
Net income (loss)	(192.2)	(636.6)	(304.2)	897.1	(1,585.9)
Net (income) loss attributable to noncontrolling interests	(5.8)	(3.1)	0.5	(6.9)	(8.9)
Net income (loss) attributable to Valaris	\$ (198.0)	\$ (639.7)	\$ (303.7)	\$ 890.2	\$ (1,594.8)
Earnings (loss) per share – basic and diluted					
Continuing operations	\$ (1.14)	\$ (5.82)	\$ (3.66)	\$ 12.40	\$ (25.30)
Discontinued operations	—	(.08)	—	0.12	(2.20)
	\$ (1.14)	\$ (5.90)	\$ (3.66)	\$ 12.52	\$ (27.50)
Weighted-average shares outstanding					
Basic and diluted	173.4	108.5	83.1	69.8	58.1

⁽¹⁾ See Note 13 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for information on discontinued operations.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
(in millions)					
Consolidated Balance Sheet and Cash Flow Statement Data					
Working capital	\$ 233.7	\$ 781.2	\$ 853.5	\$ 2,424.9	\$ 1,509.6
Total assets	\$ 16,931.2	\$ 14,023.7	\$ 14,625.9	\$ 14,374.5	\$ 13,610.5
Long-term debt	\$ 5,923.5	\$ 5,010.4	\$ 4,750.7	\$ 4,942.6	\$ 5,868.6
Valaris shareholders' equity	\$ 9,310.9	\$ 8,091.4	\$ 8,732.1	\$ 8,250.6	\$ 6,512.9
Cash flows from operating activities of continuing operations	\$ (276.9)	\$ (55.7)	\$ 259.4	\$ 1,077.4	\$ 1,697.9

Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Our Class A ordinary shares are traded on the NYSE under the ticker symbol "VAL." Many of our shareholders hold shares electronically, all of which are owned by a nominee of DTC. We had 131 shareholders of record on February 1, 2020.

Dividends

Our Board of Directors declared a \$0.01 quarterly cash dividend, on a pre-Reverse Stock Split basis, for the first quarter of 2019. Starting in the second quarter of 2019, our Board of Directors determined that we will not pay a regular quarterly cash dividend. The declaration and amount of future dividends is at the discretion of our Board of Directors and could change in future periods. Our revolving credit facility prohibits us from paying dividends in excess of \$0.01 per share per fiscal quarter. Dividends in excess of this amount would require the amendment or waiver of such provision.

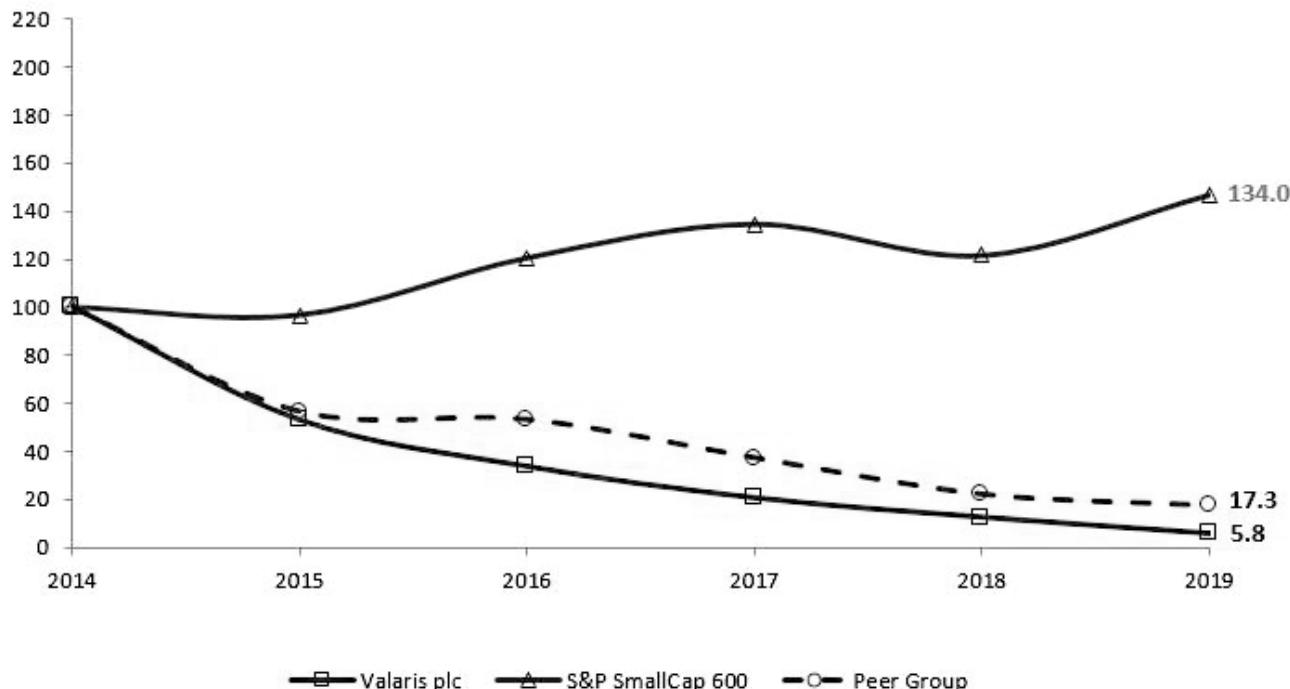
The declaration and amount of future dividends is at the discretion of our Board of Directors and could change in future periods. In the future, our Board of Directors may, without advance notice, determine to reduce or suspend our dividend in order to improve our financial flexibility and best position us for long-term success. When evaluating dividend payment timing and amounts, our Board of Directors considers several factors, including our profitability, liquidity, financial condition, market outlook, reinvestment opportunities and capital requirements.

Performance Chart

The chart below presents a comparison of the five-year cumulative total return, assuming \$100 invested on December 31, 2014 for Valaris plc, the Standard & Poor's SmallCap 600 Index, and a self-determined peer group. Total return assumes the reinvestment of dividends, if any, in the security on the ex-dividend date. The Standard & Poor's SmallCap 600 Index includes Valaris and has been included as a comparison. Since Valaris operates exclusively as an offshore drilling company, a self-determined peer group composed exclusively of major offshore drilling companies has been included as a comparison.*

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN⁽¹⁾

Among Valaris plc, the S&P SmallCap 600 Index and Peer Group



⁽¹⁾ \$100 invested on 12/31/14; includes the reinvestment of dividends in the same security on the ex-dividend date.

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	Fiscal Year Ended December 31,					
	2014	2015	2016	2017	2018	2019
Valaris plc	100.0	53.0	33.6	20.6	12.5	5.8
S&P SmallCap 600	100.0	96.6	120.6	134.7	121.6	146.9
Peer Group	100.0	56.4	53.1	37.1	22.0	17.3

*The self-determined peer group is weighted according to market capitalization at the beginning of each year and consists of the following companies: Transocean Ltd., Diamond Offshore Drilling Inc., Noble Corp., and Seadrill Ltd**.

**The return from Seadrill Ltd consists of the company's results prior to its Chapter 11 U.S. Bankruptcy Code restructuring in 2017 and after it emerged from bankruptcy in 2018.

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Our Business

We are a leading provider of offshore contract drilling services to the international oil and gas industry. Exclusive of two rigs under construction and one rig marked for retirement and classified as held-for-sale, we currently own and operate an offshore drilling rig fleet of 74 rigs, with drilling operations in almost every major offshore market across six continents. Inclusive of our rigs under construction, our rig fleet includes 16 drillships, eight dynamically positioned semisubmersible rigs, two moored semisubmersible rigs and 50 jackup rigs, nine of which are leased to our 50/50 joint venture with Saudi Aramco. We operate the world's largest fleet amongst competitive rigs, including one of the newest ultra-deepwater fleets in the industry and a leading premium jackup fleet.

Our customers include many of the leading national and international oil companies, in addition to many independent operators. We are among the most geographically diverse offshore drilling companies, with current operations spanning 24 countries on six continents. The markets in which we operate include the Gulf of Mexico, Brazil, the Mediterranean, the North Sea, Norway, the Middle East, West Africa, Australia and Southeast Asia.

We provide drilling services on a day rate contract basis. Under day rate contracts, we provide an integrated service that includes the provision of a drilling rig and rig crews for which we receive a daily rate that may vary between the full rate and zero rate throughout the duration of the contractual term, depending on the operations of the rig. We also may receive lump-sum fees or similar compensation for the mobilization, demobilization and capital upgrades of our rigs. Our customers bear substantially all of the costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well.

Rowan Transaction

On October 7, 2018, we entered into a transaction agreement (the "Transaction Agreement") with Rowan, and on April 11, 2019 (the "Transaction Date"), we completed our combination with Rowan pursuant to the Transaction Agreement (the "Rowan Transaction") and changed our name to Ensono Rowan plc. On July 30, 2019, we changed our name to Valaris plc. Rowan's financial results are included in our consolidated results beginning on the Transaction Date.

As a result of the Rowan Transaction, Rowan shareholders received 2.750 Valaris Class A ordinary shares for each Rowan Class A ordinary share, representing a value of \$43.67 per Rowan share based on a closing price of \$15.88 per Valaris share on April 10, 2019, the last trading day before the Transaction Date. Total consideration delivered in the Rowan Transaction consisted of 88.3 million Valaris shares with an aggregate value of \$1.4 billion. All share and per share data included in this report have been retroactively adjusted to reflect the Reverse Stock Split (as defined herein).

Prior to the Rowan Transaction, Rowan and Saudi Aramco formed a 50/50 joint venture to own, manage and operate drilling rigs offshore Saudi Arabia ("Saudi Aramco Rowan Offshore Drilling Company" or "ARO"). ARO currently owns a fleet of seven jackup rigs, leases another nine jackup rigs from us and has plans to purchase up to 20 newbuild jackup rigs over an approximate 10 year period. In January 2020, ARO ordered the first two newbuild jackups scheduled for delivery in 2022. The rigs we lease to ARO are done so through bareboat charter agreements whereby substantially all operating costs are incurred by ARO. All nine jackup rigs leased to ARO and all seven ARO-owned jackup rigs are under long-term contracts with Saudi Aramco. For additional information about our ARO joint venture, see Note 4 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data."

The Rowan Transaction enhanced the market leadership of the combined company with a fleet of high-specification floaters and jackups and positions us well to meet increasing and evolving customer demand. The increased scale, diversification and financial strength of the combined company provides us advantages to better serve

our customers. Exclusive of two older jackup rigs marked for retirement, Rowan's offshore rig fleet at the Transaction Date consisted of four ultra-deepwater drillships and 19 jackup rigs.

Reverse Stock Split

Upon closing of the Rowan Transaction, we effected a consolidation (being a reverse stock split under English law) whereby every four existing Valaris Class A ordinary shares, each with a nominal value of \$0.10, were consolidated into one Class A ordinary share, each with a nominal value of \$0.40 (the "Reverse Stock Split"). Our shares began trading on a reverse stock split-adjusted basis on April 11, 2019. All share and per share data included in this report have been retroactively adjusted to reflect the Reverse Stock Split.

Our Industry

Operating results in the offshore contract drilling industry are highly cyclical and are directly related to the demand for drilling rigs and the available supply of drilling rigs. Low demand and excess supply can independently affect day rates and utilization of drilling rigs. Therefore, adverse changes in either of these factors can result in adverse changes in our industry. While the cost of moving a rig may cause the balance of supply and demand to vary somewhat between regions, significant variations between regions are generally of a short-term nature due to rig mobility.

Drilling Rig Demand

The decline in oil prices from 2014 highs led to a significant reduction in global demand for offshore drilling services. Customers significantly reduced their capital spending budgets, including the cancellation or deferral of existing programs, resulting in fewer contracting opportunities for offshore drilling rigs. Declines in capital spending levels, together with the oversupply of rigs from newbuild deliveries, resulted in significantly reduced day rates and utilization that led to one of the most severe downturns in the industry's history.

More recently, oil prices have increased meaningfully from the decade lows reached during 2016, with Brent crude averaging nearly \$55 per barrel in 2017 and more than \$70 through most of 2018, leading to signs of a gradual recovery in demand for offshore drilling services. However, macroeconomic and geopolitical headwinds triggered a decline in Brent crude prices in late 2018, from more than \$85 per barrel to approximately \$50 per barrel. In 2019, oil prices experienced a gradual recovery from this decline with Brent crude prices averaging approximately \$64 per barrel before falling near \$55 per barrel in early 2020.

While this market volatility will likely continue over the near-term, we expect long-term oil prices to remain at levels sufficient to support a continued gradual recovery in demand for offshore drilling services. However, uncertainty remains regarding global trade and other geopolitical tensions in the Middle East and China and their resulting impact on the global economy. Adverse changes in the macro-economic environment resulting from trade discussions, geopolitical events or other factors, including the impact of the coronavirus on global trade, could have a significant adverse impact on global economic growth and ultimately the demand for our offshore drilling services.

We continue to observe improvements in the shallow-water market, particularly with respect to higher-specification rigs, as higher levels of customer demand and rig retirements have led to gradually increasing jackup utilization over the past year. Moreover, global floater utilization has increased as compared to a year ago due to a higher number of contracted rigs and lower global supply resulting from rig retirements. However, the floater recovery has lagged the jackup recovery as average contract durations remain relatively short-term and pricing improvements to date have been modest.

Despite the increase in customer activity, contract awards remain subject to an extremely competitive bidding process, and the corresponding pressure on operating day rates in recent periods has resulted in low margin contracts, particularly for floaters. Therefore, our results from operations may continue to decline over the near-term as current contracts with above-market rates expire and new contracts are executed at lower rates. We believe further improvements in demand coupled with a reduction in rig supply are necessary to improve the commercial landscape for day rates.

Drilling Rig Supply

Drilling rig supply continues to exceed drilling rig demand for both floaters and jackups. However, the decline in customer capital expenditure budgets over the past several years has led to a lack of contracting opportunities resulting in meaningful global fleet attrition. Since the beginning of the downturn, drilling contractors have retired approximately 135 floaters and 100 jackups. As demand for offshore drilling has slowly begun to improve, newer more capable rigs have been the first to obtain new contract awards, increasing the likelihood that older, less capable rigs do not return to the global active fleet.

Approximately 20 floaters older than 30 years are idle, 10 additional floaters older than 30 years have contracts expiring by the end of 2020 without follow-on work and a further five floaters aged between 15 and 30 years have been idle for more than two years. Operating costs associated with keeping these rigs idle as well as expenditures required to re-certify these aging rigs may prove cost prohibitive. Drilling contractors will likely elect to scrap or cold-stack some or all of these rigs.

Approximately 90 jackups older than 30 years are idle, and 60 jackups that are 30 years or older have contracts expiring by the end of 2020 without follow-on work. Expenditures required to re-certify these aging rigs may prove cost prohibitive and drilling contractors may instead elect to scrap or cold-stack these rigs. We expect jackup scrapping and cold-stacking to continue during 2020.

There are 26 newbuild drillships and semisubmersibles reported to be under construction, of which 16 are scheduled to be delivered before the end of 2020. Most newbuild floaters are uncontracted. Several newbuild deliveries have been delayed into future years, and we expect that more uncontracted newbuilds will be delayed or cancelled.

There are 51 newbuild jackups reported to be under construction, of which 41 are scheduled to be delivered before the end of 2020. Most newbuild jackups are uncontracted. Over the past year, some jackup orders have been cancelled, and many newbuild jackups have been delayed. We expect that scheduled jackup deliveries will continue to be delayed until more rigs are contracted.

Liquidity, Debt Maturities and Backlog

We proactively manage our capital structure in an effort to most effectively execute our strategic priorities and maximize value for shareholders. In support of these objectives, we are focused on our liquidity, debt levels and maturity profile and cost of capital. Over the past several years we have executed a number of financing transactions to improve our financial statement position and manage our debt maturities, including the July 2019 tender offers discussed below. Based on our balance sheet, our contractual backlog and \$1.6 billion available under our credit facility, we expect to fund our anticipated 2020 liquidity needs, including negative operating cash flows, debt service and other contractual obligations, anticipated capital expenditures, as well as working capital requirements, from cash and short-term investments and funds borrowed under our credit facility or other future financing arrangements, including available shipyard financing options for our two drillships under construction.

Our credit facility is an integral part of our financial flexibility and liquidity. We also may rely on the issuance of debt and/or equity securities in the future to supplement our liquidity needs. In addition, we may seek to extend our maturities and reduce the overall principal amount of our debt through exchange offers or other liability management transactions. We have significant financial flexibility within our capital structure, including the ability to issue debt that would be structurally senior to our currently outstanding debt, on both an unsecured and secured basis, subject to restrictions contained in our existing debt arrangements. Our liability management efforts, if undertaken, may be unsuccessful or may not improve our financial position to the extent anticipated.

Our ability to maintain a sufficient level of liquidity to meet our financial obligations will also be dependent upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. For example, if we experience further deterioration in demand for offshore drilling, our ability to maintain a sufficient level of liquidity could be

materially and adversely impacted, which could have a material adverse impact on our business, financial condition, results of operations, cash flows and our ability to repay or refinance our debt.

Cash and Debt

As of December 31, 2019, we had \$6.5 billion in total principal debt outstanding, representing 41.2% of our total capitalization. We also had \$97.2 million in cash and \$1.6 billion undrawn capacity under our credit facility, which expires in September 2022.

In December 2019, we received \$200.0 million in cash resulting from the settlement of a dispute with Samsung Heavy Industries. See Note 13 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data."

Effective upon closing of the Rowan Transaction, we amended our credit facility to, among other changes, increase the borrowing capacity. Previously, our credit facility had a borrowing capacity of \$2.0 billion through September 2019 that declined to \$1.3 billion through September 2020 and \$1.2 billion through September 2022. Subsequent to the amendment our borrowing capacity is \$1.6 billion through September 2022. The credit agreement governing the credit facility includes an accordion feature allowing us to increase the future commitments by up to an aggregate amount not to exceed \$250.0 million.

As a result of the Rowan Transaction, we acquired the following debt: (1) \$201.4 million in aggregate principal amount of 7.875% unsecured senior notes, which was repaid at maturity in August 2019, (2) \$620.8 million in aggregate principal amount of 4.875% unsecured senior notes due 2022, (3) \$398.1 million in aggregate principal amount of 4.75% unsecured senior notes due 2024, (4) \$500.0 million in aggregate principal amount of 7.375% unsecured senior notes due 2025, (5) \$400.0 million in aggregate principal amount of 5.4% unsecured senior notes due 2042 and (6) \$400.0 million in aggregate principal amount of 5.85% unsecured senior notes due 2044. Upon closing of the Rowan Transaction, we terminated Rowan's outstanding credit facilities.

On June 25, 2019, we commenced cash tender offers for certain senior notes issued by us, Ensen International Incorporated and Rowan Companies, Inc., our wholly-owned subsidiaries. The tender offers expired on July 23, 2019, and we repurchased \$951.8 million aggregate principal amount of notes for a total purchase price of approximately \$724.1 million, plus accrued interest.

As of December 31, 2019, our principal debt maturities include \$122.9 million in 2020, \$113.5 million in 2021, \$620.8 million in 2022 and \$1.8 billion in 2024.

Backlog

As of December 31, 2019, our backlog was \$2.5 billion as compared to \$2.2 billion as of December 31, 2018. Our floater backlog declined \$94.2 million and our jackup backlog increased \$210.2 million. These changes resulted from the addition of backlog from the Rowan Transaction, new contract awards and contract extensions offset by revenues realized during the period. Our other segment backlog increased \$154.4 million due to the addition of backlog from the Rowan Transaction related to the rigs leased to ARO.

Contract backlog includes the impact of drilling contracts signed or terminated after each respective balance sheet date but prior to filing our annual reports on February 21, 2020 and February 28, 2019, respectively.

BUSINESS ENVIRONMENT

Floater

The floater contracting environment remains challenging due to limited demand and excess newbuild supply. Floater demand has declined significantly following the decline in commodity prices in 2014 which caused our

customers to reduce capital expenditures, particularly for capital-intensive, long-lead deepwater projects, resulting in the cancellation and delay of drilling programs. During the past year, we have observed increased tendering activity that may translate into marginal improvements in near-term utilization; however, further improvements in demand and/or reductions in supply will be necessary before meaningful increases in utilization and day rates are realized.

During the first quarter of 2019, we executed a four-well contract for VALARIS DS-9 that commenced offshore Brazil in June 2019 and a six-month contract for VALARIS DS-7 that commenced offshore Egypt in April 2019. Additionally, we executed a two-well contract for VALARIS DPS-1 that is expected to commence in March 2020 and a four-well contract for VALARIS 8503 that commenced in July 2019.

During the second quarter of 2019, we executed a one-well contract for VALARIS DS-18 in the U.S. Gulf of Mexico that commenced in February 2020. We also entered into short-term contract extensions for VALARIS DS-12 and VALARIS DPS-1.

During the third quarter of 2019, we executed a four-well contract for VALARIS DS-12 that is expected to commence offshore Angola in April 2020, a one-well contract for VALARIS DS-15 that is expected to commence in the U.S. Gulf of Mexico in January 2020 and a one-well contract for VALARIS DS-4 that is expected to commence offshore Ghana in March 2020. We also extended contracts for VALARIS DPS-1 by seven-wells with an estimated duration of 420 days, VALARIS 8505 by three-wells, VALARIS DS-16 by approximately 180 days and VALARIS DS-7 by approximately 165 days. Additionally, we began marketing the VALARIS 5006 for sale and classified the rig as held-for-sale. As a result, we recognized an impairment charge of \$88.2 million in our consolidated statement of operations.

During the fourth quarter of 2019, we executed a one-year contract extension for VALARIS DS-10. VALARIS DS-7 was awarded a five-well contract that is expected to commence in September and has an estimated duration of 320 days. VALARIS DS-18 was awarded a two-well contract that is expected to commence in July 2020 and has an estimated duration of 180 days. VALARIS DS-18 also had a contract extension due to the exercise of one-well option. VALARIS DS-15 was awarded two contracts, a one-well contract that commenced in November 2019 and a two-well contract expected to commence in May 2020. VALARIS DS-15 also had a contract extension due to the exercise of a one-well priced option, the contract has an estimated duration of 45 days and is expected to commence in March 2020. VALARIS DS-12 and VALARIS MS-1 were awarded one-well contracts that are expected to commence in February 2020 and July 2020, respectively. We also executed a one-well contract for VALARIS DS-9 that is expected to commence in July 2020. We also entered into a short-term contract extension for VALARIS 8503.

During the fourth quarter of 2019, we sold VALARIS 5006 for scrap value resulting in an insignificant pre-tax gain. We also began marketing the VALARIS 6002 and classified the rig as held-for-sale on our December 31, 2019 consolidated balance sheet. The VALARIS 6002 was subsequently sold in January 2020 resulting in an insignificant pre-tax gain.

Jackups

Demand for jackups has improved with increased contracting activity observed over the past year, leading to slight improvements in day rates.

During the first quarter of 2019, we executed a nine-well contract for VALARIS JU-100 that commenced in November 2019. As a result, a previously disclosed contract for VALARIS JU-100 has been fulfilled by VALARIS JU-248. Additionally, we executed a three-well contract for VALARIS JU-121 that commenced in April 2019 and three-well and one-well contracts for VALARIS JU-72 and VALARIS JU-68, respectively, that commenced during May 2019. We also executed short-term contract extensions for VALARIS JU-101 and VALARIS JU-96.

With respect to the Rowan jackups, a six-month contract extension with a two-month option was executed for VALARIS JU-248 during the first quarter. Additionally, short-term contracts were executed for VALARIS JU-292,

VALARIS JU-290 and VALARIS JU-144. The VALARIS JU-290 and VALARIS JU-292 contracts include four additional one-well priced options and two short-term option periods, respectively.

During the second quarter of 2019, we executed a two-year contract for VALARIS JU-120, a two-well contract for VALARIS JU-122, a forty-well P&A contract for VALARIS JU-72, a five-month contract for VALARIS JU-107, two one-well contracts for VALARIS JU-102 and a one-well contract for VALARIS JU-101. Additionally, we executed a two-year extension for VALARIS JU-109, a seven-month extension for VALARIS JU-104, a six-month extension for VALARIS JU-247, a three-month extension for VALARIS JU-96 and one-well extensions for VALARIS JU-118 and VALARIS JU-144.

During the second quarter of 2019, we scrapped ENSCO 97 and the Gorilla IV and recognized an insignificant pre-tax gain.

During the third quarter of 2019, we executed a four-well contract for VALARIS JU-248, an accommodation contract for VALARIS JU-290, a one-well contract for VALARIS JU-107 and a one-well contract for VALARIS JU-87 that commenced in September. We also extended the contracts for VALARIS JU-291 by two-wells, VALARIS JU-247 by approximately eight months and received short-term extensions for VALARIS JU-88, VALARIS JU-115, VALARIS JU-117, VALARIS JU-123 and VALARIS JU-248.

During the fourth quarter of 2019, we executed a 200-day contract for VALARIS JU-249 and a 21-well contract for VALARIS JU-87, both of which commenced in November 2019, and a one-well contract for VALARIS JU-75 that commenced in December 2019. We also executed a 12-well contract for VALARIS JU-144 that is expected to commence in April 2020, a six-well contract for VALARIS JU-292 that is expected to commence in May 2020, and a three-well contract for VALARIS JU-101 that is expected to commence in March 2020. VALARIS JU-107 had a contract extension due to the exercise of one-well option and was also awarded a two-well contract that is expected to commence in June 2020. Additionally, we executed short-term contract extensions for VALARIS JU-115, VALARIS JU-117, VALARIS JU-122, and VALARIS JU-290.

Additionally, in the fourth quarter of 2019, we sold VALARIS JU-42 for scrap value and recognized an insignificant gain. We also began marketing the VALARIS JU-68 and VALARIS JU-70 and classified the rigs as held-for-sale on our December 31, 2019 consolidated balance sheet. We recognized a pre-tax impairment charge of \$10.2 million on the VALARIS JU-70. The VALARIS JU-68 was subsequently sold in January 2020 resulting in an insignificant pre-tax loss.

In July 2019, a well being drilled offshore Indonesia by one of our jackup rigs experienced a well-control event requiring the cessation of drilling activities. The operator could seek to terminate the contract under certain circumstances. If this drilling contract were to be terminated for cause, it would result in an approximate \$8.5 million decrease in our backlog as of December 31, 2019. See Note 13 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data."

RESULTS OF OPERATIONS

The following table summarizes our consolidated results of operations for each of the years in the three-year period ended December 31, 2019 (in millions):

	2019	2018	2017
Revenues	\$ 2,053.2	\$ 1,705.4	\$ 1,843.0
Operating expenses			
Contract drilling (exclusive of depreciation)	1,806.0	1,319.4	1,189.5
Loss on impairment	104.0	40.3	182.9
Depreciation	609.7	478.9	444.8
General and administrative	188.9	102.7	157.8
Total operating expenses	2,708.6	1,941.3	1,975.0
Equity in earnings of ARO	(12.6)	—	—
Operating loss	(668.0)	(235.9)	(132.0)
Other income (expense), net	604.2	(303.0)	(64.0)
Provision for income taxes	128.4	89.6	109.2
Loss from continuing operations	(192.2)	(628.5)	(305.2)
Income (loss) from discontinued operations, net	—	(8.1)	1.0
Net loss	(192.2)	(636.6)	(304.2)
Net (income) loss attributable to noncontrolling interests	(5.8)	(3.1)	.5
Net loss attributable to Valaris	\$ (198.0)	\$ (639.7)	\$ (303.7)

Overview

Year Ended December 31, 2019

Revenues increased by \$347.8 million, or 20%, as compared to the prior year primarily due to \$322.2 million of revenue earned by the Rowan rigs, \$125.5 million due to revenues earned from our rigs leased to ARO and revenues earned from the Secondment Agreement and Transition Services Agreement, and \$84.1 million due to the commencement of VALARIS DS-9, VALARIS JU-123, VALARIS JU-140 and VALARIS JU-141 drilling operations. This increase was partially offset by the sale of ENSCO 6001, VALARIS 5006 and ENSCO 97, which operated in the prior-year period, and lower average day rates across the remaining fleet.

Contract drilling expense increased by \$486.6 million, or 37%, as compared to the prior year primarily due to \$351.2 million of contract drilling expense incurred by the Rowan rigs, \$57.0 million due to expenses incurred under the Secondment Agreement and by our rigs leased to ARO, \$38.2 million due to the commencement of VALARIS DS-9, and \$31.3 million due to the commencement of drilling operations for VALARIS JU-123, VALARIS JU-140 and VALARIS JU-141. This increase was partially offset by the sale of ENSCO 6001, VALARIS 5006 and ENSCO 97, which operated in the prior-year period.

General and administrative expenses increased by \$86.2 million, or 84%, as compared to the prior year period, primarily due to transaction and integration costs associated with the Rowan Transaction.

Year Ended December 31, 2018

Revenues declined by \$137.6 million, or 7%, as compared to the prior year. The decline was primarily due to a decline in average day rates in both our floater and jackup fleets and the sale of several rigs during the year that operated in the year-ago period, partially offset by increased utilization and the addition of Atwood rigs to the fleet in late 2017.

Contract drilling expense increased by \$129.9 million, or 11%, as compared to the prior year. The increase was primarily due to addition of rigs to the fleet from the acquisition of Atwood Oceanics, Inc. (Atwood) and the commencement of drilling operations for several of our newbuild rigs. This increase was partially offset by the sale of several rigs during the year that operated in the year-ago period and cost incurred during the prior year to settle a previously disclosed legal contingency.

Excluding the impact of \$7.5 million of transaction costs during 2018 and \$51.6 million of transaction costs during 2017 from the Atwood acquisition, general and administrative expenses declined by \$11.0 million, or 10%, as compared to the prior year. The decline was primarily due to lower compensation costs and the recovery of certain legal costs awarded to us in connection with the SHI litigation.

Rig Counts, Utilization and Average Day Rates

The following table summarizes our offshore drilling rigs by reportable segment, rigs under construction and rigs held-for-sale as of December 31, 2019, 2018 and 2017:

	2019	2018	2017
Floaters ⁽¹⁾	24	22	24
Jackups ⁽²⁾	41	34	37
Other ⁽³⁾	9	—	—
Under construction ⁽⁴⁾	2	3	3
Held-for-sale ⁽⁵⁾	3	—	1
Total Valaris	79	59	65
ARO ⁽⁶⁾	7	—	—

- (1) During 2019, we added VALARIS DS-18, VALARIS DS-17, VALARIS DS-16 and VALARIS DS-15 from the Rowan Transaction, sold VALARIS 5006 and classified VALARIS 6002 as held-for-sale. During 2018, we sold ENSCO 5005 and ENSCO 6001.
- (2) During 2019, we added 10 jackups from the Rowan Transaction, exclusive of rigs leased to ARO that are included in Other, accepted delivery of VALARIS JU-123, classified VALARIS JU-68 and VALARIS JU-70 as held-for-sale and sold VALARIS JU-96 and ENSCO 97. During 2018, we sold ENSCO 80, ENSCO 81 and ENSCO 82.
- (3) During 2019, we added nine jackups from the Rowan Transaction that are leased to ARO.
- (4) During 2019, we accepted the delivery of VALARIS JU-123.
- (5) During 2019, we classified VALARIS JU-68, VALARIS JU-70 and VALARIS 6002 as held-for-sale. During 2018, we sold ENSCO 7500.
- (6) This represents the seven rigs owned by ARO.

The following table summarizes our and ARO's rig utilization and average day rates from continuing operations by reportable segment for each of the years in the three-year period ended December 31, 2019. Rig utilization and average day rates include results for Rowan rigs and ARO from the transaction date through December 31, 2019:

	2019	2018	2017
<u>Rig Utilization⁽¹⁾</u>			
Floater	47%	46%	45%
Jackups	66%	63%	60%
Other ⁽²⁾	100%	100%	100%
Total Valaris	63%	56%	55%
ARO	93%	—%	—%
<u>Average Day Rates⁽³⁾</u>			
Floater	\$ 218,837	\$ 248,395	\$ 327,736
Jackups	78,133	77,086	84,913
Other ⁽²⁾	49,236	81,751	79,566
Total Valaris	\$ 108,313	\$ 128,365	\$ 153,306
ARO	\$ 71,170	\$ —	\$ —

⁽¹⁾ Rig utilization is derived by dividing the number of days under contract by the number of days in the period. Days under contract equals the total number of days that rigs have earned and recognized day rate revenue, including days associated with early contract terminations, compensated downtime and mobilizations. When revenue is deferred and amortized over a future period, for example when we receive fees while mobilizing to commence a new contract or while being upgraded in a shipyard, the related days are excluded from days under contract.

For newly-constructed or acquired rigs, the number of days in the period begins upon commencement of drilling operations for rigs with a contract or when the rig becomes available for drilling operations for rigs without a contract.

- ⁽²⁾ Includes our two managed services contracts and our nine rigs leased to ARO under bareboat charter contracts.
- ⁽³⁾ Average day rates are derived by dividing contract drilling revenues, adjusted to exclude certain types of non-recurring reimbursable revenues, lump-sum revenues and revenues attributable to amortization of drilling contract intangibles, by the aggregate number of contract days, adjusted to exclude contract days associated with certain mobilizations, demobilizations and shipyard contracts.

Detailed explanations of our operating results, including discussions of revenues, contract drilling expense and depreciation expense by segment, are provided below.

Operating Income by Segment

Prior to the Rowan Transaction, our business consisted of three operating segments: (1) Floater, which included our drillships and semisubmersible rigs, (2) Jackups and (3) Other, which consisted only of our management services provided on rigs owned by third parties. Our Floater and Jackups were also reportable segments.

As a result of the Rowan Transaction, we concluded that we would maintain the aforementioned segment structure while adding ARO as a reportable segment for the new combined company. We also concluded that the activities associated with our arrangements with ARO, consisting of our Transition Services Agreement, Rig Lease Agreements and Secondment Agreement, do not constitute reportable segments and are therefore included within Other in the following segment disclosures. Substantially all of the expenses incurred associated with our Transition Services Agreement are included in general and administrative under "Reconciling Items" in the table set forth below.

General and administrative expense and depreciation expense incurred by our corporate office are not allocated to our operating segments for purposes of measuring segment operating income (loss) and are included in "Reconciling Items." The full operating results included below for ARO (representing only results of ARO from the Transaction Date) are not included within our consolidated results and thus deducted under "Reconciling Items" and replaced with our equity in earnings of ARO. See Note 4 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for additional information on ARO and related arrangements.

Segment information for each of the years in the three-year period ended December 31, 2019 is presented below (in millions).

Year Ended December 31, 2019

	Floater	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 1,014.4	\$ 834.6	\$ 410.5	\$ 204.2	\$ (410.5)	\$ 2,053.2
Operating expenses						
Contract drilling (exclusive of depreciation)	898.6	788.9	280.2	118.5	(280.2)	1,806.0
Loss on impairment	88.2	10.2	—	—	5.6	104.0
Depreciation	378.6	212.4	40.3	—	(21.6)	609.7
General and administrative	—	—	27.1	—	161.8	188.9
Equity in earnings of ARO	—	—	—	—	(12.6)	(12.6)
Operating income (loss)	\$ (351.0)	\$ (176.9)	\$ 62.9	\$ 85.7	\$ (288.7)	\$ (668.0)

Year Ended December 31, 2018

	Floater	Jackups	Other	Reconciling Items	Consolidated Total
Revenues	\$ 1,013.5	\$ 630.9	\$ 61.0	\$ —	\$ 1,705.4
Operating expenses					
Contract drilling (exclusive of depreciation)	737.4	526.5	55.5	—	1,319.4
Loss on impairment	—	40.3	—	—	40.3
Depreciation	311.8	153.3	—	13.8	478.9
General and administrative	—	—	—	102.7	102.7
Operating income (loss)	\$ (35.7)	\$ (89.2)	\$ 5.5	\$ (116.5)	\$ (235.9)

Year Ended December 31, 2017

	Floaters	Jackups	Other	Reconciling Items	Consolidated Total
Revenues	\$ 1,143.5	\$ 640.3	\$ 59.2	\$ —	\$ 1,843.0
Operating expenses					
Contract drilling (exclusive of depreciation)	624.2	512.1	53.2	—	1,189.5
Loss on impairment	174.7	8.2	—	—	182.9
Depreciation	297.4	131.5	—	15.9	444.8
General and administrative	—	—	—	157.8	157.8
Operating income (loss)	\$ 47.2	\$ (11.5)	\$ 6.0	\$ (173.7)	\$ (132.0)

Floaters

During 2019, revenues were consistent with the prior year. The \$109.3 million of revenue earned by the Rowan rigs and \$41.0 million due to the commencement of VALARIS DS-9 drilling operations were offset by the sale of VALARIS 5006 and ENSCO 6001, fewer days under contract and lower average day rates across the remaining floater fleet.

Contract drilling expense increased by \$161.2 million, or 22%, as compared to the prior year primarily due to \$142.4 million of contract drilling expense incurred by the Rowan rigs and \$38.2 million due to the commencement of VALARIS DS-9 drilling operations. The increase was partially offset by the sale of VALARIS 5006 and ENSCO 6001 and lower costs on idle rigs.

Depreciation expense increased by \$66.8 million, or 21%, compared to the prior year primarily due to the addition of the Rowan rigs to the fleet and commencement of VALARIS DS-9 drilling operations.

During 2018, revenues declined by \$130.0 million, or 11%, as compared to the prior year primarily due to lower average day rates resulting from the expiration of above-market, older contracts that were replaced with new market-rate contracts and sale of ENSCO 6001. The decline was partially offset by the addition of Atwood rigs to the fleet and commencement of VALARIS DS-10 drilling operations.

Contract drilling expense increased by \$113.2 million, or 18%, as compared to the prior year primarily due to the addition of Atwood rigs to the fleet and commencement of VALARIS DS-10 drilling operations. This increase was partially offset by the sale of ENSCO 6001, lower rig reactivation costs and costs incurred in the prior year to settle a previously disclosed legal contingency.

Depreciation expense increased by \$14.4 million, or 5%, compared to the prior year primarily due to the addition of Atwood rigs and commencement of VALARIS DS-10 drilling operations. The increase was partially offset by lower depreciation expense on non-core assets that were impaired to scrap value during the fourth quarter of 2017.

Jackups

During 2019, revenues increased by \$203.7 million, or 32%, as compared to the prior year primarily due to \$212.9 million of revenue earned by the Rowan rigs and \$43.1 million due to the commencement of VALARIS JU-123, VALARIS JU-140 and VALARIS JU-141 drilling operations. This increase was partially offset by the sale of ENSCO 97 and ENSCO 80, which operated in the prior-year period.

Contract drilling expense increased by \$262.4 million, or 50%, as compared to the prior year primarily due to \$208.8 million of contract drilling expense incurred by the Rowan rigs and \$31.3 million due to the commencement

of drilling operations for VALARIS JU-123, VALARIS JU-140 and VALARIS JU-141. This increase was partially offset by the sale of ENSCO 97 and ENSCO 80.

Depreciation expense increased by \$59.1 million, or 39%, as compared to the prior year primarily due to the addition of Rowan rigs to the fleet and the commencement of VALARIS JU-123 drilling operations.

During 2018, revenues declined by \$9.4 million, or 1%, as compared to the prior year primarily due to the sale of ENSCO 52 and ENSCO 80 and lower average day rates across the fleet. These declines were partially offset by more days under contract across the fleet, the commencement of VALARIS JU-140 and VALARIS JU-141 contracts and the addition of Atwood rigs to the fleet.

Contract drilling expense increased by \$14.4 million, or 3%, as compared to the prior year primarily due to more days under contract across the fleet, the addition of Atwood rigs and contract commencements for VALARIS JU-140 and VALARIS JU-141. These increases were partially offset by lower rig reactivation costs and the sale of ENSCO 52 and ENSCO 80.

Depreciation expense increased by \$21.8 million, or 17%, as compared to the prior year primarily due to the addition of Atwood rigs and VALARIS JU-140 and VALARIS JU-141 to the fleet. The increase was partially offset by lower depreciation expense on a non-core rig that was impaired to scrap value during the fourth quarter of 2017.

ARO

ARO currently owns a fleet of seven jackup rigs, leases another nine jackup rigs from us and plans to purchase up to 20 newbuild jackup rigs over an approximate 10 year period. In January 2020, ARO ordered the first two newbuild jackups with delivery scheduled in 2022. The rigs we lease to ARO are done so through bareboat charter agreements whereby substantially all operating costs are incurred by ARO. All nine jackup rigs leased to ARO are under three-year contracts with Saudi Aramco. All seven ARO-owned jackup rigs are under long-term contracts with Saudi Aramco.

The operating revenues of ARO reflect revenues earned under drilling contracts with Saudi Aramco for the seven ARO-own jackup rigs and the nine rigs leased from us that operated during the period from the Transaction Date through December 31, 2019.

The contract drilling, depreciation and general and administrative expenses are also for the period from the Transaction Date through December 31, 2019. Contract drilling expenses are inclusive of the bareboat charter fees for the rigs leased from us and costs incurred under the Secondment Agreement. General and administrative expenses include costs incurred under the Transition Services Agreement and other administrative costs.

Other

Other revenues increased \$143.2 million, or 235%, for the year ended December 31, 2019, as compared to the prior year period, primarily due to revenues earned from our rigs leased to ARO, revenues earned under the Secondment Agreement and Transition Services Agreement of \$58.2 million, \$49.9 million and \$17.3 million, respectively.

Other contract drilling expenses increased \$63.0 million, or 114%, for the year ended December 31, 2019, respectively, as compared to the prior year period, primarily due to costs incurred for services provided to ARO under the Secondment Agreement and other costs for ARO rigs.

Impairment of Long-Lived Assets

See Note 6 and Note 14 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for information on impairment of long-lived assets.

Other Income (Expense), Net

The following table summarizes other income (expense), net, for each of the years in the three-year period ended December 31, 2019 (in millions):

	2019	2018	2017
Interest income	\$ 28.1	\$ 14.5	\$ 25.8
Interest expense, net:			
Interest expense	(449.2)	(345.3)	(296.7)
Capitalized interest	20.9	62.6	72.5
	(428.3)	(282.7)	(224.2)
Other, net	1,004.4	(34.8)	134.4
	\$ 604.2	\$ (303.0)	\$ (64.0)

Interest income increased during 2019 as compared to the respective prior year period primarily due to interest income of \$16.8 million earned on the shareholder note from ARO (see Note 4 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for information on ARO) acquired in the Rowan Transaction. Interest income declined during 2018 as compared to the respective prior-year period as a result of a decrease in our average short-term investment balances.

Interest expense increased during 2019 by \$103.9 million, or 30%, as compared to the prior year due to interest expense incurred on Rowan's senior notes. Interest expense increased during 2018 by \$48.6 million, or 16%, as compared to the prior year due to debt transactions we undertook during the first quarter of 2018 (see Note 7 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for information on debt).

Interest expense capitalized declined during 2019 and 2018 by \$41.7 million, or 67%, and \$9.9 million, or 14%, as compared to the prior year periods, due to a decline in the amount of capital invested in newbuild construction resulting from newbuild rigs being placed into service.

Other, net, during 2019 included a gain on bargain purchase recognized in connection with the Rowan Transaction of \$637.0 million, a pre-tax gain related to the settlement award from the SHI matter of \$200.0 million discussed in Note 13 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" and a pre-tax gain from debt extinguishment of \$194.1 million related to the senior notes repurchased in connection with our July 2019 tender offers. This increase was partially offset by settlement of a Middle East dispute discussed in Note 13 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" as well as foreign currency losses as discussed below.

Our functional currency is the U.S. dollar, and a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar. These transactions are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. Net foreign currency exchange losses, inclusive of offsetting fair value derivatives, were \$7.4 million, \$17.2 million and \$5.1 million, and were included in other, net, in our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively. Net foreign currency exchange losses incurred during 2019 included \$3.3 million and \$2.8 million, related to euros and Angolan kwanza, respectively. Net foreign currency exchange losses incurred during 2018 included \$5.8 million, \$3.6 million and \$2.0 million, related to Angolan kwanza, euros and Brazilian reals, respectively. During 2017, the net foreign currency exchange losses incurred were \$2.1 million, \$1.9 million and \$1.0 million, related to euros, Indonesian rupiah and Brazilian reals, respectively.

Net unrealized gains of \$5.0 million, unrealized losses of \$0.7 million and unrealized gains of \$4.5 million from marketable securities held in our supplemental executive retirement plans ("the SERP") were included in other,

net, in our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively. Information on the fair value measurement of our marketable securities held in the SERP is presented in Note 5 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data."

Provision for Income Taxes

Valaris plc, our parent company, is domiciled and resident in the U.K. Our subsidiaries conduct operations and earn income in numerous countries and are subject to the laws of taxing jurisdictions within those countries. The income of our non-U.K. subsidiaries is generally not subject to U.K. taxation. Income tax rates imposed in the tax jurisdictions in which our subsidiaries conduct operations vary, as does the tax base to which the rates are applied. In some cases, tax rates may be applicable to gross revenues, statutory or negotiated deemed profits or other bases utilized under local tax laws, rather than to net income.

Our drilling rigs frequently move from one taxing jurisdiction to another to perform contract drilling services. In some instances, the movement of drilling rigs among taxing jurisdictions will involve the transfer of ownership of the drilling rigs among our subsidiaries. As a result of frequent changes in the taxing jurisdictions in which our drilling rigs are operated and/or owned, changes in profitability levels and changes in tax laws, our annual effective income tax rate may vary substantially from one reporting period to another. In periods of declining profitability, our income tax expense may not decline proportionally with income, which could result in higher effective income tax rates. Further, we may continue to incur income tax expense in periods in which we operate at a loss.

U.S. Tax Reform

The U.S. Tax Cuts and Jobs Act ("U.S. tax reform") was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law, including a reduction in the statutory income tax rate from 35% to 21% effective January 1, 2018, a one-time transition tax on deemed repatriation of deferred foreign income, a base erosion anti-abuse tax that effectively imposes a minimum tax on certain payments to non-U.S. affiliates, new and revised rules relating to the current taxation of certain income of foreign subsidiaries and revised rules associated with limitations on the deduction of interest.

Due to the timing of the enactment of U.S. tax reform and the complexity involved in applying its provisions, we made reasonable estimates of its effects and recorded such amounts in our consolidated financial statements as of December 31, 2017 on a provisional basis. Throughout 2018, we continued to analyze applicable information and data, interpret rules and guidance issued by the U.S. Treasury Department and Internal Revenue Service, and make adjustments to the provisional amounts, as provided for in Staff Accounting Bulletin No. 118. The U.S. Treasury Department continued finalizing rules associated with U.S. tax reform during 2018 and 2019.

During 2019, we recognized a tax expense of \$13.8 million associated with final rules issued related to U.S. tax reform. During 2018, we recognized a tax benefit of \$11.7 million associated with the one-time transition tax on deemed repatriation of the deferred foreign income of our U.S. subsidiaries. We recognized a net tax expense of \$16.5 million during the fourth quarter of 2017 in connection with enactment of U.S. tax reform, consisting of a \$38.5 million tax expense associated with the one-time transition tax on deemed repatriation of the deferred foreign income of our U.S. subsidiaries, a \$17.3 million tax expense associated with revisions to rules over the taxation of income of foreign subsidiaries, a \$20.0 million tax benefit resulting from the re-measurement of our deferred tax assets and liabilities as of December 31, 2017 to reflect the reduced tax rate and a \$19.3 million tax benefit resulting from adjustments to the valuation allowance on deferred tax assets.

See Note 12 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for additional information.

Effective Tax Rate

During the years ended December 31, 2019, 2018 and 2017, we recorded income tax expense of \$128.4 million, \$89.6 million and \$109.2 million, respectively. Our consolidated effective income tax rates were (201.3)%, (16.6)% and (55.7)% during the same periods, respectively.

Our 2019 consolidated effective income tax rate included \$2.3 million associated with the impact of various discrete tax items, including \$28.3 million of tax expense associated with final rules relating to U.S. tax reform, gains on repurchase of debt and settlement proceeds, partially offset by \$26.0 million of tax benefit related to restructuring transactions, changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years and other resolutions of prior year tax matters and rig sales.

Our 2018 consolidated effective income tax rate includes the impact of various discrete tax items, including \$46.0 million of tax benefit associated with the utilization of foreign tax credits subject to a valuation allowance, the transition tax on deemed repatriation of the deferred foreign income of our U.S. subsidiaries, and a restructuring transaction, partially offset by \$21.0 million of tax expense related to recovery of certain costs associated with an ongoing legal matter, repurchase and redemption of senior notes and rig sales.

Our 2017 consolidated effective income tax rate included \$32.2 million associated with the impact of various discrete tax items, including \$16.5 million of tax expense associated with U.S. tax reform and \$15.7 million of tax expense associated with the exchange offers and debt repurchases, rig sales, a restructuring transaction, settlement of a previously disclosed legal contingency, the effective settlement of a liability for unrecognized tax benefits associated with a tax position taken in prior years and other resolutions of prior year tax matters.

Excluding the impact of the aforementioned discrete tax items, our consolidated effective income tax rates for the years ended December 31, 2019, 2018 and 2017 were (14.6)%, (24.8)% and (96.0)%, respectively. The changes in our consolidated effective income tax rate excluding discrete tax items during the three-year period result primarily from U.S. tax reform and changes in the relative components of our earnings from the various taxing jurisdictions in which our drilling rigs are operated and/or owned and differences in tax rates in such taxing jurisdictions.

Divestitures

Our business strategy has been to focus on ultra-deepwater floater and premium jackup operations and de-emphasize other assets and operations that are not part of our long-term strategic plan or that no longer meet our standards for economic returns. Consistent with this strategy, we sold 12 jackup rigs, two dynamically positioned semisubmersible rigs and two moored semisubmersible rigs during the three-year period ended December 31, 2019.

We continue to focus on our fleet management strategy in light of the composition of our rig fleet. As part of this strategy, we may act opportunistically from time to time to monetize assets to enhance shareholder value and improve our liquidity profile, in addition to selling or disposing of older, lower-specification or non-core rigs.

We sold the following rigs during the three-year period ended December 31, 2019 (in millions):

Rig	Date of Sale	Classification ⁽¹⁾	Segment ⁽¹⁾	Net Proceeds	Net Book Value ⁽²⁾	Pre-tax Gain/(Loss)
VALARIS JU-96	December 2019	Continuing	Jackups	\$ 1.9	\$.3	\$ 1.6
VALARIS 5006	November 2019	Continuing	Floater	7.0	6.0	1.0
VALARIS JU-42	October 2019	Continuing	Jackups	2.9	2.5	.4
Gorilla IV	May 2019	Continuing	Jackups	2.5	2.5	—
ENSCO 97	April 2019	Continuing	Jackups	1.7	1.0	.7
ENSCO 80	August 2018	Continuing	Jackups	1.0	.5	.5
ENSCO 5005	August 2018	Continuing	Floater	4.0	2.0	2.0
ENSCO 6001	July 2018	Continuing	Floater	2.0	.9	1.1
ENSCO 7500	April 2018	Discontinued	Floater	2.6	1.5	1.1
ENSCO 81	April 2018	Continuing	Jackups	1.0	.3	.7
ENSCO 82	April 2018	Continuing	Jackups	1.0	.3	.7
ENSCO 52	August 2017	Continuing	Jackups	.8	.4	.4
ENSCO 86	June 2017	Continuing	Jackups	.3	.3	—
ENSCO 90	June 2017	Discontinued	Jackups	.3	.3	—
ENSCO 99	June 2017	Continuing	Jackups	.3	.3	—
ENSCO 56	April 2017	Continuing	Jackups	1.0	.3	.7
				\$ 30.3	\$ 19.4	\$ 10.9

⁽¹⁾ Classification denotes the location of the operating results and gain (loss) on sale for each rig in our consolidated statements of operations. For rigs' operating results that were reclassified to discontinued operations in our consolidated statements of operations, these results were previously included within the specified operating segment.

⁽²⁾ Includes the rig's net book value as well as materials and supplies and other assets on the date of the sale.

LIQUIDITY AND CAPITAL RESOURCES

We proactively manage our capital structure in an effort to most effectively execute our strategic priorities and maximize value for shareholders. In support of these objectives, we are focused on our liquidity, debt levels and maturity profile and cost of capital. Over the past several years, we have executed a number of financing transactions to improve our financial position and manage our debt maturities, including the July 2019 tender offers discussed below. Based on our balance sheet, our contractual backlog and \$1.6 billion of undrawn capacity under our credit facility, we expect to fund our liquidity needs, including expected negative operating cash flows, contractual obligations, anticipated capital expenditures, as well as working capital requirements, from cash and funds borrowed under our credit facility or other future financing arrangements, including available shipyard financing options for our two drillships under construction.

Our credit facility is an integral part of our financial flexibility and liquidity. We also may rely on the issuance of debt and/or equity securities in the future to supplement our liquidity needs. In addition, we may seek to extend our maturities and reduce the overall principal amount of our debt through exchange offers or other liability management transactions. We have significant financial flexibility within our capital structure, including the ability to issue debt that would be structurally senior to our currently outstanding debt, on both an unsecured and secured basis, subject to restrictions contained in our existing debt arrangements. Our liability management efforts, if undertaken, may be unsuccessful or may not improve our financial position to the extent anticipated.

Additionally, as a result of the Rowan Transaction, we acquired the following debt: (1) \$201.4 million in aggregate principal amount of 7.875% unsecured senior notes, which was repaid at maturity in August 2019, (2) \$620.8 million in aggregate principal amount of 4.875% unsecured senior notes due 2022, (3) \$398.1 million in aggregate principal amount of 4.75% unsecured senior notes due 2024, (4) \$500.0 million in aggregate principal amount of 7.375% unsecured senior notes due 2025, (5) \$400.0 million in aggregate principal amount of 5.4% unsecured senior notes due 2042 and (6) \$400.0 million in aggregate principal amount of 5.85% unsecured senior notes due 2044. Upon closing of the Rowan Transaction, we terminated Rowan's outstanding credit facilities.

During the three-year period ended December 31, 2019, our primary sources of cash were \$1.4 billion from net maturities of short-term investments, \$1.0 billion in proceeds from the issuance of senior notes, and Rowan cash acquired of \$931.9 million. Our primary uses of cash during the same period included \$2.2 billion for the repurchase and redemption of outstanding debt, \$1.2 billion for the construction, enhancement and other improvement of our drilling rigs, including \$813.7 million invested in newbuild construction, \$871.6 million for the repayment of Atwood debt and \$36.2 million for dividend payments.

Explanations of our liquidity and capital resources for each of the years in the three-year period ended December 31, 2019 are set forth below.

Cash Flows and Capital Expenditures

Our cash flows from operating activities of continuing operations and capital expenditures on continuing operations for each of the years in the three-year period ended December 31, 2019 were as follows (in millions):

	2019	2018	2017
Net cash provided by (used in) operating activities of continuing operations	\$ (276.9)	\$ (55.7)	\$ 259.4
Capital expenditures:			
New rig construction	\$ 42.8	\$ 341.1	\$ 429.8
Rig enhancements	114.9	45.2	45.1
Minor upgrades and improvements	69.3	40.4	61.8
	\$ 227.0	\$ 426.7	\$ 536.7

During 2019, cash flows from continuing operations declined by \$221.2 million as compared to the prior year due primarily to costs incurred related to the Rowan Transaction, interest on the debt assumed in the Rowan Transaction and declining margins. As our remaining above-market contracts expire and utilization increases with the execution of new market-rate contracts, coupled with the potential impact of rig reactivation costs, our operating cash flows will remain negative through at least 2020.

During 2018, cash flows from continuing operations declined by \$315.1 million, or 121%, as compared to the prior year due primarily to declining margins and higher cash interest expense due to the debt financing transactions we undertook during the first quarter of 2018.

Based on our current projections, excluding integration-related capital expenditures, we expect capital expenditures during 2020 to approximate \$160.0 million for newbuild construction, rig enhancement projects and minor upgrades and improvements. Approximately \$30 million of our projected capital expenditures is reimbursable by our customers. Depending on market conditions and opportunities, we may reduce our planned expenditures or make additional capital expenditures to upgrade rigs for customer requirements or acquire additional rigs.

Dividends

Our Board of Directors declared a \$0.01 quarterly cash dividend, on a pre-reverse stock split basis, for the first quarter of 2019. Beginning in the second quarter of 2019, our Board of Directors determined that we will not pay

a regular quarterly cash dividend. The declaration and amount of future dividends is at the discretion of our Board of Directors and could change in future periods.

Our revolving credit facility prohibits us from paying dividends in excess of \$0.01 per share per fiscal quarter. Dividends in excess of this amount would require the amendment or waiver of such provision.

Financing and Capital Resources

Debt to Capital

Our total debt, total capital and total debt to total capital ratios as of December 31, 2019, 2018 and 2017 are summarized below (in millions, except percentages):

	2019	2018	2017
Total debt ⁽¹⁾	\$ 6,528.1	\$ 5,161.0	\$ 4,882.8
Total capital ⁽²⁾	\$ 15,839.0	\$ 13,252.4	\$ 13,614.9
Total debt to total capital	41.2%	38.9%	35.9%

⁽¹⁾ Total debt consists of the principal amount outstanding.

⁽²⁾ Total capital consists of total debt and Valaris shareholders' equity.

During 2019, our total debt principal increased by \$1.4 billion and total capital increased by \$2.6 billion as a result of debt acquired and equity issued in connection with the Rowan Transaction (see Note 3 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data").

During 2018, our total debt increased by \$278.2 million and total capital declined by \$362.5 million. Our total debt increased as a result of the debt transactions we undertook during the first quarter of 2018 (see Note 7 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data") and our total capital declined as a result of our net loss incurred in that period, partially offset by the aforementioned increase in our total debt.

Convertible Senior Notes

In December 2016, Enscos Jersey Finance Limited, a wholly-owned subsidiary of Valaris plc, issued \$849.5 million aggregate principal amount of unsecured 2024 Convertible Notes (the "2024 Convertible Notes") in a private offering. The 2024 Convertible Notes are fully and unconditionally guaranteed, on a senior, unsecured basis, by Valaris plc and are exchangeable into cash, our Class A ordinary shares or a combination thereof, at our election. Interest on the 2024 Convertible Notes is payable semiannually on January 31 and July 31 of each year. The 2024 Convertible Notes will mature on January 31, 2024, unless exchanged, redeemed or repurchased in accordance with their terms prior to such date. Holders may exchange their 2024 Convertible Notes at their option any time prior to July 31, 2023 only under certain circumstances set forth in the indenture governing the 2024 Convertible Notes. On or after July 31, 2023, holders may exchange their 2024 Convertible Notes at any time. The exchange rate is 17.8336 shares per \$1,000 principal amount of notes, representing an exchange price of \$56.08 per share, and is subject to adjustment upon certain events. The 2024 Convertible Notes may not be redeemed by us except in the event of certain tax law changes.

The indenture governing the 2024 Convertible Notes contains customary events of default, including failure to pay principal or interest on such notes when due, among others. The indenture also contains certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions. See Note 7 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for additional information on our 2024 Convertible Notes.

Senior Notes

As a result of the Rowan Transaction, we acquired the following debt issued by Rowan Companies, Inc. ("RCI") and guaranteed by Rowan: (1) \$201.4 million in aggregate principal amount of 7.875% unsecured senior notes due 2019, which was repaid at maturity in August 2019, (2) \$620.8 million in aggregate principal amount of 4.875% unsecured senior notes due 2022 (the "Rowan 2022 Notes"), (3) \$398.1 million in aggregate principal amount of 4.75% unsecured senior notes due 2024 (the "Rowan 2024 Notes"), (4) \$500.0 million in aggregate principal amount of 7.375% unsecured senior notes due 2025 (the "Rowan 2025 Notes"), (5) \$400.0 million in aggregate principal amount of 5.4% unsecured senior notes due 2042 (the "Rowan 2042 Notes") and (6) \$400.0 million in aggregate principal amount of 5.85% unsecured senior notes due 2044 (the "Rowan 2044 Notes" and collectively, the "Rowan Notes"). Upon closing of the Rowan Transaction, we terminated Rowan's outstanding credit facilities. On February 3, 2020, Rowan and RCI transferred substantially all their assets on a consolidated basis to Valaris plc, Valaris plc became the obligor on the notes and Rowan and RCI were relieved of their obligations under the notes and the related indenture.

On January 26, 2018, we issued \$1.0 billion aggregate principal amount of unsecured 7.75% senior notes due 2026 at par, net of \$16.5 million in debt issuance costs. Interest on the 2026 Notes is payable semiannually on February 1 and August 1 of each year.

During 2017, we exchanged \$332.0 million aggregate principal amount of unsecured 8.00% senior notes due 2024 (the "8% 2024 Notes") for certain amounts of our outstanding senior notes due 2019, 2020 and 2021. Interest on the 8% 2024 Notes is payable semiannually on January 31 and July 31 of each year.

During 2015, we issued \$700.0 million aggregate principal amount of unsecured 5.20% senior notes due 2025 (the "2025 Notes") at a discount of \$2.6 million and \$400.0 million aggregate principal amount of unsecured 5.75% senior notes due 2044 (the "New 2044 Notes") at a discount of \$18.7 million in a public offering. Interest on the 2025 Notes is payable semiannually on March 15 and September 15 of each year. Interest on the New 2044 Notes is payable semiannually on April 1 and October 1 of each year.

During 2014, we issued \$625.0 million aggregate principal amount of unsecured 4.50% senior notes due 2024 (the "2024 Notes") at a discount of \$0.9 million and \$625.0 million aggregate principal amount of unsecured 5.75% senior notes due 2044 (the "Existing 2044 Notes") at a discount of \$2.8 million. Interest on the 2024 Notes and the Existing 2044 Notes is payable semiannually on April 1 and October 1 of each year. The Existing 2044 Notes together with the New 2044 Notes, the "2044 Notes", are treated as a single series of debt securities under the indenture governing the notes.

During 2011, we issued \$1.5 billion aggregate principal amount of unsecured 4.70% senior notes due 2021 (the "2021 Notes") at a discount of \$29.6 million in a public offering. Interest on the 2021 Notes is payable semiannually on March 15 and September 15 of each year.

Upon consummation of our acquisition of Pride International LLC ("Pride") during 2011, we assumed outstanding debt comprised of \$900.0 million aggregate principal amount of unsecured 6.875% senior notes due 2020, \$500.0 million aggregate principal amount of unsecured 8.5% senior notes due 2019 and \$300.0 million aggregate principal amount of unsecured 7.875% senior notes due 2040 (collectively, the "Acquired Notes" and together with the Rowan Notes, 2021 Notes, 8% 2024 Notes, 2024 Notes, 2025 Notes, 2026 Notes and 2044 Notes, the "Senior Notes"). Valaris plc has fully and unconditionally guaranteed the performance of all Pride obligations with respect to the Acquired Notes. See "Note 17 - Guarantee of Registered Securities" included in "Item 8. Financial Statements and Supplementary Data" for additional information on the guarantee of the Acquired Notes.

We may redeem the Senior Notes in whole at any time, or in part from time to time, prior to maturity. If we elect to redeem the Rowan 2022 Notes, Rowan 2024 Notes, 8% 2024 Notes, 2024 Notes, 2025 Notes, Rowan 2025 Notes and 2026 Notes before the date that is three months prior to the maturity date or the Rowan 2042 Notes, Rowan 2044 Notes and 2044 Notes before the date that is six months prior to the maturity date, we will pay an amount equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest and a "make-whole" premium.

If we elect to redeem these notes on or after the aforementioned dates, we will pay an amount equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest, but we are not required to pay a "make-whole" premium.

We may redeem each series of the 2021 Notes and the Acquired Notes, in whole or in part, at any time at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium.

The indentures governing the Senior Notes contain customary events of default, including failure to pay principal or interest on such notes when due, among others. The indentures governing the Senior Notes also contain certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

Debentures Due 2027

During 1997, Enso International Incorporated issued \$150.0 million of unsecured 7.20% Debentures due 2027 (the "Debentures"). Interest on the Debentures is payable semiannually on May 15 and November 15 of each year. We may redeem the Debentures, in whole or in part, at any time prior to maturity, at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium. During 2009, Valaris plc entered into a supplemental indenture to unconditionally guarantee the principal and interest payments on the Debentures. See "Note 17 - Guarantee of Registered Securities" included in "Item 8. Financial Statements and Supplementary Data" for additional information on the guarantee of the Debentures.

The Debentures and the indenture pursuant to which the Debentures were issued also contain customary events of default, including failure to pay principal or interest on the Debentures when due, among others. The indenture also contains certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

Tender Offers and Open Market Repurchases

On June 25, 2019, we commenced cash tender offers for certain series of senior notes issued by us and Enso International Incorporated and RCI, our wholly-owned subsidiaries. The tender offers expired on July 23, 2019, and we repurchased \$951.8 million of our outstanding senior notes for an aggregate purchase price of \$724.1 million. As a result of the transaction, we recognized a pre-tax gain from debt extinguishment of \$194.1 million, net of discounts, premiums and debt issuance costs.

Concurrent with the issuance of the 2026 Notes in January 2018, we launched cash tender offers for up to \$985.0 million aggregate principal amount of certain series of senior notes issued by us and Pride, our wholly-owned subsidiary, and as a result we repurchased \$595.4 million of our senior notes. Subsequently, we issued a redemption notice for the remaining principal amount of the \$55.0 million principal amount of the 8.50% senior notes due 2019 and repurchased \$71.4 million principal amount of our senior notes due 2020. As a result of these transactions, we recognized a pre-tax loss from debt extinguishment of \$19.0 million, net of discounts, premiums, debt issuance costs and commissions.

During 2017, we repurchased \$194.1 million of our outstanding senior notes on the open market for an aggregate purchase price of \$204.5 million with cash on hand and recognized an insignificant pre-tax loss, net of discounts, premiums and debt issuance costs.

Our tender offers and open market repurchases during the three-year period ended December 31, 2019 are summarized in the following table (in millions):

	Aggregate Principal Amount Repurchased	Aggregate Repurchase Price ⁽¹⁾
<u>Year Ended December 31, 2019</u>		
4.50% Senior notes due 2024	\$ 320.0	\$ 240.0
4.75% Senior notes due 2024	79.5	61.2
8.00% Senior notes due 2024	39.7	33.8
5.20% Senior notes due 2025	335.5	250.0
7.375% Senior notes due 2025	139.2	109.2
7.20% Senior notes due 2027	37.9	29.9
	\$ 951.8	\$ 724.1
<u>Year Ended December 31, 2018</u>		
8.50% Senior notes due 2019	\$ 237.6	\$ 256.8
6.875% Senior notes due 2020	328.0	354.7
4.70% Senior notes due 2021	156.2	159.7
	\$ 721.8	\$ 771.2
<u>Year Ended December 31, 2017</u>		
8.50% Senior notes due 2019	\$ 54.6	\$ 60.1
6.875% Senior notes due 2020	100.1	105.1
4.70% Senior notes due 2021	39.4	39.3
	\$ 194.1	\$ 204.5

⁽¹⁾ Excludes accrued interest paid to holders of the repurchased senior notes.

Exchange Offers

During 2017, we completed exchange offers to exchange our outstanding 2019, 2020 and 2021 notes for the 8% 2024 Notes and cash. The exchange offers resulted in the tender of \$649.5 million aggregate principal amount of our outstanding notes that were settled and exchanged as follows (in millions):

	Aggregate Principal Amount Repurchased	8% Senior Notes Due 2024		Cash Consideration	Total Consideration
	Consideration	Consideration	Consideration	Consideration	Consideration
8.50% Senior notes due 2019	\$ 145.8	\$ 81.6	\$ 81.7	\$ 163.3	
6.875% Senior notes due 2020	129.8	69.3	69.4	138.7	
4.70% Senior notes due 2021	373.9	181.1	181.4	362.5	
	\$ 649.5	\$ 332.0	\$ 332.5	\$ 664.5	

During the year ended December 31, 2017, we recognized a pre-tax loss on the exchange offers of approximately \$6.2 million.

Revolving Credit

Effective upon closing of the Rowan Transaction, we amended our credit facility to, among other changes, increase the borrowing capacity. Previously, our credit facility had a borrowing capacity of \$2.0 billion through

September 2019 that declined to \$1.3 billion through September 2020 and \$1.2 billion through September 2022. Subsequent to the amendment, our borrowing capacity was \$1.7 billion through September 2022. Following the amendment, our borrowing capacity was reduced by \$75 million to \$1.6 billion. The reduction occurred after we became aware that a signatory for a purported lender was not an authorized representative of that lender and therefore concluded the \$75 million was not binding. The credit agreement governing the credit facility includes an accordion feature allowing us to increase the future commitments by up to an aggregate amount not to exceed \$250.0 million.

Advances under the credit facility bear interest at Base Rate or LIBOR plus an applicable margin rate, depending on our credit ratings. We are required to pay a quarterly commitment fee on the undrawn portion of the \$1.6 billion commitment, which is also based on our credit ratings.

On December 6, 2019, Moody's downgraded our corporate family rating from B3 to Caa1 and our senior unsecured notes from Caa1 to Caa2. Previously, in September 2019, Standard & Poor's downgraded our senior unsecured bonds from B to B- and our issuer rating from B- to CCC+. The rating actions did not impact the interest rates applicable to our borrowings and the quarterly commitment fee on the undrawn portion of the \$1.6 billion commitment. The applicable margin rates are 3.25% per annum for Base Rate advances and 4.25% per annum for LIBOR advances. The quarterly commitment fee is 0.75% per annum on the undrawn portion of the \$1.6 billion commitment.

The credit facility requires us to maintain a total debt to total capitalization ratio that is less than or equal to 60% and to provide guarantees from certain of our rig-owning subsidiaries sufficient to meet certain guarantee coverage ratios. The credit facility also contains customary restrictive covenants, including, among others, prohibitions on creating, incurring or assuming certain debt and liens (subject to customary exceptions, including a permitted lien basket that permits us to raise secured debt up to the lesser of \$1 billion or 10% of consolidated tangible net worth (as defined in the credit facility)); entering into certain merger arrangements; selling, leasing, transferring or otherwise disposing of all or substantially all of our assets; making a material change in the nature of the business; paying or distributing dividends on our ordinary shares (subject to certain exceptions, including the ability to pay a quarterly dividend of \$0.01 per share); borrowings, if after giving effect to any such borrowings and the application of the proceeds thereof, the aggregate amount of available cash (as defined in the credit facility) would exceed \$200 million; and entering into certain transactions with affiliates.

The credit facility also includes a covenant restricting our ability to repay indebtedness maturing after September 2022, which is the final maturity date of our credit facility. This covenant is subject to certain exceptions that permit us to manage our balance sheet, including the ability to make repayments of indebtedness (i) of acquired companies within 90 days of the completion of the acquisition or (ii) if, after giving effect to such repayments, available cash is greater than \$250 million and there are no amounts outstanding under the credit facility.

As of December 31, 2019, we were in compliance in all material respects with our covenants under the credit facility. We expect to remain in compliance with our credit facility covenants during 2020. We had no amounts outstanding under the credit facility as of December 31, 2019 and 2018. As of January 31, 2020, we had \$90 million of total outstanding borrowings under our credit facility.

Our access to credit and capital markets is limited because of our credit rating. Our current credit ratings, and any additional actual or anticipated downgrades in our corporate credit ratings or the credit rating of our notes will limit our ability to access credit and capital markets, or to restructure or refinance our indebtedness. In addition, future financings or refinancings will result in higher borrowing costs and may require collateral and/or more restrictive terms and covenants, which may further restrict our operations. Limitations on our ability to access credit and capital markets could have a material adverse impact on our financial position, operating results or cash flows.

Maturities

The descriptions of our senior notes above reflect the original principal amounts issued, which have subsequently changed as a result of our tenders, repurchases, exchanges, redemptions and new debt issuances such that the maturities of our debt at December 31, 2019 were as follows (in millions):

Senior Notes	Original Principal	2016 Tenders, Repurchases and Equity Exchange	2017 Exchange Offers and Repurchases	2018 Tender Offers, Redemption	2019 Tender Offers and Acquired Debt	Remaining Principal
6.875% due 2020	\$ 900.0	\$ (219.2)	\$ (229.9)	\$ (328.0)	\$ —	\$ 122.9
4.70% due 2021	1,500.0	(817.0)	(413.3)	(156.2)	—	113.5
4.875% due 2022 ⁽¹⁾	—	—	—	—	620.8	620.8
3.00% Exchangeable senior notes due 2024	849.5	—	—	—	—	849.5
4.50% due 2024	625.0	(1.7)	—	—	(320.0)	303.3
4.75% due 2024 ⁽¹⁾	—	—	—	—	318.6	318.6
8.00% due 2024	—	—	332.0	—	(39.7)	292.3
5.20% due 2025	700.0	(30.7)	—	—	(335.5)	333.8
7.375% due 2025 ⁽¹⁾	—	—	—	—	360.8	360.8
7.75% due 2026	—	—	—	1,000.0	—	1,000.0
7.20% due 2027	150.0	—	—	—	(37.9)	112.1
7.875% due 2040	300.0	—	—	—	—	300.0
5.40% due 2042 ⁽¹⁾	—	—	—	—	400.0	400.0
5.75% due 2044	1,025.0	(24.5)	—	—	—	1,000.5
5.85% due 2044 ⁽¹⁾	—	—	—	—	400.0	400.0
Total	\$ 6,549.5	\$ (1,155.1)	\$ (511.6)	\$ 278.2	\$ 1,367.1	\$ 6,528.1

⁽¹⁾ These senior notes were acquired in the Rowan Transaction.

Other Financing Arrangements

We filed an automatically effective shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission on November 21, 2017, 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 expires in November 2020.

During 2018, our shareholders approved our current share repurchase program. Subject to certain provisions under English law, including the requirement of the Company to have sufficient distributable reserves, we may repurchase shares up to a maximum of \$500 million in the aggregate from one or more financial intermediaries under the program, but in no case more than 16.3 million shares. The program terminates in May 2023. As of December 31, 2019, there had been no share repurchases under this program. Our credit facility prohibits us from repurchasing our shares, except in certain limited circumstances. Any share repurchases, outside of such limited circumstances, would require the amendment or waiver of such provision.

From time to time, we and our affiliates may repurchase our outstanding senior notes in the open market, in privately negotiated transactions, through tender offers, exchange offers or otherwise, or we may redeem senior notes, pursuant to their terms. In connection with any exchange, we may issue equity, issue new debt (including debt that is structurally senior to our existing senior notes) and/or pay cash consideration. Any future repurchases, exchanges or redemptions will depend on various factors existing at that time. There can be no assurance as to which, if any, of these alternatives (or combinations thereof) we may choose to pursue in the future or, if any such alternatives are pursued, that they will be successful. There can be no assurance that an active trading market will exist for our outstanding senior notes following any such transaction.

Investment in ARO and Notes Receivable from ARO

We consider our investment in ARO to be a significant component of our investment portfolio and an integral part of our long-term capital resources. We expect to receive cash from ARO in the future both from the maturity of our long-term notes receivable and from the distribution of earnings from ARO. The long-term notes receivable earn interest at LIBOR plus two percent and mature during 2027 and 2028.

The distribution of earnings to the joint-venture partners is at the discretion of the ARO Board of Managers, consisting of 50/50 membership of managers appointed by Saudi Aramco and managers appointed by us, with approval required by both shareholders. The timing and amount of any cash distributions to the joint-venture partners cannot be predicted with certainty and will be influenced by various factors, including the liquidity position and long-term capital requirements of ARO. ARO has not made a cash distribution of earnings to its partners since its formation. See Note 4 included in "Item 8. Financial Statements and Supplementary Data" for additional information on our investment in ARO and notes receivable from ARO.

The following table summarizes the maturity schedule of our notes receivable from ARO as of December 31, 2019 (in millions):

Maturity Date	Principal amount
October 2027	\$ 275.2
October 2028	177.7
Total	\$ 452.9

Contractual Obligations

We have various contractual commitments related to our new rig construction and rig enhancement agreements, long-term debt and operating leases. We expect to fund these commitments from existing cash and short-term investments and funds borrowed under our credit facility or other future financing arrangements, including available shipyard financing options for our two drillships under construction. The actual timing of our new rig construction and rig enhancement payments may vary based on the completion of various milestones, which are beyond our control. The following table summarizes our significant contractual obligations as of December 31, 2019 and the periods in which such obligations are due (in millions):

	Payments due by period				
	2020		2021 and 2022		2023 and 2024
	2020	2021 and 2022	2023 and 2024	Thereafter	Total
Principal payments on long-term debt	\$ 122.9	\$ 734.3	\$ 1,763.7	\$ 3,907.2	\$ 6,528.1
Interest payments on long-term debt	377.4	714.8	634.7	2,536.1	4,263.0
New rig construction agreements ⁽¹⁾⁽²⁾	—	248.9	—	—	248.9
Operating leases	25.4	31.0	18.8	17.2	92.4
Total contractual obligations⁽³⁾	\$ 525.7	\$ 1,729.0	\$ 2,417.2	\$ 6,460.5	\$ 11,132.4

⁽¹⁾ During 2019, we entered into amendments to our construction agreements with the shipyard for VALARIS DS-13 and VALARIS DS-14 to provide for, among other things, two-year extensions of the delivery date of each rig in exchange for payment of all accrued holding costs through March 31, 2019, totaling approximately \$23 million. The new delivery dates for the VALARIS DS-13 and VALARIS DS-14 are September 30, 2021 and June 30, 2022, respectively. We can elect to request earlier delivery in certain circumstances. The interest rate on the final milestone payments increased from 5% to 7% per annum from October 1, 2019, for the VALARIS DS-13, and from July 1, 2020, for the VALARIS DS-14, until the actual delivery dates. The final milestone payments and applicable interest are due at the new delivery dates (or, if accelerated, the actual delivery dates) and are estimated to be approximately \$313.3 million in aggregate for both rigs, inclusive of interest, assuming we take delivery on the new delivery date. In lieu of making the final milestone payments, we have the option to take delivery of the rigs and issue a promissory note

for each rig to the shipyard owner for the amount due. If we issue the promissory note to the shipyard owner, we would also be required to provide a guarantee from Valaris plc.

⁽²⁾ Total commitments are based on fixed-price shipyard construction contracts, exclusive of our internal costs associated with project management, commissioning and systems integration testing. Total commitments also exclude holding costs and interest.

⁽³⁾ Contractual obligations do not include \$323.1 million of unrecognized tax benefits, inclusive of interest and penalties, included on our consolidated balance sheet as of December 31, 2019. We are unable to specify with certainty the future periods in which we may be obligated to settle such amounts. In addition, we have a potential obligation to fund ARO for newbuild jackup rigs. In the event ARO has insufficient cash from operations or is unable to obtain third-party financing, each partner may periodically be required to make additional capital contributions to ARO, up to a maximum aggregate contribution of \$1.25 billion from each partner to fund the newbuild program. Each partner's commitment shall be reduced by the actual cost of each newbuild rig, on a proportionate basis. See Note 3 and Note 4 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data." for additional information on the Rowan Transaction and our joint venture with ARO, respectively.

Other Commitments

We have other commitments that we are contractually obligated to fulfill with cash under certain circumstances. These commitments include letters of credit to guarantee our performance as it relates to our drilling contracts, contract bidding, customs duties, tax appeals and other obligations in various jurisdictions. Obligations under these letters of credit are not normally called, as we typically comply with the underlying performance requirement. As of December 31, 2019, we had not been required to make collateral deposits with respect to these agreements. The following table summarizes our other commitments as of December 31, 2019 (in millions):

	Commitment expiration by period					Total
	2020	2021 and 2022	2023 and 2024	Thereafter		
	\$ 82.7	\$ 10.6	\$ —	\$ 6.2		
Letters of credit						\$ 99.5

Liquidity

Our liquidity position as of December 31, 2019, 2018 and 2017 is summarized below (in millions, except ratios):

	2019	2018	2017
Cash and cash equivalents	\$ 97.2	\$ 275.1	\$ 445.4
Short-term investments	—	329.0	440.0
Available credit facility borrowing capacity	1,622.2	2,000.0	2,000.0
Total liquidity	\$ 1,719.4	\$ 2,604.1	\$ 2,885.4
Working capital	\$ 233.7	\$ 781.2	\$ 853.5
Current ratio	1.3	2.5	2.1

We expect to fund our liquidity needs, including contractual obligations and anticipated capital expenditures, as well as working capital requirements, from our cash, and funds borrowed under our credit facility or future financing arrangements, including available shipyard financing options for our two drillships under construction. We may rely on the issuance of debt and/or equity securities in the future to supplement our liquidity needs. As of December 31, 2019, we had no amounts drawn under our credit facility and \$1.6 billion in remaining borrowing capacity.

Our credit facility is an integral part of our financial flexibility and liquidity. We also may rely on the issuance of debt and/or equity securities in the future to supplement our liquidity needs. In addition, we may seek to extend our maturities and reduce the overall principal amount of our debt through exchange offers or other liability management transactions. We have significant financial flexibility within our capital structure, including the ability to issue debt that would be structurally senior to our currently outstanding debt, on both an unsecured and secured basis, subject to restrictions contained in our existing debt arrangements. Our liability management efforts, if undertaken, may be unsuccessful or may not improve our financial position to the extent anticipated.

Our ability to maintain a sufficient level of liquidity to meet our financial obligations will also be dependent upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. For example, if we experience further deterioration in demand for offshore drilling, our ability to maintain a sufficient level of liquidity could be materially and adversely impacted, which could have a material adverse impact on our business, financial condition, results of operations, cash flows and our ability to repay or refinance our debt.

Our access to credit and capital markets is limited because of our credit rating. Our current credit ratings, and any additional actual or anticipated downgrades in our corporate credit ratings or the credit rating of our notes will limit our ability to access credit and capital markets, or to restructure or refinance our indebtedness. In addition, future financings or refinancings will result in higher borrowing costs and may require collateral and/or more restrictive terms and covenants, which may further restrict our operations. Limitations on our ability to access credit and capital markets could have a material adverse impact on our financial position, operating results or cash flows.

Recent Tax Assessments

During 2019, we received income tax assessments totaling approximately €142.0 million (approximately \$159.0 million converted using the current period-end exchange rates) and A\$101 million (approximately \$70.9 million converted at current period-end exchange rates) from taxing authorities in Luxembourg and Australia, respectively. We are contesting these assessments and have filed applications for appeal. During the third quarter of 2019, we made a A\$42 million payment (approximately \$29 million at then-current exchange rates) to the Australian tax authorities to litigate the assessment. We may make a payment to the Luxembourg tax authorities in advance of the final resolution of these assessments. Although the outcome of such assessments cannot be predicted with certainty, unfavorable outcomes could have a material adverse effect on our liquidity. We have recorded a \$119.0 million liability for these assessments as of December 31, 2019. See Note 12 included in "Item 8. Financial Statements and Supplementary Data" for additional information on recent tax assessments.

Effects of Climate Change and Climate Change Regulation

Greenhouse gas ("GHG") emissions have increasingly become the subject of international, national, regional, state and local attention. At the December 2015 Conference of the Parties to the United Nations Framework Convention on Climate Change held in Paris, an agreement was reached that requires countries to review and "represent a progression" in their intended nationally determined contributions to the reduction of GHG emissions, setting GHG emission reduction goals every five years beginning in 2020. This agreement, known as the Paris Agreement, entered into force on November 4, 2016 and, as of February 2019, had been ratified by 187 of the 197 parties to the United Nations Framework Convention on Climate Change, including the United Kingdom, the United States and the majority of the other countries in which we operate. However, in 2019, the United States formally initiated the process of withdrawing from participation in the Paris Agreement, with such withdrawal taking place no earlier than November 4, 2020. In response to the announced withdrawal plan, a number of state and local governments in the United States have expressed intentions to take GHG-related actions by implementing their own programs to reduce GHG emissions. The United Nations Climate Change Conference held in Katowice, Poland in December 2018 adopted further rules regarding the implementation of the Paris Agreement and, in connection with this conference, numerous countries issued commitments to increase their GHG emission reduction targets.

In an effort to reduce GHG emissions, governments have implemented or considered legislative and regulatory mechanisms to institute carbon pricing mechanisms, such as the European Union's Emission Trading System, and to impose technical requirements to reduce carbon emissions. The Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013 now requires all quoted U.K. companies, including Valaris plc, to report their annual GHG emissions in the Company's directors' report.

During 2009, the United States Environmental Protection Agency (the "EPA") officially published its findings that emissions of carbon dioxide, methane and other GHGs present an endangerment to human health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. These findings allowed the agency to proceed with the adoption and implementation of regulations to restrict GHG emissions under existing provisions of the Clean Air Act that establish permitting requirements, including emissions control technology requirements, for certain large stationary sources that are potential major sources of GHG emissions. These requirements for stationary sources took effect on January 2, 2011; however, in June 2014 the U.S. Supreme Court reversed a D.C. Circuit Court of Appeals decision upholding these rules and struck down the EPA's greenhouse gas permitting rules to the extent they impose a requirement to obtain a federal air permit based solely on emissions of greenhouse gases. Large sources of other air pollutants, such as VOC or nitrogen oxides, could still be required to implement process or technology controls and obtain permits regarding emissions of greenhouse gases. The EPA has also adopted rules requiring annual monitoring and reporting of GHG emissions from specified sources in the U.S., including, among others, certain onshore and offshore oil and natural gas production facilities. Although a number of bills related to climate change have been introduced in the U.S. Congress in the past, comprehensive federal climate legislation has not yet been passed by Congress. If such legislation were to be adopted in the U.S., such legislation could adversely impact many industries. In the absence of federal legislation, almost half of the states have begun to address GHG emissions, primarily through the development or planned development of emission inventories or regional GHG cap and trade programs.

Future regulation of GHG emissions could occur pursuant to future treaty obligations, statutory or regulatory changes or new climate change legislation in the jurisdictions in which we operate. Depending on the particular program, we, or our customers, could be required to control GHG emissions or to purchase and surrender allowances for GHG emissions resulting from our operations. It is uncertain whether any of these initiatives will be implemented. If such initiatives are implemented, we do not believe that such initiatives would have a direct, material adverse effect on our financial condition, operating results and cash flows in a manner different than our competitors.

Restrictions on GHG emissions or other related legislative or regulatory enactments could have an indirect effect in those industries that use significant amounts of petroleum products, which could potentially result in a reduction in demand for petroleum products and, consequently, our offshore contract drilling services. We are currently unable to predict the manner or extent of any such effect. Furthermore, one of the long-term physical effects of climate change may be an increase in the severity and frequency of adverse weather conditions, such as hurricanes, which may increase our insurance costs or risk retention, limit insurance availability or reduce the areas in which, or the number of days during which, our customers would contract for our drilling rigs in general and in the Gulf of Mexico in particular. We are currently unable to predict the manner or extent of any such effect.

In addition, there have also been efforts in recent years to influence the investment community, including investment advisors and certain sovereign wealth, pension and endowment funds promoting divestment of fossil fuel equities and pressuring lenders to limit funding to companies engaged in the extraction of fossil fuel reserves. Such environmental activism and initiatives aimed at limiting climate change and reducing air pollution could ultimately interfere with our business activities and operations. Finally, increasing attention to the risks of climate change has resulted in an increased possibility of lawsuits brought by public and private entities against oil and gas companies in connection with their greenhouse gas emissions. Should we be targeted by any such litigation, we may incur liability, which, to the extent that societal pressures or political or other factors are involved, could be imposed without regard to the company's causation of or contribution to the asserted damage, or to other mitigating factors.

MARKET RISK

We use derivatives to reduce our exposure to foreign currency exchange rate risk. Our functional currency is the U.S. dollar. As is customary in the oil and gas industry, a majority of our revenues and expenses are denominated in U.S. dollars; however, a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar. We maintain a foreign currency exchange rate risk management strategy that utilizes derivatives to reduce our exposure to unanticipated fluctuations in earnings and cash flows caused by changes in foreign currency exchange rates.

We utilize cash flow hedges to hedge forecasted foreign currency denominated transactions, primarily to reduce our exposure to foreign currency exchange rate risk on future expected contract drilling expenses and capital expenditures denominated in various foreign currencies. We predominantly structure our drilling contracts in U.S. dollars, which significantly reduces the portion of our cash flows and assets denominated in foreign currencies. As of December 31, 2019, we had cash flow hedges outstanding to exchange an aggregate \$199.1 million for various foreign currencies.

We have net assets and liabilities denominated in numerous foreign currencies and use various strategies to manage our exposure to changes in foreign currency exchange rates. We occasionally enter into derivatives that hedge the fair value of recognized foreign currency denominated assets or liabilities, thereby reducing exposure to earnings fluctuations caused by changes in foreign currency exchange rates. We do not designate such derivatives as hedging instruments. In these situations, a natural hedging relationship generally exists whereby changes in the fair value of the derivatives offset changes in the carrying value of the underlying hedged items. As of December 31, 2019, we held derivatives not designated as hedging instruments to exchange an aggregate \$47.1 million for various foreign currencies.

If we were to incur a hypothetical 10% adverse change in foreign currency exchange rates, net unrealized losses associated with our foreign currency denominated assets and liabilities as of December 31, 2019 would approximate \$27.1 million. Approximately \$1.6 million of these unrealized losses would be offset by corresponding gains on the derivatives utilized to offset changes in the fair value of net assets and liabilities denominated in foreign currencies.

We utilize derivatives and undertake foreign currency exchange rate hedging activities in accordance with our established policies for the management of market risk. We mitigate our credit risk relating to counterparties of our derivatives through a variety of techniques, including transacting with multiple, high-quality financial institutions, thereby limiting our exposure to individual counterparties and by entering into International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreements, which include provisions for a legally enforceable master netting agreement, with our derivative counterparties. The terms of the ISDA agreements may also include credit support requirements, cross default provisions, termination events or set-off provisions. Legally enforceable master netting agreements reduce credit risk by providing protection in bankruptcy in certain circumstances and generally permitting the closeout and netting of transactions with the same counterparty upon the occurrence of certain events.

We do not enter into derivatives for trading or other speculative purposes. We believe that our use of derivatives and related hedging activities reduces our exposure to foreign currency exchange rate risk and does not expose us to material credit risk or any other material market risk. All our derivatives mature during the next 18 months. See Note 8 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for additional information on our derivative instruments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires us to make estimates, judgments and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Our significant accounting policies are included in Note 1 to our consolidated financial statements. These policies, along with our underlying judgments and assumptions made in their application, have a significant impact on our consolidated financial

statements. We identify our critical accounting policies as those that are the most pervasive and important to the portrayal of our financial position and operating results and that require the most difficult, subjective and/or complex judgments regarding estimates in matters that are inherently uncertain. Our critical accounting policies are those related to property and equipment, impairment of long-lived assets, income taxes and pensions.

Property and Equipment

As of December 31, 2019, the carrying value of our property and equipment totaled \$15.1 billion, which represented 89% of total assets. This carrying value reflects the application of our property and equipment accounting policies, which incorporate our estimates, judgments and assumptions relative to the capitalized costs, useful lives and salvage values of our rigs.

We develop and apply property and equipment accounting policies that are designed to appropriately and consistently capitalize those costs incurred to enhance, improve and extend the useful lives of our assets and expense those costs incurred to repair or maintain the existing condition or useful lives of our assets. The development and application of such policies requires estimates, judgments and assumptions relative to the nature of, and benefits from, expenditures on our assets. We establish property and equipment accounting policies that are designed to depreciate our assets over their estimated useful lives. The judgments and assumptions used in determining the useful lives of our property and equipment reflect both historical experience and expectations regarding future operations, utilization and performance of our assets. The use of different estimates, judgments and assumptions in the establishment of our property and equipment accounting policies, especially those involving the useful lives of our rigs, would likely result in materially different asset carrying values and operating results.

The useful lives of our drilling rigs are difficult to estimate due to a variety of factors, including technological advances that impact the methods or cost of oil and natural gas exploration and development, changes in market or economic conditions and changes in laws or regulations affecting the drilling industry. We evaluate the remaining useful lives of our rigs on a periodic basis, considering operating condition, functional capability and market and economic factors.

Property and equipment held-for-sale is recorded at the lower of net book value or fair value less cost to sell.

During 2019, we recorded a pre-tax, non-cash loss on impairment of \$98.4 million related to one floater and one jackup rig, both of which are older, less capable, non-core assets in our fleet. We estimate the aforementioned impairment will cause a decline in depreciation expense of approximately \$8.6 million for the year ended December 31, 2020.

Our fleet of 24 floater rigs, excluding two rigs under construction, represented 64% of the gross cost and 63% of the net carrying amount of our depreciable property and equipment as of December 31, 2019. Our floater rigs are depreciated over useful lives ranging from 10 to 35 years. Our fleet of 50 jackup rigs, represented 31% of both the gross cost and of the net carrying amount of our depreciable property and equipment as of December 31, 2019. Our jackup rigs are depreciated over useful lives ranging from 10 to 30 years.

The following table provides an analysis of estimated increases and decreases in depreciation expense from continuing operations that would have been recognized for the year ended December 31, 2019 for various assumed changes in the useful lives of our drilling rigs effective January 1, 2019:

Increase (decrease) in useful lives of our drilling rigs	Estimated (decrease) increase in depreciation expense that would have been recognized (in millions)
10%	\$(50.8)
20%	(93.2)
(10%)	61.9
(20%)	138.6

Impairment of Property and Equipment

We recorded pre-tax, non-cash losses on impairment of long-lived assets of \$98.4 million, \$40.3 million and \$182.9 million during 2019, 2018 and 2017, respectively. See Note 6 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for additional information on our property and equipment.

We evaluate the carrying value of our property and equipment, primarily our drilling rigs, when events or changes in circumstances indicate that the carrying value of such rigs may not be recoverable. Generally, extended periods of idle time and/or inability to contract rigs at economical rates are an indication that a rig may be impaired. Impairment situations may arise with respect to specific individual rigs, groups of rigs, such as a specific type of drilling rig, or rigs in a certain geographic location.

For property and equipment used in our operations, recoverability generally is determined by comparing the carrying value of an asset to the expected undiscounted future cash flows of the asset. If the carrying value of an asset is not recoverable, the amount of impairment loss is measured as the difference between the carrying value of the asset and its estimated fair value. The determination of expected undiscounted cash flow amounts requires significant estimates, judgments and assumptions, including utilization levels, day rates, expense levels and capital requirements, as well as cash flows generated upon disposition, for each of our drilling rigs. Due to the inherent uncertainties associated with these estimates, we perform sensitivity analysis on key assumptions as part of our recoverability test.

Our judgments and assumptions about future cash flows to be generated by our drilling rigs are highly subjective and based on consideration of the following:

- global macroeconomic and political environment,
- historical utilization, day rate and operating expense trends by asset class,
- regulatory requirements such as surveys, inspections and recertification of our rigs,
- remaining useful lives of our rigs,
- expectations on the use and eventual disposition of our rigs,
- weighted-average cost of capital,
- oil price projections,
- sanctioned and unsanctioned offshore project data,
- offshore economic project break-even data,
- global rig supply and construction orders,
- global rig fleet capabilities and relative rankings, and
- expectations of global rig fleet attrition.

We collect and analyze the above information to develop a range of estimated utilization levels, day rates, expense levels and capital requirements, as well as estimated cash flows generated upon disposition. The most subjective assumptions that impact our impairment analyses include projections of future oil prices and timing of global rig fleet attrition, which, in large part, impact our estimates on timing and magnitude of recovery from the

current industry downturn. However, there are numerous judgments and assumptions unique to the projected future cash flows of each rig that individually, and in the aggregate, can significantly impact the recoverability of its carrying value.

The highly cyclical nature of our industry cannot be reasonably predicted with a high level of accuracy and, therefore, differences between our historical judgments and assumptions and actual results will occur. We reassess our judgments and assumptions in the period in which significant differences are observed and may conclude that a triggering event has occurred and perform a recoverability test. We recognized impairment charges in recent periods upon observation of significant unexpected changes in our business climate and estimated useful lives of certain assets.

There are numerous factors underlying the highly cyclical nature of our industry that are reasonably likely to impact our judgments and assumptions including, but not limited to, the following:

- changes in global economic conditions,
- production levels of the Organization of Petroleum Exporting Countries (“OPEC”),
- production levels of non-OPEC countries,
- advances in exploration and development technology,
- offshore and onshore project break-even economics,
- development and exploitation of alternative fuels,
- natural disasters or other operational hazards,
- changes in relevant law and governmental regulations,
- political instability and/or escalation of military actions in the areas we operate,
- changes in the timing and rate of global newbuild rig construction, and
- changes in the timing and rate of global rig fleet attrition.

There is a wide range of interrelated changes in our judgments and assumptions that could reasonably occur as a result of unexpected developments in the aforementioned factors, which could result in materially different carrying values for an individual rig, group of rigs or our entire rig fleet, materially impacting our operating results.

Income Taxes

We conduct operations and earn income in numerous countries and are subject to the laws of numerous tax jurisdictions. As of December 31, 2019, our consolidated balance sheet included a \$72.4 million net deferred income tax liability, a \$45.6 million liability for income taxes currently payable and a \$323.1 million liability for unrecognized tax benefits, inclusive of interest and penalties.

The carrying values of deferred income tax assets and liabilities reflect the application of our income tax accounting policies and are based on estimates, judgments and assumptions regarding future operating results and levels of taxable income. Carryforwards and tax credits are assessed for realization as a reduction of future taxable income by using a more-likely-than-not determination. We do not offset deferred tax assets and deferred tax liabilities attributable to different tax paying jurisdictions.

We do not provide deferred taxes on the undistributed earnings of certain subsidiaries because our policy and intention is to reinvest such earnings indefinitely. Should we make a distribution from these subsidiaries in the form of dividends or otherwise, we may be subject to additional income taxes.

The carrying values of liabilities for income taxes currently payable and unrecognized tax benefits are based on our interpretation of applicable tax laws and incorporate estimates, judgments and assumptions regarding the use of tax planning strategies in various taxing jurisdictions. The use of different estimates, judgments and assumptions in connection with accounting for income taxes, especially those involving the deployment of tax planning strategies, may result in materially different carrying values of income tax assets and liabilities and operating results.

We operate in several jurisdictions where tax laws relating to the offshore drilling industry are not well developed. In jurisdictions where available statutory law and regulations are incomplete or underdeveloped, we obtain professional guidance and consider existing industry practices before utilizing tax planning strategies and meeting our tax obligations.

Tax returns are routinely subject to audit in most jurisdictions and tax liabilities occasionally are finalized through a negotiation process. In some jurisdictions, income tax payments may be required before a final income tax obligation is determined in order to avoid significant penalties and/or interest. While we historically have not experienced significant adjustments to previously recognized tax assets and liabilities as a result of finalizing tax returns, there can be no assurance that significant adjustments will not arise in the future. In addition, there are several factors that could cause the future level of uncertainty relating to our tax liabilities to increase, including the following:

- During recent years, the number of tax jurisdictions in which we conduct operations has increased, and we currently anticipate that this trend will continue.
- In order to utilize tax planning strategies and conduct operations efficiently, our subsidiaries frequently enter into transactions with affiliates that are generally subject to complex tax regulations and are frequently reviewed and challenged by tax authorities.
- We may conduct future operations in certain tax jurisdictions where tax laws are not well developed, and it may be difficult to secure adequate professional guidance.
- Tax laws, regulations, agreements, treaties and the administrative practices and precedents of tax authorities change frequently, requiring us to modify existing tax strategies to conform to such changes.

Pension and Other Postretirement Benefits

Our pension and other postretirement benefit liabilities and costs are based upon actuarial computations that reflect our assumptions about future events, including long-term asset returns, interest rates, annual compensation increases, mortality rates and other factors. Key assumptions at December 31, 2019, included (i) a weighted average discount rate of 3.16% to determine pension benefit obligations, (ii) a weighted average discount rate of 3.82% to determine net periodic pension cost and (iii), an expected long-term rate of return on pension plan assets of 6.48%. The assumed discount rate is based upon the average yield for Moody's Aa-rated corporate bonds, and the rate of return assumption reflects a probability distribution of expected long-term returns that is weighted based upon plan asset allocations. A one-percentage-point decrease in the assumed discount rate would increase our recorded pension and other postretirement benefit liabilities by approximately \$108.8 million, while a one-percentage-point decrease (increase) in the expected long-term rate of return on plan assets would increase (decrease) annual net benefits cost by approximately \$4.0 million. To develop the expected long-term rate of return on assets assumption, we considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the plans' other asset classes, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based upon the current asset allocation to develop the expected long-term rate of return on assets assumption for the plan, which was 6.48% at December 31, 2019.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for information on new accounting pronouncements.

Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) or 15d-15(f). Our internal control over financial reporting system is designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of consolidated financial statements in accordance with accounting principles generally accepted in the United States, as well as to safeguard assets from unauthorized use or disposition. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, we have concluded that our internal control over financial reporting is effective as of December 31, 2019 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 excluded Rowan Companies plc internal control over financial reporting associated with total revenue of \$135.0 million and total expenses of \$259.0 million included in the consolidated financial statements of Valaris plc and subsidiaries for the year ended December 31, 2019.

KPMG LLP, the independent registered public accounting firm who audited our consolidated financial statements, has issued an audit report on our internal control over financial reporting. KPMG LLP's audit report on our internal control over financial reporting is included herein.

February 21, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Valaris plc:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Valaris plc and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2019 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 21, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of the valuation of property and equipment and investment in joint venture acquired in the Rowan Transaction

As discussed in Notes 1 and 3 to the consolidated financial statements, the Company merged with Rowan Companies plc on April 11, 2019 (the Rowan Transaction). In connection with the Rowan Transaction, the assets acquired and liabilities assumed were recorded at their estimated fair value at the acquisition date. The key assumptions used to estimate the acquisition-date fair values of the acquired property and equipment and investment were forecasted day rates, forecasted utilization and risk-adjusted discount rates. The Company, with the use of a third-

party valuation expert, estimated the fair value of the assets acquired and liabilities assumed at \$4.8 billion and \$2.8 billion, respectively.

We identified the evaluation of the Company's valuation of property and equipment and investment in joint venture acquired in the Rowan Transaction as a critical audit matter. The use of unobservable inputs and subjective assumptions necessary to estimate the fair value of those assets required a high degree of subjective auditor judgment to evaluate the assumptions described above. In addition, the discounted cash flow model included the internally-developed assumptions described above for which there were limited observable market information, and the calculated fair value of such assets was sensitive to possible changes to these assumptions.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's acquisition-date valuation process, including controls over the development of the relevant assumptions listed above. We evaluated the Company's forecasted day rates and utilization by comparing them to historical information, data from the Company's peers and industry reports. We challenged the Company's information and assumptions based on evidence we identified that was contrary to that used by the Company. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the Company's discount rates by comparing the Company's discount rates against discount rate ranges that we independently developed using publicly available market data for comparable entities.

Assessment of property and equipment impairment triggering events

As discussed in Notes 1 and 6 to the consolidated financial statements, the net carrying value of property and equipment as of December 31, 2019 was \$15.1 billion. The Company evaluates the carrying value of property and equipment for impairment, on a quarterly basis, by identifying events or changes in circumstances, including global macroeconomic conditions, that indicate the carrying value may not be recoverable (triggering events). Generally, extended periods of idle time or the inability to contract rigs at economical rates are an indication that a rig may be impaired.

We identified the assessment of property and equipment impairment triggering events as a critical audit matter. The Company's evaluation of possible triggering events uses both internal and external data, including the following key indicators and internally-developed assumptions: historical utilization trends, oil price projections and global rig supply and demand trends. Assessing these indicators and assumptions requires a high degree of subjective auditor judgment to perform procedures and evaluate the audit evidence obtained.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's identification of possible property and equipment impairment triggering events, including controls to develop the indicators and assumptions listed above. We evaluated the information used by the Company in its triggering event assessment by comparing such information to historical information, external third-party expectations, peer company results, and other industry data.

Assessment of income tax positions pertaining to certain transactions

As discussed in Notes 1 and 12 to the consolidated financial statements, the Company evaluates the income tax effect of certain transactions which often require local country tax expertise and judgment. This requires the Company to interpret complex tax laws in multiple jurisdictions to assess if its tax positions have a more than 50 percent likelihood of being sustained with the taxing authorities.

We identified the assessment of income tax positions pertaining to certain transactions as a critical audit matter. Complex auditor judgment was required to: (1) evaluate the Company's assessment that the tax position has a more than 50 percent likelihood of being sustained with the taxing authorities; and (2) evaluate the Company's measurement of the tax effects resulting from these transactions. In addition, specialized skills were required to evaluate the Company's interpretation of tax laws in the applicable jurisdictions.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's income tax process, including controls related to the interpretation of tax laws applicable to certain transactions, assessment that tax positions pertaining to those transactions have a more

than 50 percent likelihood of being sustained with taxing authorities and measurement of the tax effects resulting from those transactions. We involved tax professionals with specialized skills and knowledge, who assisted in reading the Company's documentation and evaluating the Company's interpretation of local tax laws, assessing the likelihood that the tax position has a greater than 50 percent likelihood of being sustained with taxing authorities, and measuring the tax effects resulting from those transactions.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Houston, Texas
February 21, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Valaris plc:

Opinion on Internal Control Over Financial Reporting

We have audited Valaris plc and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 21, 2020 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Rowan Companies plc during 2019, and management excluded from its assessment of the effectiveness of the Company's internal controls over financial reporting as of December 31, 2019, Rowan Companies plc's internal control over financial reporting associated with total revenue of \$135.0 million and total expenses of \$259.0 million included in the consolidated financial statements of the Company for the year ended December 31, 2019. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Rowan Companies plc.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely

detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Houston, Texas
February 21, 2020

VALARIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share amounts)

	Year Ended December 31,		
	2019	2018	2017
OPERATING REVENUES	\$ 2,053.2	\$ 1,705.4	\$ 1,843.0
OPERATING EXPENSES			
Contract drilling (exclusive of depreciation)	1,806.0	1,319.4	1,189.5
Loss on impairment	104.0	40.3	182.9
Depreciation	609.7	478.9	444.8
General and administrative	188.9	102.7	157.8
	2,708.6	1,941.3	1,975.0
EQUITY IN EARNINGS OF ARO	(12.6)	—	—
OPERATING LOSS	(668.0)	(235.9)	(132.0)
OTHER INCOME (EXPENSE)			
Interest income	28.1	14.5	25.8
Interest expense, net	(428.3)	(282.7)	(224.2)
Other, net	1,004.4	(34.8)	134.4
	604.2	(303.0)	(64.0)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(63.8)	(538.9)	(196.0)
PROVISION FOR INCOME TAXES			
Current income tax expense	104.5	33.0	54.2
Deferred income tax expense	23.9	56.6	55.0
	128.4	89.6	109.2
LOSS FROM CONTINUING OPERATIONS	(192.2)	(628.5)	(305.2)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET	—	(8.1)	1.0
NET LOSS	(192.2)	(636.6)	(304.2)
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(5.8)	(3.1)	.5
NET LOSS ATTRIBUTABLE TO VALARIS	\$ (198.0)	\$ (639.7)	\$ (303.7)
LOSS PER SHARE - BASIC AND DILUTED			
Continuing operations	\$ (1.14)	\$ (5.82)	\$ (3.66)
Discontinued operations	—	(0.08)	—
	\$ (1.14)	\$ (5.90)	\$ (3.66)
WEIGHTED-AVERAGE SHARES OUTSTANDING			
Basic and Diluted	173.4	108.5	83.1

The accompanying notes are an integral part of these consolidated financial statements.

VALARIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in millions)

	Year Ended December 31,		
	2019	2018	2017
NET LOSS	\$ (192.2)	\$ (636.6)	\$ (304.2)
OTHER COMPREHENSIVE INCOME (LOSS), NET			
Net changes in pension and other postretirement plan assets and benefit obligations recognized in other comprehensive loss, net of income tax benefits of (\$5.9 million) for the year ended December 31, 2019	(21.7)	—	—
Net change in fair value of derivatives	1.6	(9.7)	8.5
Reclassification of net (gains) losses on derivative instruments from other comprehensive income (loss) into net loss	8.3	(1.0)	.4
Other	(.2)	(.5)	.7
NET OTHER COMPREHENSIVE INCOME (LOSS)	(12.0)	(11.2)	9.6
COMPREHENSIVE LOSS	(204.2)	(647.8)	(294.6)
COMPREHENSIVE (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(5.8)	(3.1)	.5
COMPREHENSIVE LOSS ATTRIBUTABLE TO VALARIS	\$ (210.0)	\$ (650.9)	\$ (294.1)

The accompanying notes are an integral part of these consolidated financial statements.

VALARIS PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share and par value amounts)

	December 31,	
	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 97.2	\$ 275.1
Short-term investments	—	329.0
Accounts receivable, net	520.7	344.7
Other	446.5	360.9
Total current assets	1,064.4	1,309.7
PROPERTY AND EQUIPMENT, AT COST	18,393.8	15,517.0
Less accumulated depreciation	3,296.9	2,900.8
Property and equipment, net	15,096.9	12,616.2
LONG-TERM NOTES RECEIVABLE FROM ARO	452.9	—
INVESTMENT IN ARO	128.7	—
OTHER ASSETS	188.3	97.8
	\$ 16,931.2	\$ 14,023.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 288.2	\$ 210.5
Accrued liabilities and other	417.7	318.0
Current maturities of long-term debt	124.8	—
Total current liabilities	830.7	528.5
LONG-TERM DEBT	5,923.5	5,010.4
OTHER LIABILITIES	867.4	396.0
COMMITMENTS AND CONTINGENCIES		
VALARIS SHAREHOLDERS' EQUITY		
Class A ordinary shares, U.S. \$.40 par value, 205.9 million and 115.2 million shares issued as of December 31, 2019 and 2018	82.4	46.1
Class B ordinary shares, £1 par value, 50,000 shares issued as of December 31, 2019 and 2018	.1	.1
Additional paid-in capital	8,627.8	7,225.0
Retained earnings	671.7	874.2
Accumulated other comprehensive income	6.2	18.2
Treasury shares, at cost, 7.9 million and 5.9 million shares as of December 31, 2019 and 2018	(77.3)	(72.2)
Total Valaris shareholders' equity	9,310.9	8,091.4
NONCONTROLLING INTERESTS	(1.3)	(2.6)
Total equity	9,309.6	8,088.8
	\$ 16,931.2	\$ 14,023.7

The accompanying notes are an integral part of these consolidated financial statements.

VALARIS PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2019	2018	2017
OPERATING ACTIVITIES			
Net loss	\$ (192.2)	\$ (636.6)	\$ (304.2)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities of continuing operations:			
Bargain purchase gain	(637.0)	(1.8)	(140.2)
Depreciation expense	609.7	478.9	444.8
(Gain) loss on debt extinguishment	(194.1)	19.0	2.6
Loss on impairment	104.0	40.3	182.9
Share-based compensation expense	37.3	29.9	34.2
Deferred income tax expense	23.9	56.6	55.0
Amortization, net	(16.8)	(40.2)	(61.6)
Equity in earnings of ARO	12.6	—	—
Other	16.8	4.5	(26.5)
Changes in operating assets and liabilities, net of acquisition	(27.9)	(6.3)	72.4
Contributions to pension plans and other post-retirement benefits	(13.2)	—	—
Net cash provided by (used in) operating activities of continuing operations	(276.9)	(55.7)	259.4
INVESTING ACTIVITIES			
Acquisition of Rowan, net of cash acquired	931.9	—	—
Maturities of short-term investments	474.0	1,030.0	2,042.5
Additions to property and equipment	(227.0)	(426.7)	(536.7)
Purchases of short-term investments	(145.0)	(919.0)	(1,040.0)
Net proceeds from disposition of assets	17.7	11.0	2.8
Acquisition of Atwood, net of cash acquired	—	—	(871.6)
Net cash provided by (used in) investing activities of continuing operations	1,051.6	(304.7)	(403.0)
FINANCING ACTIVITIES			
Reduction of long-term borrowings	(928.1)	(771.2)	(537.0)
Borrowings on credit facility	215.0	—	—
Repayments of credit facility borrowings	(215.0)	—	—
Debt solicitation fees	(9.5)	—	—
Cash dividends paid	(4.5)	(17.9)	(13.8)
Proceeds from issuance of senior notes	—	1,000.0	—
Debt issuance costs	—	(17.0)	(12.0)
Other	(10.2)	(5.7)	(7.7)
Net cash provided by (used in) financing activities	(952.3)	188.2	(570.5)
Net cash provided by (used in) discontinued operations	—	2.5	(.8)
Effect of exchange rate changes on cash and cash equivalents	(.3)	(.6)	.6
DECREASE IN CASH AND CASH EQUIVALENTS	(177.9)	(170.3)	(714.3)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	275.1	445.4	1,159.7
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 97.2	\$ 275.1	\$ 445.4

The accompanying notes are an integral part of these consolidated financial statements.

VALARIS PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

We are a leading provider of offshore contract drilling services to the international oil and gas industry. Exclusive of two rigs under construction and one rigs marked for retirement and classified as held-for-sale, we currently own and operate an offshore drilling rig fleet of 74 rigs, with drilling operations in almost every major offshore market across six continents. Inclusive of our rigs under construction, our fleet includes 16 drillships, eight dynamically positioned semisubmersible rigs, two moored semisubmersible rigs and 50 jackup rigs, nine of which are leased to our 50/50 joint venture with Saudi Aramco. We operate the world's largest fleet amongst competitive rigs, including one of the newest ultra-deepwater fleets in the industry and a leading premium jackup fleet.

Our customers include many of the leading national and international oil companies, in addition to many independent operators. We are among the most geographically diverse offshore drilling companies, with current operations spanning 24 countries on six continents. The markets in which we operate include the Gulf of Mexico, Brazil, the Mediterranean, the North Sea, Norway, the Middle East, West Africa, Australia and Southeast Asia.

We provide drilling services on a day rate contract basis. Under day rate contracts, we provide an integrated service that includes the provision of a drilling rig and rig crews for which we receive a daily rate that may vary between the full rate and zero rate throughout the duration of the contractual term, depending on the operations of the rig. We also may receive lump-sum fees or similar compensation for the mobilization, demobilization and capital upgrades of our rigs. Our customers bear substantially all of the costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well.

Rowan Transaction

On October 7, 2018, we entered into a transaction agreement (the "Transaction Agreement") with Rowan Companies Limited (formerly Rowan Companies plc ("Rowan")) and on April 11, 2019 (the "Transaction Date"), we completed our combination with Rowan pursuant to the Transaction Agreement (the "Rowan Transaction") and changed our name to Ensenco Rowan plc. On July 30, 2019, we changed our name to Valaris plc. Rowan's financial results are included in our consolidated results beginning on the Transaction Date.

As a result of the Rowan Transaction, Rowan shareholders received 2.750 Valaris Class A ordinary shares for each Rowan Class A ordinary share, representing a value of \$43.67 per Rowan share based on a closing price of \$15.88 per Valaris share on April 10, 2019, the last trading day before the Transaction Date. Total consideration delivered in the Rowan Transaction consisted of 88.3 million Valaris shares with an aggregate value of \$1.4 billion. All share and per share data included in this report have been retroactively adjusted to reflect the Reverse Stock Split (as defined herein).

Prior to the Rowan Transaction, Rowan and Saudi Aramco formed a 50/50 joint venture to own, manage and operate drilling rigs offshore Saudi Arabia ("Saudi Aramco Rowan Offshore Drilling Company" or "ARO"). ARO currently owns a fleet of seven jackup rigs, leases another nine jackup rigs from us and has plans to purchase up to 20 newbuild jackup rigs over an approximate 10 year period. In January 2020, ARO ordered the first two newbuild jackups scheduled for delivery in 2022. The rigs we lease to ARO are done so through bareboat charter agreements whereby substantially all operating costs are incurred by ARO. All nine jackup rigs leased to ARO are under three-year contracts with Saudi Aramco. All seven ARO-owned jackup rigs are under long-term contracts with Saudi Aramco.

The Rowan Transaction enhanced the market leadership of the combined company with a fleet of high-specification floaters and jackups and positions us well to meet increasing and evolving customer demand. The

increased scale, diversification and financial strength of the combined company provides us advantages to better serve our customers. Exclusive of two older jackup rigs marked for retirement, Rowan's offshore rig fleet at the Transaction Date consisted of four ultra-deepwater drillships and 19 jackup rigs.

Reverse Stock Split

Upon closing of the Rowan Transaction, we effected a consolidation (being a reverse stock split under English law) where every four existing Class A ordinary shares, each with a nominal value of \$0.10, were consolidated into one Class A ordinary share, each with a nominal value of \$0.40 (the "Reverse Stock Split"). All share and per share data included in this report have been retroactively adjusted to reflect the Reverse Stock Split.

Basis of Presentation—U.K. Companies Act 2006 Section 435 Statement

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP, which the Board of Directors consider to be the most meaningful presentation of our results of operations and financial position. The accompanying consolidated financial statements do not constitute U.K. statutory accounts for the year ended December 31, 2019 and 2018 as required to be prepared under the U.K. Companies Act 2006. The U.K. statutory accounts are prepared in accordance with Financial Reporting Standard 102, the financial reporting standard applicable in the U.K. and Republic of Ireland ("FRS 102"). The auditor has reported on the U.K. statutory accounts for the year ended December 31, 2018; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the U.K. Companies Act 2006. The U.K. statutory accounts for the year ended December 31, 2019 have yet to be finalized and will be delivered to the U.K. registrar of companies during 2020.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Valaris plc, those of our wholly-owned subsidiaries and entities in which we hold a controlling financial interest. All intercompany accounts and transactions have been eliminated. Investments in operating entities in which we have the ability to exercise significant influence, but where we do not control operating and financial policies are accounted for using the equity method. Significant influence generally exists if we have an ownership interest representing between 20% and 50% of the voting stock of the investee. We account for our interest in ARO using the equity method of accounting and only recognize our portion of equity in earnings in our consolidated financial statements. ARO is a variable interest entity; however, we are not the primary beneficiary and therefore do not consolidate ARO.

Pervasiveness of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the related revenues and expenses and disclosures of gain and loss contingencies as of the date of the financial statements. Actual results could differ from those estimates.

Foreign Currency Remeasurement and Translation

Our functional currency is the U.S. dollar. As is customary in the oil and gas industry, a majority of our revenues and expenses are denominated in U.S. dollars; however, a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar. These transactions are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. Most transaction gains and losses, including certain gains and losses on our derivative instruments, are included in other, net, in our consolidated statement of operations. Certain gains and losses from the translation of foreign currency balances of our non-U.S. dollar functional currency subsidiaries are included in accumulated other comprehensive income on our consolidated balance sheet. Net foreign currency exchange losses, inclusive of offsetting fair value derivatives, were

\$7.4 million, \$17.2 million and \$5.1 million, and were included in other, net, in our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively.

Cash Equivalents and Short-Term Investments

Highly liquid investments with maturities of three months or less at the date of purchase are considered cash equivalents. Highly liquid investments with maturities of greater than three months but less than one year at the date of purchase are classified as short-term investments.

Short-term investments consisted of time deposits with initial maturities in excess of three months but less than one year and totaled \$329.0 million as of December 31, 2018. There were no short-term investments as of December 31, 2019. Cash flows from purchases and maturities of short-term investments were classified as investing activities in our consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017. To mitigate our credit risk, our investments in time deposits are diversified across multiple, high-quality financial institutions.

Property and Equipment

All costs incurred in connection with the acquisition, construction, major enhancement and improvement of assets are capitalized, including allocations of interest incurred during periods that our drilling rigs are under construction or undergoing major enhancements and improvements. Costs incurred to place an asset into service are capitalized, including costs related to the initial mobilization of a newbuild drilling rig. Repair and maintenance costs are charged to contract drilling expense in the period in which they are incurred. Upon the sale or retirement of assets, the related cost and accumulated depreciation are removed from the balance sheet, and the resulting gain or loss is included in contract drilling expense.

Our property and equipment is depreciated on a straight-line basis, after allowing for salvage values, over the estimated useful lives of our assets. Drilling rigs and related equipment are depreciated over estimated useful lives ranging from four to 35 years. Buildings and improvements are depreciated over estimated useful lives ranging from seven to 30 years. Other equipment, including computer and communications hardware and software costs, is depreciated over estimated useful lives ranging from three to six years.

We evaluate the carrying value of our property and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For property and equipment used in our operations, recoverability generally is determined by comparing the carrying value of an asset to the expected undiscounted future cash flows of the asset. If the carrying value of an asset is not recoverable, the amount of impairment loss is measured as the difference between the carrying value of the asset and its estimated fair value. Property and equipment held-for-sale is recorded at the lower of net book value or fair value less cost to sell.

We recorded pre-tax, non-cash impairment losses related to long-lived assets of \$104.0 million, \$40.3 million and \$182.9 million during 2019, 2018 and 2017, respectively. See "Note 6 - Property and Equipment" for additional information on our impairment charges.

If the global economy deteriorates and/or our expectations relative to future offshore drilling industry conditions decline, it is reasonably possible that additional impairment charges may occur with respect to specific individual rigs, groups of rigs, such as a specific type of drilling rig, or rigs in a certain geographic location.

Operating Revenues and Expenses

See "Note 2 - Revenue from Contracts with Customers" for information on our accounting policies for revenue recognition and certain operating costs that are deferred and amortized over future periods.

Derivative Instruments

We use derivatives to reduce our exposure to various market risks, primarily foreign currency exchange rate risk. See "Note 8 - Derivative Instruments" for additional information on how and why we use derivatives.

All derivatives are recorded on our consolidated balance sheet at fair value. Derivatives subject to legally enforceable master netting agreements are not offset on our consolidated balance sheet. Accounting for the gains and losses resulting from changes in the fair value of derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. Derivatives qualify for hedge accounting when they are formally designated as hedges and are effective in reducing the risk exposure that they are designated to hedge.

Changes in the fair value of derivatives that are designated as hedges of the variability in expected future cash flows associated with existing recognized assets or liabilities or forecasted transactions ("cash flow hedges") are recorded in accumulated other comprehensive income ("AOCI"). Amounts recorded in AOCI associated with cash flow hedges are subsequently reclassified into contract drilling, depreciation or interest expense as earnings are affected by the underlying hedged forecasted transactions.

Gains and losses on a cash flow hedge, or a portion of a cash flow hedge, that no longer qualifies as effective due to an unanticipated change in the forecasted transaction are recognized currently in earnings and included in other, net, in our consolidated statement of operations based on the change in the fair value of the derivative. When a forecasted transaction becomes probable of not occurring, gains and losses on the derivative previously recorded in AOCI are reclassified currently into earnings and included in other, net, in our consolidated statement of operations.

We occasionally enter into derivatives that hedge the fair value of recognized assets or liabilities but do not designate such derivatives as hedges or the derivatives otherwise do not qualify for hedge accounting. In these situations, a natural hedging relationship generally exists where changes in the fair value of the derivatives offset changes in the fair value of the underlying hedged items. Changes in the fair value of these derivatives are recognized currently in earnings in other, net, in our consolidated statement of operations.

Derivatives with asset fair values are reported in other current assets or other assets, net, on our consolidated balance sheet depending on maturity date. Derivatives with liability fair values are reported in accrued liabilities and other, or other liabilities on our consolidated balance sheet depending on maturity date.

Income Taxes

We conduct operations and earn income in numerous countries. Current income taxes are recognized for the amount of taxes payable or refundable based on the laws and income tax rates in the taxing jurisdictions in which operations are conducted and income is earned.

Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of our assets and liabilities using the enacted tax rates in effect at year-end. A valuation allowance for deferred tax assets is recorded when it is more-likely-than-not that the benefit from the deferred tax asset will not be realized. We do not offset deferred tax assets and deferred tax liabilities attributable to different tax paying jurisdictions.

We operate in certain jurisdictions where tax laws relating to the offshore drilling industry are not well developed and change frequently. Furthermore, we may enter into transactions with affiliates or employ other tax planning strategies that generally are subject to complex tax regulations. As a result of the foregoing, the tax liabilities and assets we recognize in our financial statements may differ from the tax positions taken, or expected to be taken, in our tax returns. Our tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon effective settlement with a taxing authority that has full knowledge of all relevant information.

Interest and penalties relating to income taxes are included in current income tax expense in our consolidated statement of operations.

Our drilling rigs frequently move from one taxing jurisdiction to another based on where they are contracted to perform drilling services. The movement of drilling rigs among taxing jurisdictions may involve a transfer of drilling rig ownership among our subsidiaries through an intercompany rig sale. The pre-tax profit resulting from an intercompany rig sale is eliminated from our consolidated financial statements, and the carrying value of a rig sold in an intercompany transaction remains at historical net depreciated cost prior to the transaction. Our consolidated financial statements do not reflect the asset disposition transaction of the selling subsidiary or the asset acquisition transaction of the acquiring subsidiary. The income tax effects resulting from intercompany rig sales are recognized in earnings in the period in which the sale occurs.

In some instances, we may determine that certain temporary differences will not result in a taxable or deductible amount in future years, as it is more-likely-than-not we will commence operations and depart from a given taxing jurisdiction without such temporary differences being recovered or settled. Under these circumstances, no future tax consequences are expected and no deferred taxes are recognized in connection with such operations. We evaluate these determinations on a periodic basis and, in the event our expectations relative to future tax consequences change, the applicable deferred taxes are recognized or derecognized.

We do not provide deferred taxes on the undistributed earnings of certain subsidiaries because our policy and intention is to reinvest such earnings indefinitely. Should we make a distribution from these subsidiaries in the form of dividends or otherwise, we may be subject to additional income taxes.

The U.S. Tax Cuts and Jobs Act (“U.S. tax reform”) was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law, including a reduction in the statutory income tax rate from 35% to 21% effective January 1, 2018, a one-time transition tax on deemed repatriation of deferred foreign income, a base erosion anti-abuse tax that effectively imposes a minimum tax on certain payments to non-U.S. affiliates, new and revised rules relating to the current taxation of certain income of foreign subsidiaries and revised rules associated with limitations on the deduction of interest. The U.S. Treasury Department issued guidance and continued finalizing rules associated with U.S. tax reform during 2018 and 2019. See "Note 12 - Income Taxes" for additional information.

Share-Based Compensation

We sponsor share-based compensation plans that provide equity compensation to our key employees, officers and non-employee directors. Our Long-Term Incentive Plan (the “2018 LTIP”) allows our Board of Directors to authorize share grants to be settled in cash or shares. Compensation expense for share awards to be settled in shares is measured at fair value on the date of grant and recognized on a straight-line basis over the requisite service period (usually the vesting period). Compensation expense for share awards to be settled in cash is remeasured each quarter with a cumulative adjustment to compensation cost during the period based on changes in our share price. Any adjustments to the compensation cost recognized in our consolidated statement of operations for awards that are forfeited are recognized in the period in which the forfeitures occur. See "Note 10 - Share Based Compensation" for additional information on our share-based compensation.

Pension and Other Post-retirement benefit plans

We measure our actuarially determined obligations and related costs for our defined benefit pension and other post-retirement plans, retiree life and medical supplemental plan benefits, by applying assumptions, the most significant of which include long-term rate of return on plan assets, discount rates and mortality rates. For the long-term rate of return, we develop our assumptions regarding the expected rate of return on plan assets based on historical experience and projected long-term investment returns, and we weight the assumptions based on each plan's asset allocation. For the discount rate, we base our assumptions on a yield curve approach. Actual results may differ from the assumptions included in these calculations. If gains or losses exceed 10% of the greater of the plan assets or plan liabilities, we

amortize such gains or losses into income over either the period of expected future service of active participants, or over the expected average remaining lifetime of all participants.

Fair Value Measurements

We measure certain of our assets and liabilities based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). Level 2 measurements represent inputs that are observable for similar assets or liabilities, either directly or indirectly, other than quoted prices included within Level 1. See "Note 5 - Fair Value Measurements" for additional information on the fair value measurement of certain of our assets and liabilities.

Noncontrolling Interests

Third parties hold a noncontrolling ownership interest in certain of our non-U.S. subsidiaries. Noncontrolling interests are classified as equity on our consolidated balance sheet, and net income attributable to noncontrolling interests is presented separately in our consolidated statement of operations. For each of the years in the three-year period ended December 31, 2019, all income attributable to noncontrolling interest was from continuing operations.

Earnings Per Share

We compute basic and diluted earnings per share ("EPS") in accordance with the two-class method. Net loss attributable to Valaris used in our computations of basic and diluted EPS is adjusted to exclude net income allocated to non-vested shares granted to our employees and non-employee directors. Weighted-average shares outstanding used in our computation of diluted EPS is calculated using the treasury stock method and includes the effect of all potentially dilutive stock options and excludes non-vested shares. In each of the years in the three-year period ended December 31, 2019, our potentially dilutive instruments were not included in the computation of diluted EPS as the effect of including these shares in the calculation would have been anti-dilutive.

The following table is a reconciliation of loss from continuing operations attributable to Valaris shares used in our basic and diluted EPS computations for each of the years in the three-year period ended December 31, 2019 (in millions):

	2019	2018	2017
Loss from continuing operations attributable to Valaris	\$ (198.0)	\$ (631.6)	\$ (304.7)
Income from continuing operations allocated to non-vested share awards	(.1)	(.5)	(.4)
Loss from continuing operations attributable to Valaris shares	\$ (198.1)	\$ (632.1)	\$ (305.1)

Anti-dilutive share awards totaling 300,000, 1.5 million and 2.0 million for the years ended December 31, 2019, 2018 and 2017, respectively, were excluded from the computation of diluted EPS.

We have the option to settle our 3.00% exchangeable senior notes due 2024 (the "2024 Convertible Notes") in cash, shares or a combination thereof for the aggregate amount due upon conversion. See "Note 7 - Debt" for additional information on this issuance. Our intent is to settle the principal amount of the 2024 Convertible Notes in cash upon conversion. If the conversion value exceeds the principal amount (i.e., our share price exceeds the exchange price on the date of conversion), we expect to deliver shares equal to the remainder of our conversion obligation in excess of the principal amount.

During each respective reporting period that our average share price exceeds the exchange price, an assumed number of shares required to settle the conversion obligation in excess of the principal amount will be included in our denominator for the computation of diluted EPS using the treasury stock method. Our average share price did not exceed the exchange price during the years ended December 31, 2019, 2018 and 2017.

New Accounting Pronouncements

Recently adopted accounting pronouncements

Leases - During 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("Update 2016-02"), which requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key qualitative and quantitative information about the entity's leasing arrangements. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. During our evaluation of Update 2016-02, we concluded that our drilling contracts contain a lease component. In July 2018, the FASB issued Accounting Standard Update 2018-11, *Leases (Topic 842), Targeted Improvements*, which (1) provided for a new transition method whereby entities could elect to adopt the Update using a prospective with cumulative catch-up approach (the "effective date method") and (2) provided lessors with a practical expedient, by class of underlying asset, to not separate lease and non-lease components and account for the combined component under Topic 606 when the non-lease component is the predominant element of the combined component. The lessor practical expedient is limited to circumstances in which the lease, if accounted for separately, would be classified as an operating lease under Topic 842. We adopted Update 2016-02, effective January 1, 2019, using the effective date method.

With respect to our drilling contracts, which contain a lease component, we elected to apply the practical expedient to not separate the lease and non-lease components and account for the combined component under Topic 606. With respect to all of our drilling contracts that existed on the adoption date, we concluded that the criteria to elect the lessor practical expedient had been met. As a result, we will continue to recognize the revenue associated with our drilling contracts under Topic 606. Therefore, we do not expect any change in our revenue recognition patterns or disclosures as a result of our adoption of Topic 842.

With respect to leases whereby we are the lessee, we elected several practical expedients afforded under Topic 842. We elected the package of practical expedients permitted under the transition guidance of Topic 842, including the hindsight practical expedient which permits entities to use hindsight in determining the lease term and assessing impairment. We also elected the practical expedient to not separate lease components from non-lease components for all asset classes, with the exception of office space. Furthermore, we also elected the practical expedient that permits entities not to apply the recognition requirements for leases with a term of 12 months or less. Upon adoption of Update 2016-02 on January 1, 2019, we recognized lease liabilities and right-of-use assets of \$64.6 million and \$53.7 million, respectively. See "Note 14 - Leases" for additional information.

Derivatives and Hedging - In August 2017, the Financial Accounting Standards Board (the "FASB") issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("Update 2017-12"), which makes more hedging strategies eligible for hedge accounting, amends presentation and disclosure requirements and changes how companies assess effectiveness, including the elimination of separate measurement and recognition of ineffectiveness on designated hedging instruments. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We adopted Update 2017-12 effective January 1, 2019. As a result, beginning on the effective date, we no longer separately measure and recognize ineffectiveness on our designated cash flow hedges. Update 2017-02 requires a modified retrospective adoption approach whereby amounts previously recorded to earnings for hedge ineffectiveness on hedging relationships that existed as of the adoption date are recorded as a cumulative effect adjustment to opening retained earnings. As of our adoption date, we had no amounts previously recorded for ineffectiveness for hedging relationships that existed as of our adoption date and therefore no cumulative effect adjustment to retained earnings was recorded.

Accounting pronouncements to be adopted

Income Taxes - In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("Update 2019-12"), which removes certain exceptions for investments, intraperiod allocations and interim tax calculations and adds guidance to reduce complexity in accounting for income taxes. We will be required to adopt the amended guidance in annual and interim periods beginning after December 15, 2020, with early adoption permitted. The various amendments in Update 2019-12 are applied on a retrospective basis, modified

retrospective basis and prospective basis, depending on the amendment. We are in the process of evaluating the impact this amendment will have on our consolidated financial statements.

Defined Benefit Plans - In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans* ("Update 2018-14"), which modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. We will be required to adopt the amended guidance in annual and interim reports beginning January 1, 2021, with early adoption permitted. Adoption is required to be applied on a retrospective basis to all periods presented. We will adopt the new standard effective January 1, 2021 and do not expect the adoption of Update 2018-14 to have a material impact on our consolidated financial statements.

Credit Losses - In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("Update 2016-13"), which requires companies to measure credit losses of financial instruments, including customer accounts receivable, utilizing a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Subsequent to the issuance of Update 2016-13, the FASB issued several additional Accounting Standard Updates to clarify implementation guidance, provide narrow-scope improvements and provide additional disclosure guidance. Update 2016-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. We will adopt the new standard effective January 1, 2020 and do not expect the adoption of Update 2016-13 to have a material impact on our consolidated financial statements.

With the exception of the updated standards discussed above, there have been no accounting pronouncements issued and not yet effective that have significance, or potential significance, to our consolidated financial statements.

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Our drilling contracts with customers provide a drilling rig and drilling services on a day rate contract basis. Under day rate contracts, we provide an integrated service that includes the provision of a drilling rig and rig crews for which we receive a daily rate that may vary between the full rate and zero rate throughout the duration of the contractual term, depending on the operations of the rig.

We also may receive lump-sum fees or similar compensation for the mobilization, demobilization and capital upgrades of our rigs. Our customers bear substantially all of the costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well.

Our integrated drilling service provided under each drilling contract is a single performance obligation satisfied over time and comprised of a series of distinct time increments, or service periods. Total revenue is determined for each individual drilling contract by estimating both fixed and variable consideration expected to be earned over the contract term. Fixed consideration generally relates to activities such as mobilization, demobilization and capital upgrades of our rigs that are not distinct performance obligations within the context of our contracts and is recognized on a straight-line basis over the contract term. Variable consideration generally relates to distinct service periods during the contract term and is recognized in the period when the services are performed.

The amount estimated for variable consideration is only recognized as revenue to the extent that it is probable that a significant reversal will not occur during the contract term. We have applied the optional exemption afforded in Update 2014-09, Revenue from Contracts with Customers (Topic 606), and have not disclosed the variable consideration related to our estimated future day rate revenues. The remaining duration of our drilling contracts based on those in place as of December 31, 2019 was between approximately one month and four years.

Day Rate Drilling Revenue

Our drilling contracts provide for payment on a day rate basis and include a rate schedule with higher rates for periods when the drilling unit is operating and lower rates or zero rates for periods when drilling operations are

interrupted or restricted. The day rate invoiced to the customer is determined based on the varying rates applicable to specific activities performed on an hourly basis or other time increment basis. Day rate consideration is allocated to the distinct hourly or other time increment to which it relates within the contract term and is generally recognized consistent with the contractual rate invoiced for the services provided during the respective period. Invoices are typically issued to our customers on a monthly basis and payment terms on customer invoices typically range from 30 to 45 days.

Certain of our contracts contain performance incentives whereby we may earn a bonus based on pre-established performance criteria. Such incentives are generally based on our performance over individual monthly time periods or individual wells. Consideration related to performance bonus is generally recognized in the specific time period to which the performance criteria was attributed.

We may receive termination fees if certain drilling contracts are terminated by the customer prior to the end of the contractual term. Such compensation is recognized as revenue when our performance obligation is satisfied, the termination fee can be reasonably measured and collection is probable.

Mobilization / Demobilization Revenue

In connection with certain contracts, we receive lump-sum fees or similar compensation for the mobilization of equipment and personnel prior to the commencement of drilling services or the demobilization of equipment and personnel upon contract completion. Fees received for the mobilization or demobilization of equipment and personnel are included in operating revenues. The costs incurred in connection with the mobilization and demobilization of equipment and personnel are included in contract drilling expense.

Mobilization fees received prior to commencement of drilling operations are recorded as a contract liability and amortized on a straight-line basis over the contract term. Demobilization fees expected to be received upon contract completion are estimated at contract inception and recognized on a straight-line basis over the contract term. In some cases, demobilization fees may be contingent upon the occurrence or non-occurrence of a future event. In such cases, this may result in cumulative-effect adjustments to demobilization revenues upon changes in our estimates of future events during the contract term.

Capital Upgrade / Contract Preparation Revenue

In connection with certain contracts, we receive lump-sum fees or similar compensation for requested capital upgrades to our drilling rigs or for other contract preparation work. Fees received for requested capital upgrades and other contract preparation work are recorded as a contract liability and amortized on a straight-line basis over the contract term to operating revenues. Costs incurred for capital upgrades are capitalized and depreciated over the useful life of the asset.

Contract Assets and Liabilities

Contract assets represent amounts recognized as revenue but for which the right to invoice the customer is dependent upon our future performance. Once the previously recognized revenue is invoiced, the corresponding contract asset, or a portion thereof, is transferred to accounts receivable. Contract liabilities generally represent fees received for mobilization or capital upgrades.

Contract assets and liabilities are presented net on our consolidated balance sheet on a contract-by-contract basis. Current contract assets and liabilities are included in other current assets and accrued liabilities and other, respectively, and noncurrent contract assets and liabilities are included in other assets and other liabilities, respectively, on our consolidated balance sheets.

The following table summarizes our contract assets and contract liabilities (in millions):

	December 31, 2019	December 31, 2018
Current contract assets	\$ 3.5	\$ 4.0
Current contract liabilities (deferred revenue)	\$ 30.0	\$ 56.9
Noncurrent contract liabilities (deferred revenue)	\$ 9.7	\$ 20.5

Changes in contract assets and liabilities during the period are as follows (in millions):

	Contract Assets	Contract Liabilities
Balance as of January 1, 2019	\$ 4.0	\$ 77.4
Contract assets and liabilities acquired in the Rowan Transaction	8.4	5.3
Revenue recognized in advance of right to bill customer	1.3	—
Increase due to cash received	—	42.9
Decrease due to amortization of deferred revenue that was included in the beginning contract liability balance	—	(56.3)
Decrease due to amortization of deferred revenue that was added during the period	—	(29.6)
Decrease due to transfer to receivables during the period	(10.2)	—
Balance as of December 31, 2019	\$ 3.5	\$ 39.7

Deferred Contract Costs

Costs incurred for upfront rig mobilizations and certain contract preparations are attributable to our future performance obligation under each respective drilling contract. Such costs are deferred and amortized on a straight-line basis over the contract term. Demobilization costs are recognized as incurred upon contract completion. Costs associated with the mobilization of equipment and personnel to more promising market areas without contracts are expensed as incurred. Deferred contract costs were included in other current assets and other assets on our consolidated balance sheets and totaled \$19.7 million and \$23.5 million as of December 31, 2019 and 2018, respectively. Amortization of such costs totaled \$42.1 million, \$34.0 million and \$28.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Deferred Certification Costs

We must obtain certifications from various regulatory bodies in order to operate our drilling rigs and must maintain such certifications through periodic inspections and surveys. The costs incurred in connection with maintaining such certifications, including inspections, tests, surveys and drydock, as well as remedial structural work and other compliance costs, are deferred and amortized on a straight-line basis over the corresponding certification periods. Deferred regulatory certification and compliance costs were included in other current assets and other assets on our consolidated balance sheets and totaled \$10.8 million and \$13.6 million as of December 31, 2019 and 2018, respectively. Amortization of such costs totaled \$10.3 million, \$12.4 million and \$12.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Future Amortization of Contract Liabilities and Deferred Costs

Our contract liabilities and deferred costs are amortized on a straight-line basis over the contract term or corresponding certification period to operating revenues and contract drilling expense, respectively.

Expected future amortization of our contract liabilities and deferred costs recorded as of December 31, 2019 is set forth in the table below (in millions):

	2020	2021	2022	2023 & Thereafter	Total
Amortization of contract liabilities	\$ 30.0	\$ 7.8	\$ 1.9	\$ —	\$ 39.7
Amortization of deferred costs	\$ 23.2	\$ 5.7	\$ 1.2	\$ 0.4	\$ 30.5

3. ROWAN TRANSACTION

On October 7, 2018, we entered into a transaction agreement (the "Transaction Agreement") with Rowan. On April 11, 2019 (the "Transaction Date"), we completed our combination with Rowan pursuant to the Transaction Agreement (the "Rowan Transaction"). Rowan's financial results are included in our consolidating results beginning on the Transaction Date. The Rowan Transaction enhanced the market leadership of the combined company with a fleet of high-specification floaters and jackups and positions us well to meet increasing and evolving customer demand. The increased scale, diversification and financial strength of the combined company provides us advantages to better serve our customers.

Consideration

As a result of the Rowan Transaction, Rowan shareholders received 2.75 Valaris Class A Ordinary shares for each share of Rowan Class A ordinary share, representing a value of \$43.67 per Rowan share based on a closing price of \$15.88 per Valaris share on April 10, 2019, the last trading day before the Transaction Date. Total consideration delivered in the Rowan Transaction consisted of 88.3 million Valaris shares with an aggregate value of \$1.4 billion, inclusive of \$2.6 million for the estimated fair value of replacement employee equity awards. Upon closing of the Rowan Transaction, we effected a consolidation (being a reverse stock split under English law) where every four existing Class A ordinary shares, each with a nominal value of \$0.10, were consolidated into one Class A ordinary share, each with a nominal value of \$0.40 (the "Reverse Stock Split"). All share and per share data included in this report have been retroactively adjusted to reflect the Reverse Stock Split.

Assets and Liabilities Acquired

Valaris is considered to be the acquirer for accounting purposes. As a result, Rowan's assets and liabilities acquired in the Rowan Transaction were recorded at their estimated fair values as of the Transaction Date under the acquisition method of accounting. When the fair value of the net assets acquired exceeds the consideration transferred in an acquisition, the difference is recorded as a bargain purchase gain in the period in which the transaction occurs. With the exception of certain legal and tax exposures as well as the fair value of materials and supplies, we have substantially completed our fair value assessments of assets acquired and liabilities assumed. While certain adjustments may be recorded during the remainder of the measurement period, we do not expect them to be material.

The provisional amounts recorded for assets and liabilities acquired are based on preliminary estimates of their fair values as of the Transaction Date and are as follows (in millions):

	Amounts Recognized as of Transaction Date		Measurement Period Adjustments ⁽¹⁾		Estimated Fair Value
Assets:					
Cash and cash equivalents	\$ 931.9	\$ —	—	\$ 931.9	
Accounts receivable ⁽²⁾	207.1	(3.6)	—	203.5	
Other current assets	101.6	(2.4)	—	99.2	
Long-term notes receivable from ARO	454.5	—	—	454.5	
Investment in ARO	138.8	2.5	—	141.3	
Property and equipment	2,989.8	(25.8)	—	2,964.0	
Other assets	41.7	1.3	—	43.0	
Liabilities:					
Accounts payable and accrued liabilities	259.4	13.7	—	273.1	
Current portion of long-term debt	203.2	—	—	203.2	
Long-term debt	1,910.9	—	—	1,910.9	
Other liabilities	376.3	34.1	—	410.4	
Net assets acquired	2,115.6	(75.8)	—	2,039.8	
Less: Merger consideration	(1,402.8)	—	—	(1,402.8)	
Bargain purchase gain	\$ 712.8	\$ (75.8)	\$ —	\$ 637.0	

⁽¹⁾ The measurement period adjustments reflect changes in the estimated fair values of certain assets and liabilities, primarily related to long-lived assets, deferred income taxes and uncertain tax positions. The measurement period adjustments were recorded to reflect new information obtained about facts and circumstances existing as of the Transaction Date and did not result from subsequent intervening events.

⁽²⁾ Gross contractual amounts receivable totaled \$208.3 million as of the Transaction Date.

Bargain Purchase Gain

The estimated fair values assigned to assets acquired net of liabilities assumed exceeded the consideration transferred, resulting in a bargain purchase gain primarily driven by the decline in our share price from \$33.92 to \$15.88 between the last trading day prior to the announcement of the Rowan Transaction and the Transaction Date.

Transaction-Related Costs

Merger-related costs were expensed as incurred and consisted of various advisory, legal, accounting, valuation and other professional or consulting fees totaling \$18.0 million for the year ended December 31, 2019. These costs are included in general and administrative expense in our consolidated statements of operations.

Materials and Supplies

We recorded materials and supplies at an estimated fair value of \$83.0 million. Materials and supplies consist of consumable parts and supplies maintained on drilling rigs and in shore-based warehouse locations for use in operations and are generally comprised of items of low per unit cost and high reorder frequency. We estimated the fair value of Rowan's materials and supplies primarily using a market approach.

Equity Method Investment in ARO

The equity method investment in ARO was recorded at its estimated fair value as of the Transaction Date. See Note 4 for additional information on ARO. We estimated the fair value of the equity investment primarily by applying an income approach, using projected discounted cash flows of the underlying assets, a risk-adjusted discount rate and an estimated effective income tax rate.

Property and Equipment

Property and equipment acquired in connection with the Rowan Transaction consisted primarily of drilling rigs and related equipment, including four drillships and 19 jackup rigs (exclusive of two jackups marked for retirement). We recorded property and equipment acquired at its estimated fair value of \$3.0 billion. We estimated the fair value of the rigs and equipment by applying an income approach, using projected discounted cash flows, a risk-adjusted discount rate and an estimated effective income tax rate. The estimated remaining useful lives for Rowan's drilling rigs, which ranged from 16 to 35 years based on original estimated useful lives of 30 to 35 years.

Intangible Assets and Liabilities

We recorded intangible assets and liabilities of \$16.2 million and \$2.1 million, respectively, representing the estimated fair value of Rowan's firm contracts in place at the Transaction Date with favorable or unfavorable contract terms compared to then-market day rates for comparable drilling rigs. The various factors considered in the determination of these fair values were (1) the contracted day rate for each contract, (2) the remaining term of each contract, (3) the rig class and (4) the market conditions for each respective rig class at the Transaction Date. The intangible assets and liabilities were calculated based on the present value of the difference in cash flows over the remaining contract term as compared to a hypothetical contract with the same remaining term at an estimated then-current market day rate using a risk-adjusted discount rate and an estimated effective income tax rate.

Amortization of the intangible assets and liabilities resulted in a net reduction in operating revenues of \$3.6 million for the year ended December 31, 2019. The remaining balance of intangible assets and liabilities of \$11.9 million and \$1.4 million, respectively, was included in other assets and other liabilities, respectively, on our consolidated balance sheet of December 31, 2019. These balances will be amortized to operating revenues over the respective remaining contract terms on a straight-line basis. As of December 31, 2019, the remaining terms of the underlying contracts is approximately 2 years. Amortization of these intangibles is expected to result in a reduction to revenue of \$5.1 million and \$5.4 million in 2020 and 2021, respectively.

Pension and Other Post-retirement benefit plans

We remeasured the fair value of plan assets and benefit obligations for the pension and other-post retirement benefit plans assumed as of April 11, 2019. We used a measurement date of April 11, 2019 for determining net periodic benefit costs.

Long-term Debt

We recorded Rowan's long-term debt at its estimated fair value as of the Transaction Date, which was based on quoted market prices as of April 10, 2019.

Deferred Taxes

The Rowan Transaction was executed through the acquisition of Rowan's outstanding ordinary shares and, therefore, the historical tax bases of the acquired assets and liabilities, net operating losses and other tax attributes of Rowan, were acquired as of the Transaction Date. However, adjustments were recorded to recognize deferred tax assets and liabilities for the tax effects of differences between acquisition date fair values and tax bases of assets acquired and liabilities assumed. Additionally, the interaction of our and Rowan's tax attributes that impacted the

deferred taxes of the combined entity were also recognized as part of acquisition accounting. As of the Transaction Date, a decrease of \$99.0 million to Rowan's historical net deferred tax assets was recognized.

Deferred tax assets and liabilities recognized in connection with the Rowan Transaction were measured at rates enacted as of the Transaction Date. Tax rate changes, or any deferred tax adjustments for new tax legislation, following the Transaction Date will be reflected in our operating results in the period in which the change in tax laws or rate is enacted.

Uncertain Tax Positions

Uncertain tax positions assumed in a business combination are measured at the largest amount of the tax benefit that is greater than 50% likely of being realized upon effective settlement with a taxing authority that has full knowledge of all relevant information. As of the Transaction Date, Rowan had previously recognized net liabilities for uncertain tax positions totaling \$50.4 million.

During 2019, we received income tax assessments from Luxembourg tax authorities related to certain filing positions taken by Rowan in prior years for several of Rowan's Luxembourg subsidiaries totaling approximately €142.0 million (approximately \$159.0 million converted using the current period-end exchange rate). We are contesting these assessments and have filed applications for appeal. As of the Transaction Date, we recognized liabilities under acquisition accounting of €47.0 million (approximately \$52.0 million converted using the current period-end exchange rate) in connection with the Luxembourg assessments, which reflected the amount of the Rowan filing positions that we concluded, on a preliminary basis, we would not more-likely-than-not sustain. As a result of our continued review and analysis of facts and circumstances that existed at the Transaction Date, we recognized additional liabilities of €46.0 million (approximately \$52.6 million converted using the current period-end exchange rate) as measurement period adjustments.

As a result, the amount recognized on our consolidated balance sheet related to the Luxembourg income tax assessments totaled €93.0 million (approximately \$104.6 million converted using the current period-end exchange rates) as of December 31, 2019. Our ongoing evaluation of the relevant facts and circumstances surrounding these positions may result in further revisions to this estimate, which could be material. We cannot predict or provide assurance as to the ultimate outcome of the Luxembourg tax assessments.

Revenues and Earnings of Rowan

Our consolidated statement of operations for the year ending December 31, 2019 included revenues of \$448.0 million and net losses of \$122.7 million.

Unaudited Pro Forma Impact of the Rowan Transaction

The following unaudited supplemental pro forma results present consolidated information as if the Rowan Transaction was completed on January 1, 2018. The pro forma results include, among others, (1) the amortization associated with acquired intangible assets and liabilities, (2) a reduction in depreciation expense for adjustments to property and equipment, (3) the amortization of premiums and discounts recorded on Rowan's debt, (4) removal of the historical amortization of unrealized gains and losses related to Rowan's pension plans and (5) the amortization of basis differences in assets and liabilities of ARO. The pro forma results do not include any potential synergies or non-recurring charges that may result directly from the Rowan Transaction.

(unaudited)
(in millions, except per share amounts)

	Year Ended	
	2019⁽¹⁾	2018⁽²⁾
Revenues	\$ 2,240.5	\$ 2,530.4
Net loss	\$ (994.3)	\$ (796.5)
Earnings per share - basic and diluted	\$ (3.80)	\$ (4.05)

⁽¹⁾ Pro forma net loss per share was adjusted to exclude an aggregate \$108.1 million of transaction-related and integration costs incurred by Ensco and Rowan during 2019 and the \$637.0 million bargain purchase gain.

⁽²⁾ Pro forma net loss per share was adjusted to exclude an aggregate \$13.8 million of transaction-related and integration costs incurred by Ensco and Rowan during 2018.

4. EQUITY METHOD INVESTMENT IN ARO

Background

During 2016, Rowan and Saudi Aramco entered into an agreement to create a 50/50 joint venture (the "Shareholders' Agreement") to own, manage and operate offshore drilling rigs in Saudi Arabia. The new entity, ARO, was formed in May 2017 with each of Rowan and Saudi Aramco contributing \$25 million to be used for working capital needs.

In October 2017, Rowan sold rigs Bob Keller, J.P. Bussell and Gilbert Rowe to ARO and Saudi Aramco sold SAR 201 and related assets to ARO in each case for cash. Upon completion of the rig sales, ARO was deemed to have commenced operations. Saudi Aramco subsequently sold another rig, SAR 202, to ARO in December 2017 for cash and in October 2018, Rowan sold two additional jackup rigs, the Scooter Yeargain and the Hank Boswell, to ARO for cash. As a result of these rig sales, ARO owned seven jackup rigs as of the Transaction Date.

During 2017 and 2018, Rowan contributed cash to ARO in exchange for 10-year shareholder notes receivable at a stated interest rate of LIBOR plus two percent. As of December 31, 2019, the carrying amount of the long-term notes receivable from ARO was \$452.9 million. The Shareholders' Agreement prohibits the sale or transfer of the shareholder note to a third party, except in certain limited circumstances.

Rigs purchased by ARO will receive contracts from Saudi Aramco for an aggregate 15 years, renewed and re-priced every three years, provided that the rigs meet the technical and operational requirements of Saudi Aramco. Each of the seven rigs owned by ARO is currently operating under its initial three-year contract.

Additionally, prior to the Rowan Transaction, Rowan entered into agreements with ARO to lease nine rigs to ARO (the "Lease Agreements"). The rigs are leased to ARO through bareboat charter arrangements whereby substantially all operating costs are incurred by ARO. As of December 31, 2019, all nine of the rigs were operating under three-year drilling contracts with Saudi Aramco.

Valaris and Saudi Aramco have agreed to take all steps necessary to ensure that ARO purchases 20 newbuild jackup rigs ratably over an approximate 10 -year period. In January 2020, ARO ordered the first two newbuild jackups, each with a price of \$176 million, for delivery scheduled in 2022. The partners intend for the newbuild jackup rigs to be financed out of available cash from ARO's operations and/or funds available from third-party debt financing. In the event ARO has insufficient cash from operations or is unable to obtain third-party financing, each partner may periodically be required to make additional capital contributions to ARO, up to a maximum aggregate contribution of \$1.25 billion from each partner to fund the newbuild program. Each partner's commitment shall be reduced by the actual cost of each newbuild rig, on a proportionate basis. The partners agreed that Saudi Aramco, as a customer, will provide drilling contracts to ARO in connection with the acquisition of the newbuild rigs. The initial contracts provided by Saudi Aramco for each of the newbuild rigs will be for an eight-year term. The day rate for the initial contracts for each newbuild rig will be determined using a pricing mechanism that targets a six-year payback period for construction

costs on an EBITDA basis. The initial eight-year contracts will be followed by a minimum of another eight years of term, re-priced in three-year intervals based on a market pricing mechanism.

Upon establishment of ARO, Rowan also entered into (1) an agreement to provide certain back-office services for a period of time until ARO develops its own infrastructure (the "Transition Services Agreement"), and (2) an agreement to provide certain Rowan employees through secondment arrangements to assist with various onshore and offshore services for the benefit of ARO (the "Secondment Agreement"). These agreements remain in place subsequent to the Rowan Transaction. Pursuant to these agreements, we or our seconded employees provide various services to ARO, and in return, ARO provides remuneration for those services. From time to time, we may also sell equipment or supplies to ARO.

Summarized Financial Information

The operating revenues of ARO presented below reflect revenues earned under drilling contracts with Saudi Aramco for the seven ARO-owned jackup rigs and the rigs leased from us that operated from the Transaction Date through December 31, 2019.

The contract drilling expenses, depreciation and general and administrative expenses presented below are also for the period from the Transaction Date through December 31, 2019. Contract drilling expense is inclusive of the bareboat charter fees for the rigs leased from us. Cost incurred under the Secondment Agreement are included in contract drilling expense and general and administrative, depending on the function to which the seconded employee's service relates. Substantially all costs incurred under the Transition Services Agreement are included in general and administrative. See additional discussion below regarding these related-party transactions.

Summarized financial information for ARO is as follows (in millions):

	April 11, 2019 - December 31, 2019
Revenues	\$ 410.5
Operating expenses	
Contract drilling (exclusive of depreciation)	280.2
Depreciation	40.3
General and administrative	27.1
Operating income	62.9
Other expense, net	28.6
Provision for income taxes	9.7
Net income	\$ 24.6

	December 31, 2019
Current assets	\$ 407.2
Non-current assets	874.8
Total assets	\$ 1,282.0
Current liabilities	\$ 183.2
Non-current liabilities	1,015.5
Total liabilities	\$ 1,198.7

Equity in Earnings of ARO

We account for our interest in ARO using the equity method of accounting and only recognize our portion of ARO's net income, adjusted for basis differences as discussed below, which is included in equity in earnings of ARO

in our consolidated statements of operations. ARO is a variable interest entity; however, we are not the primary beneficiary and therefore do not consolidate ARO. Judgments regarding our level of influence over ARO included considering key factors such as: each partner's ownership interest, representation on the board of managers of ARO and ability to direct activities that most significantly impact ARO's economic performance, including the ability to influence policy-making decisions.

As a result of the Rowan Transaction, we recorded our equity method investment in ARO at its estimated fair value on the Transaction Date. Additionally, we computed the difference between the fair value of ARO's net assets and the carrying value of those net assets in ARO's US GAAP financial statements ("basis differences"). The basis differences primarily relate to ARO's long-lived assets and the recognition of intangible assets associated with certain of ARO's drilling contracts that were determined to have favorable terms as of the Transaction Date. The basis differences are amortized over the remaining life of the assets or liabilities to which they relate and are recognized as an adjustment to the equity in earnings of ARO in our consolidated statements of operations. The amortization of those basis differences are combined with our 50% interest in ARO's net income. A reconciliation of those components is presented below (in millions):

	April 11, 2019 - December 31, 2019
50% interest in ARO net income	\$ 12.3
Amortization of basis differences	(24.9)
Equity in earnings of ARO	\$ (12.6)

Related-Party Transactions

Revenues recognized by us related to the Lease Agreements, Transition Services Agreement and Secondment Agreement are as follows (in millions):

	Year Ended December 31, 2019
Lease revenue	\$ 58.2
Secondment revenue	49.9
Transition Services revenue	17.3
Total revenue from ARO ⁽¹⁾	\$ 125.4

⁽¹⁾ All of the revenues presented above are included in our Other segment in our segment disclosures. See Note 15 for additional information.

Amounts receivable from ARO related to the above items totaled \$21.8 million as of December 31, 2019 and are included in accounts receivable, net, on our consolidated balance sheet. Accounts payable to ARO totaled \$0.7 million as of December 31, 2019.

We also have an agreement between us and ARO, pursuant to which ARO will reimburse us for certain capital expenditures related to the shipyard upgrade projects for VALARIS JU-147 and VALARIS JU-148. As of December 31, 2019, \$14.2 million related to reimbursement of these expenditures was included in accounts receivable, net, on our consolidated balance sheet.

During 2017 and 2018, Rowan contributed cash to ARO in exchange for 10-year shareholder notes receivable at a stated interest rate of LIBOR plus two percent. Interest is recognized as interest income in our consolidated statement of operations and totaled \$16.8 million for the period from the Transaction Date through December 31, 2019, respectively. As of December 31, 2019, we had no interest receivable from ARO.

The following table summarizes the maturity schedule of our notes receivable from ARO as of December 31, 2019 (in millions):

Maturity Date	Principal Amount
October 2027	\$ 275.2
October 2028	177.7
Total	\$ 452.9

Maximum Exposure to Loss

The following summarizes the total assets and liabilities as reflected in our consolidated balance sheet as well as our maximum exposure to loss related to ARO (in millions). Our maximum exposure to loss is limited to (1) our equity investment in ARO; (2) the outstanding balance on our shareholder notes receivable; and (3) other receivables for services provided to ARO, partially offset by payables for services received.

	December 31, 2019
Total assets	\$ 623.5
Less: total liabilities	.7
Maximum exposure to loss	\$ 622.8

5. FAIR VALUE MEASUREMENTS

The following fair value hierarchy table categorizes information regarding our financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018 (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>As of December 31, 2019</u>				
Supplemental executive retirement plan assets	\$ 26.0	\$ —	\$ —	\$ 26.0
Derivatives, net	—	5.4	—	5.4
Total financial assets	\$ 26.0	\$ 5.4	\$ —	\$ 31.4
<u>As of December 31, 2018</u>				
Supplemental executive retirement plan assets	\$ 27.2	\$ —	\$ —	\$ 27.2
Total financial assets	27.2	—	—	27.2
Derivatives, net	—	(10.7)	—	(10.7)
Total financial liabilities	\$ —	\$ (10.7)	\$ —	\$ (10.7)

Supplemental Executive Retirement Plans

Our Valaris supplemental executive retirement plans (the "SERPs") are non-qualified plans that provide eligible employees an opportunity to defer a portion of their compensation for use after retirement. The SERPs were frozen to the entry of new participants in November 2019 and to future compensation deferrals as of January 1, 2020. Assets held in the SERP were marketable securities measured at fair value on a recurring basis using Level 1 inputs and were included in other assets, net, on our consolidated balance sheets as of December 31, 2019 and 2018. The fair value measurements of assets held in the SERP were based on quoted market prices. Net unrealized gains of \$5.0

million, losses of \$700,000 and gains of \$4.5 million from marketable securities held in our SERP were included in other, net, in our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively.

Derivatives

Our derivatives were measured at fair value on a recurring basis using Level 2 inputs as of December 31, 2019 and 2018. See "Note 8 - Derivative Instruments" for additional information on our derivatives, including a description of our foreign currency hedging activities and related methodologies used to manage foreign currency exchange rate risk. The fair value measurements of our derivatives were based on market prices that are generally observable for similar assets or liabilities at commonly quoted intervals.

Other Financial Instruments

The carrying values and estimated fair values of our debt instruments as of December 31, 2019 and 2018 were as follows (in millions):

	December 31, 2019		December 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
6.875% Senior notes due 2020	\$ 124.8	\$ 117.3	\$ 127.5	\$ 121.6
4.70% Senior notes due 2021	113.2	95.5	112.7	101.8
4.875% Senior notes due 2022 ⁽²⁾	599.2	460.5	—	—
3.00% Exchangeable senior notes due 2024 ⁽¹⁾	699.0	607.4	666.8	575.5
4.50% Senior notes due 2024	302.0	167.2	619.8	405.2
4.75% Senior notes due 2024 ⁽²⁾	276.5	201.4	—	—
8.00% Senior notes due 2024	295.7	181.7	337.0	273.7
5.20% Senior notes due 2025	331.7	186.7	664.4	443.9
7.375% Senior notes due 2025 ⁽²⁾	329.2	218.6	—	—
7.75% Senior notes due 2026	987.1	575.1	985.0	725.5
7.20% Debentures due 2027	111.7	70.0	149.3	109.1
7.875% Senior notes due 2040	373.3	153.5	375.0	223.2
5.40% Senior notes due 2042 ⁽²⁾	262.8	194.4	—	—
5.75% Senior notes due 2044	973.3	450.0	972.9	566.3
5.85% Senior notes due 2044 ⁽²⁾	268.8	194.8	—	—
Total debt	\$ 6,048.3	\$ 3,874.1	\$ 5,010.4	\$ 3,545.8
Less: current maturities	124.8	—	—	—
Total long-term debt	\$ 5,923.5	\$ 3,874.1	\$ 5,010.4	\$ 3,545.8

⁽¹⁾ Our 2024 Convertible Notes were issued with a conversion feature. The 2024 Convertible Notes were separated into their liability and equity components on our consolidated balance sheet. The equity component was initially recorded to additional paid-in capital and as a debt discount that will be amortized to interest expense over the life of the instrument. Excluding the unamortized discount, the carrying value of the 2024 Convertible Notes was \$838.3 million and \$836.3 million as of December 31, 2019 and 2018, respectively. See "Note 7 - Debt" for additional information on this issuance.

⁽²⁾ These senior notes were assumed by Valaris as a result of the Rowan Transaction.

The estimated fair values of our senior notes and debentures were determined using quoted market prices, which are level 1 inputs. The estimated fair values of our cash and cash equivalents, short-term investments, accounts

receivable, notes receivable, trade payables and other liabilities approximated their carrying values as of December 31, 2019 and 2018. Our short-term investments consisted of time deposits with initial maturities in excess of three months but less than one year as of December 31, 2018.

6. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 and 2018 consisted of the following (in millions):

	2019	2018
Drilling rigs and equipment	\$ 17,714.0	\$ 14,542.5
Work-in-progress	473.6	779.2
Other	206.2	195.3
	\$ 18,393.8	\$ 15,517.0

Drilling rigs and equipment as of December 31, 2019 increased by \$3.2 billion, or 22%, as compared to prior period, primarily due to \$3.0 billion of assets acquired from the Rowan Transaction, and \$385.0 million due to VALARIS JU-123 which was placed into service in the current period.

Work-in-progress as of December 31, 2019 primarily consisted of \$417.4 million related to the construction of ultra-deepwater drillships VALARIS DS-13 and VALARIS DS-14.

Work-in-progress as of December 31, 2018 primarily consisted of \$416.8 million related to the construction of ultra-deepwater drillships VALARIS DS-13 and VALARIS DS-14 and \$352.4 million related to the construction of VALARIS JU-123, an ultra-premium harsh environment jackup rig.

VALARIS JU-123 was placed into service and reclassified from work-in-progress to drilling rigs and equipment during the year ended December 31, 2019.

Impairment of Long-Lived Assets

On a quarterly basis, we evaluate the carrying value of our property and equipment to identify events or changes in circumstances ("triggering events") that indicate the carrying value may not be recoverable. Together with the Rowan Transaction, and as a result of the evaluation of the strategy of the combined fleet, we determined that a triggering event occurred resulting in the performance of a fleet-wide recoverability test. We determined that estimated undiscounted cash flows were sufficient to cover the rigs carrying values and concluded that no impairments were necessary.

During 2019, we recorded a pre-tax, non-cash loss on impairment of \$98.4 million on two older, non-core assets in our fleet upon classification as held-for-sale. We determined that the fair value less cost to sell was lower than each rig's carrying value and concluded that the rigs were impaired.

During 2018, we recorded a pre-tax, non-cash loss on impairment of \$40.3 million related to one older non-core jackup rig. We concluded that a triggering event occurred due to the expiration of a legacy higher day rate contract resulting in the performance of a recoverability test. We determined that the estimated undiscounted cash flows over the remaining useful life of the rig were not sufficient to recover the rig's carrying value and concluded the rig was impaired as of December 31, 2018.

During 2017, we recognized a pre-tax, non-cash loss on impairment of \$182.9 million related to older, less capable, non-core assets in our fleet. We determined that the remaining useful life of certain non-core rigs would not extend substantially beyond their current contracts, resulting in triggering events and the performance of recoverability tests. Our estimates of undiscounted cash flows over the revised estimated remaining useful lives were not sufficient

to recover each asset's carrying value. Accordingly, we concluded that two semisubmersibles and one jackup were impaired as of December 31, 2017.

For rigs classified as held-for-sale, we recorded an impairment for the difference between their carrying value and the fair value less costs to sell. We estimated fair value using significant other observable inputs including indicative scrap values based on historical sale prices.

For rigs whose carrying values were determined not to be recoverable, we recorded an impairment for the difference between their fair values and carrying values. We estimated the fair values of these rigs by applying an income approach, using projected discounted cash flows. These valuations were based on unobservable inputs that require significant judgments for which there is limited information, including assumptions regarding future day rates, utilization, operating costs and capital requirements. Forecasted day rates and utilization took into account market conditions and our anticipated business outlook.

If the global economy, our overall business outlook and/or our expectations regarding the marketability of one or more of our drilling rigs deteriorate further, we may conclude that a triggering event has occurred and perform a recoverability test that could lead to a material impairment charge in future periods.

7. DEBT

The carrying value of our long-term debt as of December 31, 2019 and 2018 consisted of the following (in millions):

	2019	2018
6.875% Senior notes due 2020	\$ 124.8	\$ 127.5
4.70% Senior notes due 2021	113.2	112.7
4.875% Senior notes due 2022 ⁽³⁾	599.2	—
3.00% Exchangeable senior notes due 2024 ⁽²⁾	699.0	666.8
4.50% Senior notes due 2024 ⁽¹⁾	302.0	619.8
4.75% Senior notes due 2024 ⁽³⁾	276.5	—
8.00% Senior notes due 2024 ⁽¹⁾	295.7	337.0
5.20% Senior notes due 2025 ⁽¹⁾	331.7	664.4
7.375% Senior notes due 2025 ⁽³⁾	329.2	—
7.75% Senior notes due 2026	987.1	985.0
7.20% Debentures due 2027 ⁽¹⁾	111.7	149.3
7.875% Senior notes due 2040	373.3	375.0
5.40% Senior notes due 2042 ⁽³⁾	262.8	—
5.75% Senior notes due 2044	973.3	972.9
5.85% Senior notes due 2044 ⁽³⁾	268.8	—
Total debt	\$ 6,048.3	\$ 5,010.4
Less: current maturities	124.8	—
Total long-term debt	\$ 5,923.5	\$ 5,010.4

⁽¹⁾ The decline in the carrying value of our 4.50% and 8.00% senior notes due 2024, 5.20% senior notes due 2025 and 7.20% debentures due 2027 resulted from repurchases made pursuant to the tender offer discussed below.

⁽²⁾ Our 2024 Convertible Notes were issued with a conversion feature. The 2024 Convertible Notes were separated into their liability and equity components on our consolidated balance sheet. The equity component was initially recorded to additional paid-in capital and as a debt discount that will be amortized to interest expense over the

life of the instrument. Excluding the unamortized discount, the carrying value of the 2024 Convertible Notes was \$838.3 million and \$836.3 million as of December 31, 2019 and 2018, respectively.

⁽³⁾ These senior notes were acquired in the Rowan Transaction.

2024 Convertible Notes

In December 2016, Enscos Jersey Finance Limited, a wholly-owned subsidiary of Valaris plc, issued \$849.5 million aggregate principal amount of unsecured 2024 Convertible Notes in a private offering. The 2024 Convertible Notes are fully and unconditionally guaranteed, on a senior, unsecured basis, by Valaris plc and are exchangeable into cash, our Class A ordinary shares or a combination thereof, at our election. Interest on the 2024 Convertible Notes is payable semiannually on January 31 and July 31 of each year. The 2024 Convertible Notes will mature on January 31, 2024, unless exchanged, redeemed or repurchased in accordance with their terms prior to such date. Holders may exchange their 2024 Convertible Notes at their option any time prior to July 31, 2023 only under certain circumstances set forth in the indenture governing the 2024 Convertible Notes. On or after July 31, 2023, holders may exchange their 2024 Convertible Notes at any time. The exchange rate is 17.8336 shares per \$1,000 principal amount of notes, representing an exchange price of \$56.08 per share, and is subject to adjustment upon certain events. The 2024 Convertible Notes may not be redeemed by us except in the event of certain tax law changes.

Upon conversion of the 2024 Convertible Notes, holders will receive cash, our Class A ordinary shares or a combination thereof, at our election. Our intent is to settle the principal amount of the 2024 Convertible Notes in cash upon conversion. If the conversion value exceeds the principal amount (i.e., our share price exceeds the exchange price on the date of conversion), we expect to deliver shares equal to our conversion obligation in excess of the principal amount. During each respective reporting period that our average share price exceeds the exchange price, an assumed number of shares required to settle the conversion obligation in excess of the principal amount will be included in the denominator for our computation of diluted EPS using the treasury stock method. See "Note 1 - Description of the Business and Summary of Significant Accounting Policies" for additional information regarding the impact to our EPS.

The 2024 Convertible Notes were separated into their liability and equity components and included in long-term debt and additional paid-in capital on our consolidated balance sheet, respectively. The carrying amount of the liability component was calculated by measuring the estimated fair value of a similar liability that does not include an associated conversion feature. The carrying amount of the equity component representing the conversion feature was determined by deducting the fair value of the liability component from the principal amount of the 2024 Convertible Notes. The difference between the carrying amount of the liability and the principal amount is amortized to interest expense over the term of the 2024 Convertible Notes, together with the coupon interest, resulting in an effective interest rate of approximately 8% per annum. The equity component is not remeasured if we continue to meet certain conditions for equity classification.

The costs related to the issuance of the 2024 Convertible Notes were allocated to the liability and equity components based on their relative fair values. Issuance costs attributable to the liability component are amortized to interest expense over the term of the notes and the issuance costs attributable to the equity component were recorded to additional paid-in capital on our consolidated balance sheet.

As of December 31, 2019 and 2018, the 2024 Convertible Notes consist of the following (in millions):

	2019	2018
Liability component:		
Principal	\$ 849.5	\$ 849.5
Less: Unamortized debt discount and issuance costs	(150.5)	(182.7)
Net carrying amount	699.0	666.8
Equity component, net	\$ 220.0	\$ 220.0

During the year ended December 31, 2019, 2018 and 2017, we recognized \$25.5 million associated with coupon interest. Amortization of debt discount and issuance costs were \$32.5 million, \$31.0 million and \$31.4 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The indenture governing the 2024 Convertible Notes contains customary events of default, including failure to pay principal or interest on such notes when due, among others. The indenture also contains certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

Senior Notes

As a result of the Rowan Transaction, we acquired the following debt issued by Rowan Companies, Inc. ("RCI") and guaranteed by Rowan: (1) \$201.4 million in aggregate principal amount of 7.875% unsecured senior notes, which was repaid at maturity in August 2019, (2) \$620.8 million in aggregate principal amount of 4.875% unsecured senior notes due 2022 (the "Rowan 2022 Notes"), (3) \$398.1 million in aggregate principal amount of 4.75% unsecured senior notes due 2024 (the "Rowan 2024 Notes"), (4) \$500.0 million in aggregate principal amount of 7.375% unsecured senior notes due 2025 (the "Rowan 2025 Notes"), (5) \$400.0 million in aggregate principal amount of 5.4% unsecured senior notes due 2042 (the "Rowan 2042 Notes") and (6) \$400.0 million in aggregate principal amount of 5.85% unsecured senior notes due 2044 (the "Rowan 2044 Notes" and collectively, the "Rowan Notes"). Upon closing of the Rowan Transaction, we terminated Rowan's outstanding credit facilities. On February 3, 2020, Rowan and RCI transferred substantially all their assets on a consolidated basis to Valaris plc, Valaris plc became the obligor on the notes and Rowan and RCI were relieved of their obligations under the notes and the related indenture.

On January 26, 2018, we issued \$1.0 billion aggregate principal amount of unsecured 7.75% senior notes due 2026 (the "2026 Notes") at par, net of \$16.5 million of debt issuance costs. Interest on the 2026 Notes is payable semiannually on February 1 and August 1 of each year.

During 2017, we exchanged \$332.0 million aggregate principal amount of unsecured 8.00% senior notes due 2024 (the "8 % 2024 Notes") for certain amounts of our outstanding senior notes due 2019, 2020 and 2021. Interest on the 8% 2024 Notes is payable semiannually on January 31 and July 31 of each year.

During 2015, we issued \$700.0 million aggregate principal amount of unsecured 5.20% senior notes due 2025 (the "2025 Notes") at a discount of \$2.6 million and \$400.0 million aggregate principal amount of unsecured 5.75% senior notes due 2044 (the "New 2044 Notes") at a discount of \$18.7 million in a public offering. Interest on the 2025 Notes is payable semiannually on March 15 and September 15 of each year. Interest on the New 2044 Notes is payable semiannually on April 1 and October 1 of each year.

During 2014, we issued \$625.0 million aggregate principal amount of unsecured 4.50% senior notes due 2024 (the "2024 Notes") at a discount of \$0.9 million and \$625.0 million aggregate principal amount of unsecured 5.75% senior notes due 2044 (the "Existing 2044 Notes" and together with the New 2044 Notes, the "2044 Notes") at a discount of \$2.8 million. Interest on the 2024 Notes and the Existing 2044 Notes is payable semiannually on April 1 and October 1 of each year. The Existing 2044 Notes and the New 2044 Notes are treated as a single series of debt securities under the indenture governing the notes.

During 2011, we issued \$1.5 billion aggregate principal amount of unsecured 4.70% senior notes due 2021 (the "2021 Notes") at a discount of \$29.6 million in a public offering. Interest on the 2021 Notes is payable semiannually on March 15 and September 15 of each year.

Upon consummation of the Pride International LLC ("Pride") acquisition during 2011, we assumed outstanding debt comprised of \$900.0 million aggregate principal amount of unsecured 6.875% senior notes due 2020, \$500.0 million aggregate principal amount of unsecured 8.5% senior notes due 2019 and \$300.0 million aggregate principal amount of unsecured 7.875% senior notes due 2040 (collectively, the "Acquired Notes" and together with the Rowan Notes, 2021 Notes, 8% 2024 Notes, 2024 Notes, 2025 Notes, 2026 Notes and 2044 Notes, the "Senior Notes"). Valaris

plc has fully and unconditionally guaranteed the performance of all Pride obligations with respect to the Acquired Notes. See "Note 17 - Guarantee of Registered Securities" for additional information on the guarantee of the Acquired Notes.

We may redeem the Senior Notes in whole at any time, or in part from time to time, prior to maturity. If we elect to redeem the Rowan 2022 Notes, Rowan 2024 Notes, 8% 2024 Notes, 2024 Notes, 2025 Notes, Rowan 2025 Notes and 2026 Notes before the date that is three months prior to the maturity date or the Rowan 2042 Notes, Rowan 2044 Notes and 2044 Notes before the date that is six months prior to the maturity date, we will pay an amount equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest and a "make-whole" premium. If we elect to redeem these notes on or after the aforementioned dates, we will pay an amount equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest but we are not required to pay a "make-whole" premium.

We may redeem each series of the 2021 Notes and the Acquired Notes, in whole or in part, at any time at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium.

The indentures governing the Senior Notes contain customary events of default, including failure to pay principal or interest on such notes when due, among others. The indentures governing the Senior Notes also contain certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

Debentures Due 2027

During 1997, Enscos International Incorporated issued \$150.0 million of unsecured 7.20% Debentures due 2027 (the "Debentures"). Interest on the Debentures is payable semiannually on May 15 and November 15 of each year. We may redeem the Debentures, in whole or in part, at any time prior to maturity, at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium. During 2009, Enscos plc entered into a supplemental indenture to unconditionally guarantee the principal and interest payments on the Debentures. See "Note 17 - Guarantee of Registered Securities" for additional information on the guarantee of the Debentures.

The Debentures and the indenture pursuant to which the Debentures were issued also contain customary events of default, including failure to pay principal or interest on the Debentures when due, among others. The indenture also contains certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

Tender Offers and Open Market Repurchases

On June 25, 2019, we commenced cash tender offers for certain series of senior notes issued by us, Enscos International Incorporated and RCI, our wholly-owned subsidiaries. The tender offers expired on July 23, 2019, and we repurchased \$951.8 million of our outstanding senior notes for an aggregate purchase price of \$724.1 million. As a result of the transaction, we recognized a pre-tax gain from debt extinguishment of \$194.1 million, net of discounts, premiums and debt issuance costs in other, net, in the consolidated statement of operations.

Concurrent with the issuance of the 2026 Notes in January 2018, we launched cash tender offers for up to \$985.0 million aggregate principal amount of certain series of senior notes issued by us and Pride, our wholly-owned subsidiary, and as a result we repurchased \$595.4 million of our senior notes. Subsequently, we issued a redemption notice for the remaining principal amount of the \$55.0 million principal amount of the 8.50% senior notes due 2019 and repurchased \$71.4 million principal amount of our senior notes due 2020. As a result of these transactions, we recognized a pre-tax loss from debt extinguishment of \$19.0 million, net of discounts, premiums, debt issuance costs and commissions in other, net, in the consolidated statement of operations.

During 2017, we repurchased \$194.1 million of our outstanding senior notes on the open market for an aggregate purchase price of \$204.5 million with cash on hand and recognized an insignificant pre-tax gain, net of discounts, premiums and debt issuance costs.

Our tender offers and open market repurchases during the three-year period ended December 31, 2019 were as follows (in millions):

	Aggregate Principal Amount Repurchased	Aggregate Repurchase Price ⁽¹⁾
<u>Year Ended December 31, 2019</u>		
4.50% Senior notes due 2024	\$ 320.0	\$ 240.0
4.75% Senior notes due 2024	79.5	61.2
8.00% Senior notes due 2024	39.7	33.8
5.20% Senior notes due 2025	335.5	250.0
7.375% Senior notes due 2025	139.2	109.2
7.20% Senior notes due 2027	37.9	29.9
	\$ 951.8	\$ 724.1
<u>Year Ended December 31, 2018</u>		
8.50% Senior notes due 2019	\$ 237.6	\$ 256.8
6.875% Senior notes due 2020	328.0	354.7
4.70% Senior notes due 2021	156.2	159.7
	\$ 721.8	\$ 771.2
<u>Year Ended December 31, 2017</u>		
8.50% Senior notes due 2019	\$ 54.6	\$ 60.1
6.875% Senior notes due 2020	100.1	105.1
4.70% Senior notes due 2021	39.4	39.3
	\$ 194.1	\$ 204.5

⁽¹⁾ Excludes accrued interest paid to holders of the repurchased senior notes.

Exchange Offers

During 2017, we completed exchange offers to exchange our outstanding 2019, 2020 and 2021 Notes for our 8% 2024 Notes and cash. The exchange offers resulted in the tender of \$649.5 million aggregate principal amount of our outstanding notes that were settled and exchanged as follows (in millions):

	Aggregate Principal Amount Repurchased	8% Senior Notes Due 2024 Consideration	Cash Consideration	Total Consideration
8.50% Senior notes due 2019	\$ 145.8	\$ 81.6	\$ 81.7	\$ 163.3
6.875% Senior notes due 2020	129.8	69.3	69.4	138.7
4.70% Senior notes due 2021	373.9	181.1	181.4	362.5
	\$ 649.5	\$ 332.0	\$ 332.5	\$ 664.5

During the year ended December 31, 2017, we recognized a pre-tax loss on the exchange offers of approximately \$6.2 million.

Revolving Credit Facility

Effective upon closing of the Rowan Transaction, we amended our credit facility to, among other changes, increase the borrowing capacity. Previously, our credit facility had a borrowing capacity of \$2.0 billion through September 2019 that declined to \$1.3 billion through September 2020 and \$1.2 billion through September 2022. Subsequent to the amendment, our borrowing capacity is \$1.6 billion through September 2022. The credit agreement governing the Credit Facility includes an accordion feature allowing us to increase the future commitments up to an aggregate amount not to exceed \$250.0 million.

Advances under the credit facility bear interest at Base Rate or LIBOR plus an applicable margin rate, depending on our credit ratings. We are required to pay a quarterly commitment fee on the undrawn portion of the \$1.6 billion commitment, which is also based on our credit ratings.

On December 6, 2019, Moody's downgraded our corporate family rating from B3 to Caa1 and our senior unsecured notes from Caa1 to Caa2. Previously, in September 2019, Standard & Poor's downgraded our senior unsecured bonds from B to B- and our issuer rating from B- to CCC+. The applicable margin rates are 3.25% per annum for Base Rate advances and 4.25% per annum for LIBOR advances. The quarterly commitment fee is 0.75% per annum on the undrawn portion of the \$1.6 billion commitment.

The credit facility requires us to maintain a total debt to total capitalization ratio that is less than or equal to 60% and to provide guarantees from certain of our rig-owning subsidiaries sufficient to meet certain guarantee coverage ratios. The credit facility also contains customary restrictive covenants, including, among others, prohibitions on creating, incurring or assuming certain debt and liens (subject to customary exceptions, including a permitted lien basket that permits us to raise secured debt up to the lesser of \$1 billion or 10% of consolidated tangible net worth (as defined in the credit facility)); entering into certain merger arrangements; selling, leasing, transferring or otherwise disposing of all or substantially all of our assets; making a material change in the nature of the business; paying or distributing dividends on our ordinary shares (subject to certain exceptions, including the ability to pay a quarterly dividend of \$0.01 per share); borrowings, if after giving effect to any such borrowings and the application of the proceeds thereof, the aggregate amount of available cash (as defined in the credit facility) would exceed \$200 million; and entering into certain transactions with affiliates.

The credit facility also includes a covenant restricting our ability to repay indebtedness maturing after September 2022, which is the final maturity date of our credit facility. This covenant is subject to certain exceptions that permit us to manage our balance sheet, including the ability to make repayments of indebtedness (i) of acquired companies within 90 days of the completion of the acquisition or (ii) if, after giving effect to such repayments, available cash is greater than \$250 million and there are no amounts outstanding under the credit facility. The July 2019 tender offers discussed above were in compliance with these covenants.

As of December 31, 2019, we were in compliance in all material respects with our covenants under the credit facility. We expect to remain in compliance with our credit facility covenants during 2020. We had no amounts outstanding under the credit facility as of December 31, 2019 and 2018. As of January 31, 2020, we had \$90 million of total outstanding borrowings under our credit facility.

Our access to credit and capital markets depends on the credit ratings assigned to our debt. As a result of rating actions by credit rating agencies, we no longer maintain an investment-grade status. Our current credit ratings, and any additional actual or anticipated downgrades in our credit ratings, could limit our available options when accessing credit and capital markets, or when restructuring or refinancing our debt. In addition, future financings or refinancings are likely to involve higher borrowing costs and require more restrictive terms and covenants, which may further restrict our operations.

Maturities

The descriptions of our senior notes above reflect the original principal amounts issued, which have subsequently changed as a result of our tenders, repurchases, exchanges, redemptions and new debt issuances such that the maturities of our debt were as follows (in millions):

Senior Notes	Original Principal	2016 Tenders, Repurchases and Equity Exchange	2017 Exchange Offers and Repurchases	2018 Tender Offers, Redemption and Debt Issuance	2019 Tender Offers, Redemption and Debt Issuance	Remaining Principal
6.875% due 2020	\$ 900.0	\$ (219.2)	\$ (229.9)	\$ (328.0)	\$ —	\$ 122.9
4.70% due 2021	1,500.0	(817.0)	(413.3)	(156.2)	—	113.5
4.875% due 2022 ⁽¹⁾	—	—	—	—	620.8	620.8
3.00% Exchangeable senior notes due 2024	849.5	—	—	—	—	849.5
4.50% due 2024	625.0	(1.7)	—	—	(320.0)	303.3
4.75% due 2024 ⁽¹⁾	—	—	—	—	318.6	318.6
8.00% due 2024	—	—	332.0	—	(39.7)	292.3
5.20% due 2025	700.0	(30.7)	—	—	(335.5)	333.8
7.375% due 2025 ⁽¹⁾	—	—	—	—	360.8	360.8
7.75% due 2026	—	—	—	1,000.0	—	1,000.0
7.20% due 2027	150.0	—	—	—	(37.9)	112.1
7.875% due 2040	300.0	—	—	—	—	300.0
5.40% due 2042 ⁽¹⁾	—	—	—	—	400.0	400.0
5.75% due 2044	1,025.0	(24.5)	—	—	—	1,000.5
5.85% due 2044 ⁽¹⁾	—	—	—	—	400.0	400.0
Total	\$ 6,049.5	\$ (1,093.1)	\$ (311.2)	\$ 515.8	\$ 1,367.1	\$ 6,528.1

⁽¹⁾ These senior notes were acquired in the Rowan Transaction.

Interest Expense

Interest expense totaled \$428.3 million, \$282.7 million and \$224.2 million for the years ended December 31, 2019, 2018 and 2017, respectively, which was net of capitalized interest of \$20.9 million, \$62.6 million and \$72.5 million associated with newbuild rig construction and other capital projects.

8. DERIVATIVE INSTRUMENTS

Our functional currency is the U.S. dollar. As is customary in the oil and gas industry, a majority of our revenues are denominated in U.S. dollars; however, a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar. These transactions are remeasured in U.S. dollars based on a combination of both current and historical exchange rates. We use derivatives to reduce our exposure to various market risks, primarily foreign currency exchange rate risk. We maintain a foreign currency exchange rate risk management strategy that utilizes derivatives to reduce our exposure to unanticipated fluctuations in earnings and cash flows caused by changes in foreign currency exchange rates. We mitigate our credit risk relating to the counterparties of our derivatives by transacting with multiple, high-quality financial institutions, thereby limiting exposure to individual counterparties, and by entering into International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreements, which include provisions for a legally enforceable master netting agreement, with our derivative counterparties. See "Note 16 - Supplemental Financial Information" for additional information on the mitigation of credit risk relating to counterparties of our derivatives. We do not enter into derivatives for trading or other speculative purposes.

All derivatives were recorded on our consolidated balance sheets at fair value. Derivatives subject to legally enforceable master netting agreements were not offset on our consolidated balance sheets. Accounting for the gains and losses resulting from changes in the fair value of derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. See "Note 1 - Description of the Business and Summary of Significant Accounting Policies" for additional information on our accounting policy for derivatives and "Note 5 - Fair Value Measurements" for additional information on the fair value measurement of our derivatives.

As of December 31, 2019 and 2018, our consolidated balance sheets included net foreign currency derivative assets of \$5.4 million and liabilities of \$10.7 million, respectively. All of our derivatives mature within the next 18 months.

Derivatives recorded at fair value on our consolidated balance sheets as of December 31, 2019 and 2018 consisted of the following (in millions):

	Derivative Assets		Derivative Liabilities	
	2019	2018	2019	2018
<u>Derivatives Designated as Hedging Instruments</u>				
Foreign currency forward contracts - current ⁽¹⁾	\$ 4.2	\$.2	\$.7	\$ 8.3
Foreign currency forward contracts - non-current ⁽²⁾	.8	—	—	.4
	5.0	.2	.7	8.7
<u>Derivatives not Designated as Hedging Instruments</u>				
Foreign currency forward contracts - current ⁽¹⁾	1.3	.4	.2	2.6
Total	\$ 6.3	\$.6	\$.9	\$ 11.3

⁽¹⁾ Derivative assets and liabilities that have maturity dates equal to or less than 12 months from the respective balance sheet dates were included in other current assets and accrued liabilities and other, respectively, on our consolidated balance sheets.

⁽²⁾ Derivative assets and liabilities that have maturity dates greater than 12 months from the respective balance sheet dates were included in other assets and other liabilities, respectively, on our consolidated balance sheets.

We utilize cash flow hedges to hedge forecasted foreign currency denominated transactions, primarily to reduce our exposure to foreign currency exchange rate risk associated with contract drilling expenses and capital expenditures denominated in various currencies. As of December 31, 2019, we had cash flow hedges outstanding to exchange an aggregate \$199.1 million for various foreign currencies, including \$114.8 million for British pounds, \$45.9 million for Australian dollars, \$15.9 million for euros, \$10.9 million for Norwegian krone, \$7.9 million for Singapore dollars and \$3.7 million for Brazilian reals.

Gains and losses, net of tax, on derivatives designated as cash flow hedges included in our consolidated statements of operations and comprehensive loss for each of the years in the three-year period ended December 31, 2019 were as follows (in millions):

	Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivatives (Effective Portion)			(Gain) Loss Reclassified from AOCI into Income (Effective Portion) ⁽¹⁾			Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) ⁽²⁾		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Interest rate lock contracts ⁽³⁾	\$ —	\$ —	\$ —	\$ 1.9	\$.2	\$.2	\$ —	\$ —	\$ —
Foreign currency forward contracts ⁽⁴⁾	1.6	(9.7)	8.5	6.4	(1.2)	.2	—	(1.9)	(.7)
Total	\$ 1.6	\$ (9.7)	\$ 8.5	\$ 8.3	\$ (1.0)	\$.4	\$ —	\$ (1.9)	\$ (.7)

⁽¹⁾ Changes in the fair value of cash flow hedges are recorded in AOCI. Amounts recorded in AOCI associated with cash flow hedges are subsequently reclassified into contract drilling, depreciation or interest expense as earnings are affected by the underlying hedged forecasted transaction.

⁽²⁾ Gains and losses recognized in income for amounts excluded from effectiveness testing were included in other, net, in our consolidated statements of operations. As a result of our adoption of Update 2017-12 on January 1, 2019, ineffectiveness is no longer separately measured and recognized.

⁽³⁾ Losses on interest rate lock derivatives reclassified from AOCI into income were included in interest expense, net, in our consolidated statements of operations.

⁽⁴⁾ During the year ended December 31, 2019, \$7.3 million of losses were reclassified from AOCI into contract drilling expense and \$0.9 million of gains were reclassified from AOCI into depreciation expense in our consolidated statement of operations. During the year ended December 31, 2018, \$400,000 of gains were reclassified from AOCI into contract drilling expense and \$800,000 of gains were reclassified from AOCI into depreciation expense in our consolidated statement of operations. During the year ended December 31, 2017, \$1.1 million of losses were reclassified from AOCI into contract drilling expense and \$900,000 of gains were reclassified from AOCI into depreciation expense in our consolidated statement of operations.

We have net assets and liabilities denominated in numerous foreign currencies and use various methods to manage our exposure to foreign currency exchange rate risk. We predominantly structure our drilling contracts in U.S. dollars, which significantly reduces the portion of our cash flows and assets denominated in foreign currencies. We occasionally enter into derivatives that hedge the fair value of recognized foreign currency denominated assets or liabilities but do not designate such derivatives as hedging instruments. In these situations, a natural hedging relationship generally exists whereby changes in the fair value of the derivatives offset changes in the fair value of the underlying hedged items. As of December 31, 2019, we held derivatives not designated as hedging instruments to exchange an aggregate \$47.1 million for various foreign currencies, including \$15.4 million for British pounds, \$6.6 million for Israeli New shekel, \$5.9 million for Norwegian krone, \$4.9 million for Nigerian naira, \$4.5 million for Thai baht, \$4.3 million for Australian dollars and \$5.5 million for other currencies.

Net losses of \$6.4 million and \$11.8 million and gains of \$10.0 million associated with our derivatives not designated as hedging instruments were included in other, net, in our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019, the estimated amount of net gains associated with derivatives, net of tax, that will be reclassified to earnings during the next 12 months was as follows (in millions):

Net unrealized losses to be reclassified to contract drilling expense	\$	3.4
Net realized gains to be reclassified to depreciation expense		.8
Net losses to be reclassified to earnings	\$	4.2

9. SHAREHOLDERS' EQUITY

Activity in our various shareholders' equity accounts for each of the years in the three-year period ended December 31, 2019 was as follows (in millions):

	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	AOCI	Treasury Shares	Non-controlling Interest
BALANCE, December 31, 2016	77.6	\$ 31.1	\$ 6,402.2	\$ 1,864.1	\$ 19.0	\$ (65.8)	\$ 4.4
Net loss	—	—	—	(303.7)	—	—	(.5)
Dividends paid (\$0.16 per share)	—	—	—	(13.6)	—	—	—
Cumulative-effect reduction from adoption of ASU 2016-16				(14.1)			
Distributions to noncontrolling interests	—	—	—	—	—	—	(6.0)
Equity issuance in connection with Atwood Merger	33.1	13.2	757.5	—	—	—	—
Shares issued under share-based compensation plans, net	1.1	.5	(.4)	—	—	(1.3)	—
Repurchase of shares	—	—	—	—	—	(1.9)	—
Share-based compensation cost	—	—	35.7	—	—	—	—
Net other comprehensive income	—	—	—	—	9.6	—	—
BALANCE, December 31, 2017	111.8	44.8	7,195.0	1,532.7	28.6	(69.0)	(2.1)
Net loss	—	—	—	(639.7)	—	—	3.1
Dividends paid (\$0.16 per share)	—	—	—	(18.0)	—	—	—
Cumulative-effect reduction from adoption of ASU 2018-02	—	—	—	(.8)	.8	—	—
Shares issued under share-based compensation plans, net	3.4	1.4	(.6)	—	—	(1.3)	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(3.6)
Repurchase of shares	—	—	—	—	—	(1.9)	—
Share-based compensation cost	—	—	30.6	—	—	—	—
Net other comprehensive income	—	—	—	—	(11.2)	—	—
BALANCE, December 31, 2018	115.2	46.2	7,225.0	874.2	18.2	(72.2)	(2.6)
Net loss	—	—	—	(198.0)	—	—	5.8
Dividends paid (\$0.04 per share)	—	—	—	(4.5)	—	—	—
Equity issuance in connection with the Rowan Transaction	88.0	35.2	1,367.5	—	—	.1	—
Shares issued under share-based compensation plans, net	2.7	1.1	(1.3)	—	—	(.7)	—
Repurchase of shares	—	—	—	—	—	(4.5)	—
Share-based compensation cost	—	—	37.2	—	—	—	—
Equity issuance cost	—	—	(.6)	—	—	—	—
Net changes in pension and other postretirement benefits	—	—	—	—	(21.7)	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(4.5)
Net other comprehensive income	—	—	—	—	9.7	—	—
BALANCE, December 31, 2019	205.9	\$ 82.5	\$ 8,627.8	\$ 671.7	\$ 6.2	\$ (77.3)	\$ (1.3)

In connection with the Rowan Transaction on April 11, 2019, we issued 88.3 million Class A ordinary shares with an aggregate value of \$1.4 billion. See Note 3 for additional information.

On April 11, 2019, we completed our combination with Rowan and effected the Reverse Stock Split. All share and per-share amounts in these consolidated financial statements have been retrospectively adjusted to reflect the Reverse Stock Split.

In October 2017, as a result of our acquisition of Atwood Oceanics, Inc. (the "Atwood Merger"), we issued 33.1 million of our Class A Ordinary shares, representing total equity consideration of \$770.7 million based on a closing price of \$5.83 per Class A ordinary share on October 5, 2017, the last trading day before the Merger Date.

As a U.K. company governed in part by the U.K. Companies Act 2006, we cannot issue new shares (other than in limited circumstances) without being authorized by our shareholders. At our 2019 annual general meeting, our shareholders authorized the allotment of 67.6 million Class A ordinary shares (or 135.3 million Class A ordinary shares in connection with an offer by way of a rights issue or other similar issue), subject to the completion of the Rowan Transaction.

Under English law, we are only able to declare dividends and return funds to our shareholders out of the accumulated distributable reserves on our statutory balance sheet. The declaration and amount of future dividends is at the discretion of our Board of Directors and will depend on our profitability, liquidity, financial condition, market outlook, reinvestment opportunities, capital requirements and other factors and restrictions our Board of Directors deems relevant. There can be no assurance that we will pay a dividend in the future.

Our shareholders approved a share repurchase program at our annual shareholder meeting held in May 2018. Subject to certain provisions under English law, including the requirement of Valaris plc to have sufficient distributable reserves, we may repurchase shares up to a maximum of \$500.0 million in the aggregate from one or more financial intermediaries under the program, but in no case more than 16.3 million shares. The program terminates in May 2023. As of December 31, 2019, there had been no share repurchases under this program.

10. SHARE BASED COMPENSATION

In May 2018, our shareholders approved the 2018 Long-Term Incentive Plan (the "2018 LTIP") effective January 1, 2018, to provide for the issuance of non-vested share awards, share option awards and performance awards (collectively "awards"). The 2018 LTIP is similar to and replaces the Company's previously adopted 2012 Long-Term Incentive Plan (the "2012 LTIP"). No further awards will be granted under the 2012 LTIP. Under the 2018 LTIP, 14.8 million shares were reserved for issuance as awards to officers, non-employee directors and key employees who are in a position to contribute materially to our growth, development and long-term success. As of December 31, 2019, there were 2.5 million shares available for issuance as awards under the 2018 LTIP. Awards may be satisfied by newly issued shares, including shares held by a subsidiary or affiliated entity, or by delivery of shares held in an affiliated employee benefit trust at the Company's discretion.

In connection with the Rowan Transaction, we assumed the Amended and Restated 2013 Rowan Companies plc Incentive Plan (the "Rowan LTIP") and the non-vested share unit awards, options and share appreciation rights outstanding thereunder. As of December 31, 2019, there were 2.3 million shares remaining available for future issuance as awards under the Rowan LTIP which may be granted to employees and other service providers who were not employed or engaged with Valaris prior to the Rowan Transaction.

In connection with the Atwood Merger, we assumed Atwood's Amended and Restated 2007 Long-Term Incentive Plan (the "Atwood LTIP", and together with the 2018 LTIP and the Rowan LTIP, the "LTIP Plans") and the options outstanding thereunder. As of December 31, 2019, there were 100,000 shares remaining available for future issuance as awards under the Atwood LTIP, which may be granted to employees and other service providers who were not employed or engaged with Valaris prior to the Atwood Merger.

Non-Vested Share Awards, Cash-Settled Awards and Non-employee Director Deferred Awards

Grants of share awards and share units (collectively "share awards") and share units to be settled in cash ("cash-settled awards"), generally vest at rates of 20% or 33% per year, as determined by a committee of the Board of Directors at the time of grant. Additionally, non-employee directors may annually elect to receive deferred share awards. Deferred share awards vest at the earlier of the first anniversary of the grant date or the next annual meeting of shareholders following the grant but are not settled until the director terminates service from the Board. Deferred share awards are settled in cash, shares or a combination thereof at the discretion of the Compensation Committee.

During 2019, no cash-settled awards were granted while 4.5 million share unit awards were granted to our employees and non-employee directors pursuant to the LTIP Plans. Our non-vested share awards have voting and dividend rights effective on the date of grant, and our non-vested share units have dividend rights effective on the date of grant. Compensation expense for share awards is measured at fair value on the date of grant and recognized on a straight-line basis over the requisite service period (usually the vesting period). Compensation expense for cash-settled awards is remeasured each quarter with a cumulative adjustment to compensation cost during the period based on changes in our share price. Our compensation cost is reduced for forfeited awards in the period in which the forfeitures occur.

The following table summarizes share award and cash-settled award compensation expense recognized during each of the years in the three-year period ended December 31, 2019 (in millions):

	2019	2018	2017
Contract drilling	\$ 22.1	\$ 18.9	\$ 18.3
General and administrative	17.4	14.5	14.5
	39.5	33.4	32.8
Tax benefit	(2.5)	(2.8)	(4.8)
Total	\$ 37.0	\$ 30.6	\$ 28.0

The following table summarizes the value of share awards and cash-settled awards granted and vested during each of the years in the three-year period ended December 31, 2019:

	Share Awards			Cash-Settled Awards		
	2019	2018	2017	2019	2018	2017
Weighted-average grant-date fair value of share awards granted (per share)	\$ 11.50	\$ 24.62	\$ 31.48	\$ —	\$ 21.35	\$ 25.08
Total fair value of share awards vested during the period (in millions)	\$ 17.7	\$ 7.5	\$ 8.2	\$ 3.5	\$ 9.9	\$ 3.9

The following table summarizes share awards and cash-settled awards activity for the year ended December 31, 2019 (shares in thousands):

	Share Awards		Cash-settled Awards	
	Awards	Weighted-Average Grant-Date Fair Value	Awards	Weighted-Average Grant-Date Fair Value
Share awards and cash-settled awards as of December 31, 2018	2,017	\$ 31.36	1,279	\$ 29.20
Granted	4,460	11.50	—	—
Rowan share awards assumed	2,329	15.88	—	—
Vested	(1,519)	10.53	(453)	7.97
Forfeited	(854)	8.87	(129)	11.58
Share awards and cash-settled awards as of December 31, 2019	6,433	\$ 19.89	697	\$ 46.28

As of December 31, 2019, there was \$115.9 million of total unrecognized compensation cost related to share awards, which is expected to be recognized over a weighted-average period of 1.7 years.

Share Appreciation Rights

Share Appreciation Rights ("SARs") granted to employees generally become exercisable in 33% increments over a three-year period and, to the extent not exercised, expire on the tenth anniversary of the date of grant. The exercise price of SARs granted under the Rowan LTIP equals the excess of the market value of the underlying shares on the date of exercise over the market value of the shares on date of grant multiplied by the number of shares covered by the SAR. The Company intends to share-settle any exercises of SARs and has therefore accounted for SARs as equity awards. As of December 31, 2019, SARs granted to purchase 530,923 shares with a weighted-average exercise price of \$50.70 were outstanding under the Rowan LTIP. No SARs have been granted since 2010 under the Rowan LTIP, and there was no unrecognized compensation cost related to SARs as of December 31, 2019.

Share Option Awards

Share option awards ("options") granted to employees generally become exercisable in 25% increments over a four-year period or 33% increments over a three-year period or 100% after a four - year period and, to the extent not exercised, expire on either the seventh or tenth anniversary of the date of grant. The exercise price of options granted under the 2018 LTIP equals the market value of the underlying shares on the date of grant. As of December 31, 2019, options granted to purchase 375,701 shares with a weighted-average exercise price of \$52.77 were outstanding under the Company LTIPs. Excluding options assumed under the Atwood LTIP, no options have been granted since 2011, and there was no unrecognized compensation cost related to options as of December 31, 2019.

Performance Awards

Under the Company LTIPs, performance awards may be issued to our senior executive officers. The 2019 performance awards are subject to achievement of specified performance goals based on both relative and absolute total shareholder return ("TSR"), while the 2017 and 2018 performance awards are subject to achievement of specified performance goals based on relative TSR and relative return on capital employed ("ROCE") as compared to a specified peer group. The performance goals are determined by a committee or subcommittee of the Board of Directors. Awards are payable in either Valaris shares or cash upon attainment of relative TSR and ROCE performance goals. Performance awards granted since 2017 are payable in cash.

Performance awards generally vest at the end of a three-year measurement period based on attainment of performance goals. Our performance awards granted during 2017, 2018 and 2019 are classified as liability awards, all

with compensation expense recognized over the requisite service period. The estimated probable outcome of attainment of the specified performance goals is based primarily on relative performance over the requisite performance period. Any subsequent changes in this estimate are recognized as a cumulative adjustment to compensation cost in the period in which the change in estimate occurs.

The aggregate grant-date fair value of performance awards granted during 2019, 2018 and 2017 totaled \$6.7 million. The aggregate fair value of performance awards vested during 2019, 2018 and 2017 totaled \$2.2 million, \$0.7 million and \$2.9 million, respectively.

During the years ended December 31, 2019, 2018 and 2017, we recognized \$3.2 million, \$8.2 million and \$8.4 million of compensation expense for performance awards, respectively, which was included in general and administrative expense in our consolidated statements of operations. As of December 31, 2019, there was \$0.8 million of total unrecognized compensation cost related to unvested performance awards, which is expected to be recognized over a weighted-average period of 1.1 years.

Savings Plans

We have savings plans, (the Ensono Savings Plan, the Ensono Multinational Savings Plan, the Ensono Limited Retirement Plan, the Rowan Companies, Inc. Savings & Investment Plan (the "Rowan Savings Plan"), the RDIS International Savings Plan and the Rowan Drilling UK Pension Scheme), which cover eligible employees as defined within each plan. The Ensono Savings Plan and the Rowan Savings Plan include a 401(k) savings plan feature, which allows eligible employees to make tax-deferred contributions to the plans. The Ensono Limited Retirement Plan and the Rowan Drilling UK Pension Scheme also allows eligible employees to make tax-deferred contributions to the plan. Contributions made to the Ensono Multinational Savings Plan and the RDIS International Savings Plan may or may not qualify for tax deferral based on each plan participant's local tax requirements.

We generally make matching cash contributions to the plans. The legacy Ensono plans match 100% of the amount contributed by the employee up to a maximum of 5% of eligible salary, where the legacy Rowan plans also provide up to a 5% match of eligible salary; however, depending on the plan and the tier, the match percentage could vary. Matching contributions totaled \$18.7 million, \$14.4 million and \$12.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. Any additional discretionary contributions made into the plans require approval of the Board of Directors and are generally paid in cash. As of January 1, 2019, the plans were modified such that all previous, current and future employer contributions become 100% vested. We have 1.0 million shares reserved for issuance as matching contributions under the Ensono Savings Plan.

Note 11 - Pension and Other Post-retirement Benefits

Prior to the Rowan Transaction, Rowan established various defined-benefit pension plans and a post-retirement health and life insurance plan that provide benefits upon retirement for certain full-time employees. The defined-benefit pension plans include: (1) the Rowan Pension Plan; (2) Restoration Plan of Rowan Companies, Inc. (the "Rowan SERP"); (3) the Norway Onshore Plan; and (4) the Norway Offshore Plan. The Retiree Life & Medical Supplemental Plan of Rowan Companies, Inc. (the "Retiree Medical Plan") provides post-retirement health and life insurance benefits. On November 27, 2017, Rowan purchased annuities to cover post-65 retiree medical benefits for current retirees as of the purchase date. The annuity purchase settled post-65 medical benefits (i.e., Health Reimbursement Account, or "HRA", amounts) for affected participants, with the insurer taking responsibility for all benefit payments on and after January 1, 2019.

As a result of the Rowan Transaction, we assumed these plans and obligations, which were remeasured as of the Transaction Date. Each of the plans has a benefit obligation that exceeds the fair value of plan assets. As of the Transaction Date, the net projected benefit obligations totaled \$239.3 million, of which \$19.2 million was classified as current. The current and non-current portions of the net benefit obligations are included in accrued liabilities and other liabilities in our consolidated balance sheet, respectively. The most significant of the assumed plans is the Rowan Pension Plan, which had a net projected benefit obligation of \$202.1 million. Prior to the Transaction Date, Rowan

amended the Rowan Pension Plan to freeze the plan as to any future benefit accruals. As a result, eligible employees no longer receive pay credits in the pension plan and newly hired employees are not eligible to participate in the pension plan.

The following table presents the changes in benefit obligations and plan assets for the year ended December 31, 2019 and the funded status and weighted-average assumptions used to determine the benefit obligation at year end (dollars in millions):

	2019		
	Pension Benefits	Other Benefits	Total
Projected benefit obligation:			
Balance, April 11	\$ 800.1	\$ 15.9	\$ 816.0
Interest cost	21.3	0.4	21.7
Service cost	1.5	—	1.5
Actuarial loss	43.8	0.2	44.0
Benefits paid	(34.1)	(0.4)	(34.5)
Foreign currency adjustments	(0.2)	—	(0.2)
Balance, December 31	\$ 832.4	\$ 16.1	\$ 848.5
Plan assets			
Fair value, April 11	\$ 576.8	\$ —	\$ 576.8
Actual return	43.6	—	43.6
Employer contributions	12.8	—	12.8
Benefits paid	(34.1)	—	(34.1)
Foreign currency adjustments	(0.2)	—	(0.2)
Fair value, December 31	\$ 598.9	—	\$ 598.9
Net benefit liabilities	\$ 233.5	\$ 16.1	\$ 249.6
Amounts recognized in consolidated balance sheet:			
Accrued liabilities	\$ (1.4)	\$ (1.5)	\$ (2.9)
Other liabilities (long-term)	(232.1)	(14.6)	(246.7)
Net benefit liabilities	\$ (233.5)	\$ (16.1)	\$ (249.6)
Accumulated contributions in excess of (less than) net periodic benefit cost	\$ (206.2)	\$ (15.9)	\$ (222.1)
Amounts not yet reflected in net periodic benefit cost:			
Actuarial loss	\$ (27.3)	\$ (0.2)	\$ (27.5)
Total accumulated other comprehensive loss	(27.3)	(0.2)	(27.5)
Net benefit liabilities	\$ (233.5)	\$ (16.1)	\$ (249.6)
Weighted-average assumptions:			
Discount rate	3.16%	3.06%	
Rate of compensation increase	—%	—%	

The projected benefit obligations for pension benefits in the preceding table reflect the actuarial present value of benefits accrued based on services rendered to date and include the estimated effect of future salary increases.

The accumulated benefit obligations, which are presented below for all plans in the aggregate at December 31, 2019, are based on services rendered to date, but exclude the effect of future salary increases (in millions):

	2019
Accumulated benefit obligation	\$ 844.3

The components of net periodic pension cost and the weighted-average assumptions used to determine net periodic pension cost were as follows (dollars in millions):

	April 11, 2019 - December 31, 2019
Service cost ⁽¹⁾	\$ 1.5
Interest cost ⁽²⁾	21.3
Expected return on plan assets ⁽²⁾	(27.1)
Net periodic pension cost (benefit)	\$ (4.3)
Discount rate	3.82%

⁽¹⁾ Included in contract drilling and general and administrative expense in our consolidated statements of operations.

⁽²⁾ Included in other, net, in our consolidated statements of operations.

The pension plans' investment objectives for fund assets are: to achieve over the life of the plans a return equal to the plans' expected investment return or the inflation rate plus 3%, whichever is greater, to invest assets in a manner such that contributions are minimized and future assets are available to fund liabilities, to maintain liquidity sufficient to pay benefits when due, and to diversify among asset classes so that assets earn a reasonable return with an acceptable level of risk. The plans employ several active managers with proven long-term records in their specific investment discipline.

Target allocations among asset categories and the fair value of each category of plan assets as of December 31, 2019, classified by level within the US GAAP fair value hierarchy are presented below. The plans will reallocate assets in accordance with the allocation targets, after giving consideration to the expected level of cash required to pay current benefits and plan expenses (dollars in millions):

	Target range	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2019					
Equities:					
U.S. large cap	22% to 28%	\$ 148.9	\$ —	\$ 148.9	\$ —
U.S. small cap	4% to 10%	41.1	—	41.1	—
International all cap	21% to 29%	152.4	—	152.4	—
International small cap	2% to 8%	34.7	—	34.7	—
Real estate equities	0% to 13%	54.9	—	54.9	—
Fixed income:					
Cash and equivalents	0% to 10%	6.5	6.5	—	—
Aggregate	9% to 19%	76.7	—	76.7	—
Core plus	9% to 19%	77.6	77.6	—	—
Group annuity contracts		6.1	—	6.1	—
Total		\$ 598.9	\$ 84.1	\$ 514.8	\$ —

Assets in the U.S. equities category include investments in common and preferred stocks (and equivalents such as American Depository Receipts and convertible bonds) and may be held through separate accounts, commingled funds or an institutional mutual fund. Assets in the international equities category include investments in a broad range of international equity securities, including both developed and emerging markets, and may be held through a commingled or institutional mutual fund. The real estate category includes investments in pooled and commingled funds whose objectives are diversified equity investments in income-producing properties. Each real estate fund is intended to provide broad exposure to the real estate market by property type, geographic location and size and may invest internationally. Securities in both the aggregate and core plus fixed income categories include U.S. government, corporate, mortgage- and asset-backed securities and Yankee bonds, and both categories target an average credit rating of "A" or better at all times. Individual securities in the aggregate fixed income category must be investment grade or above at the time of purchase, whereas securities in the core plus category may have a rating of "B" or above. Additionally, the core plus category may invest in non-U.S. securities. Assets in the aggregate and core plus fixed income categories are held primarily through a commingled fund and an institutional mutual fund, respectively. Group annuity contracts are invested in a combination of equity, real estate, bond and other investments in connection with a pension plan in Norway.

The following is a description of the valuation methodologies used for the pension plan assets as of December 31, 2019:

- Fair values of all U.S. equity securities, the international all cap equity securities and aggregate fixed income securities categorized as Level 2 were held in commingled funds which were valued daily based on a net asset value.
- Fair value of international small cap equity securities categorized as Level 2 were held in a limited partnership fund which was valued monthly based on a net asset value.
- The real estate equities categorized as Level 2 were held in two accounts (a commingled fund and a limited partnership). The assets in the commingled fund were valued monthly based on a net asset value and the assets in the limited partnership were valued quarterly based on a net asset value.
- Cash and equivalents categorized as Level 1 were valued at cost, which approximates fair value.
- Fair value of mutual fund investments in core plus fixed income securities categorized as Level 1 were based on quoted market prices which represent the net asset value of shares held.

To develop the expected long-term rate of return on assets assumption, we considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the plans' other asset classes and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based upon the current asset allocation to develop the expected long-term rate of return on assets assumption for the plans, which was 6.48% at December 31, 2019.

We currently expect to contribute approximately \$35.7 million to our pension plans in 2020 and to directly pay other post-retirement benefits of approximately \$1.5 million.

Estimated future annual benefit payments from plan assets are presented below. Such amounts are based on existing benefit formulas and include the effect of future service (in millions):

	Pension Benefits	Other Post-Retirement Benefits
Year ended December 31,		
2020	\$ 45.0	\$ 1.5
2021	45.0	1.4
2022	44.6	1.3
2023	44.2	1.3
2024	43.9	1.3
2025 through 2029	213.6	5.3

12. INCOME TAXES

We generated profits of \$39.0 million, losses of \$115.1 million and profits of \$6.3 million from continuing operations before income taxes in the U.S. and losses of \$102.8 million, \$423.8 million and \$202.3 million from continuing operations before income taxes in non-U.S. jurisdictions for the years ended December 31, 2019, 2018 and 2017, respectively.

The following table summarizes components of our provision for income taxes from continuing operations for each of the years in the three-year period ended December 31, 2019 (in millions):

	2019	2018	2017
Current income tax expense (benefit):			
U.S.	\$ 31.3	\$ (19.9)	\$ (2.2)
Non-U.S.	73.2	52.9	56.4
	104.5	33.0	54.2
Deferred income tax expense:			
U.S.	19.7	52.9	36.0
Non-U.S.	4.2	3.7	19.0
	23.9	56.6	55.0
Total income tax expense	\$ 128.4	\$ 89.6	\$ 109.2

U.S. Tax Reform

U.S. tax reform was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law, including a reduction in the statutory income tax rate from 35% to 21% effective January 1, 2018, a one-time transition tax on deemed repatriation of deferred foreign income, a base erosion anti-abuse tax that effectively imposes a minimum tax on certain payments to non-U.S. affiliates, new and revised rules relating to the current taxation of certain income of foreign subsidiaries and revised rules associated with limitations on the deduction of interest.

Due to the timing of the enactment of U.S. tax reform and the complexity involved in applying its provisions, we made reasonable estimates of its effects and recorded such amounts in our consolidated financial statements as of December 31, 2017 on a provisional basis. Throughout 2018, we continued to analyze applicable information and data, interpret rules and guidance issued by the U.S. Treasury Department and Internal Revenue Service, and make adjustments to the provisional amounts as provided for in Staff Accounting Bulletin No. 118. The U.S. Treasury Department continued finalizing rules associated with U.S. tax reform during 2018 and 2019.

During 2019, we recognized a tax expense of \$13.8 million associated with final rules issued related to U.S. tax reform. During 2018, we recognized a tax benefit of \$11.7 million associated with the one-time transition tax on deemed repatriation of the deferred foreign income of our U.S. subsidiaries. We recognized a net tax expense of \$16.5 million during 2017 in connection with enactment of U.S. tax reform, consisting of a \$38.5 million tax expense associated with the one-time transition tax on deemed repatriation of the deferred foreign income of our U.S. subsidiaries, a \$17.3 million tax expense associated with revisions to rules over the taxation of income of foreign subsidiaries, a \$20.0 million tax benefit resulting from the re-measurement of our deferred tax assets and liabilities as of December 31, 2017 to reflect the reduced tax rate and a \$19.3 million tax benefit resulting from adjustments to the valuation allowance on deferred tax assets.

Deferred Taxes

The following table summarizes significant components of deferred income tax assets and liabilities as of December 31, 2019 and 2018 (in millions):

	2019	2018
<u>Deferred tax assets:</u>		
Net operating loss carryforwards	\$ 1,546.7	\$ 148.4
Net capital loss carryforwards	998.0	—
Foreign tax credits	142.9	123.6
Interest limitation carryforwards	41.5	40.2
Premiums on long-term debt	—	23.8
Employee benefits, including share-based compensation	73.9	15.4
Deferred revenue	0.1	10.3
Other	11.6	14.5
Total deferred tax assets	2,814.7	376.2
Valuation allowance	(2,588.7)	(316.0)
Net deferred tax assets	226.0	60.2
<u>Deferred tax liabilities:</u>		
Property and equipment	(156.0)	(54.5)
Net discounts on long-term debt	(49.5)	—
Deferred U.S. tax on foreign income	(36.7)	(31.5)
Other	(23.7)	(9.0)
Total deferred tax liabilities	(265.9)	(95.0)
Net deferred tax asset (liability)	\$ (39.9)	\$ (34.8)

The realization of substantially all of our deferred tax assets is dependent upon generating sufficient taxable income during future periods in various jurisdictions in which we operate. Realization of certain of our deferred tax assets is not assured. We recognize a valuation allowance for deferred tax assets when it is more-likely-than-not that the benefit from the deferred tax asset will not be realized. The amount of deferred tax assets considered realizable could increase or decrease in the near-term if our estimates of future taxable income change.

As of December 31, 2019, we had deferred tax assets of \$142.9 million for U.S. foreign tax credits (“FTCs”), \$1.5 billion related to \$6.4 billion of net operating loss (“NOL”) carryforwards and \$41.5 million for U.S. interest limitation carryforwards, which can be used to reduce our income taxes payable in future years. The FTCs expire between 2022 and 2029. NOL carryforwards, which were generated in various jurisdictions worldwide, include \$5.6 billion that do not expire and \$773.0 million that will expire, if not utilized, between 2020 and 2037. Deferred tax assets for NOL carryforwards at December 31, 2019 includes \$1.3 billion acquired in the Rowan Transaction, substantially all of which pertains to NOL in Luxembourg. U.S. interest limitation carryforwards do not expire. Due to the uncertainty of realization, we have a \$1.5 billion valuation allowance on FTC, NOL carryforwards and U.S. interest limitation carryforwards.

During 2019, we completed certain restructuring transactions that generated substantial U.S. capital gains and losses. As of December 31, 2019, we had recognized a deferred tax asset of \$998 million associated with the net capital loss arising from these transactions. Based on our current assessment, this deferred tax asset is subject to a full valuation allowance because we more-likely-than-not will be unable to realize a future benefit from it.

Effective Tax Rate

Valaris plc, our parent company, is domiciled and resident in the U.K. Our subsidiaries conduct operations and earn income in numerous countries and are subject to the laws of taxing jurisdictions within those countries. The income of our non-U.K. subsidiaries is generally not subject to U.K. taxation. Income tax rates imposed in the tax jurisdictions in which our subsidiaries conduct operations vary, as does the tax base to which the rates are applied. In some cases, tax rates may be applicable to gross revenues, statutory or negotiated deemed profits or other bases utilized under local tax laws, rather than to net income.

Our drilling rigs frequently move from one taxing jurisdiction to another to perform contract drilling services. In some instances, the movement of drilling rigs among taxing jurisdictions will involve the transfer of ownership of the drilling rigs among our subsidiaries. As a result of frequent changes in the taxing jurisdictions in which our drilling rigs are operated and/or owned, changes in profitability levels and changes in tax laws, our annual effective income tax rate may vary substantially from one reporting period to another. In periods of declining profitability, our income tax expense may not decline proportionally with income, which could result in higher effective income tax rates. Further, we will continue to incur income tax expense in periods in which we operate at a loss.

Our consolidated effective income tax rate on continuing operations for each of the years in the three-year period ended December 31, 2019, differs from the U.K. statutory income tax rate as follows:

	2019	2018	2017
U.K. statutory income tax rate	19.0 %	19.0 %	19.2 %
Non-U.K. taxes	(280.9)	(18.0)	(40.4)
Bargain purchase gain	189.7	(.2)	13.8
Valuation allowance	(145.1)	(16.9)	(18.0)
Debt repurchases	48.7	(1.6)	(2.8)
Asset impairments	(31.0)	(1.4)	(17.1)
U.S. tax reform	(21.6)	2.2	(8.4)
Restructuring transaction	7.9	1.7	—
Other	12.0	(1.4)	(2.0)
Effective income tax rate	(201.3)%	(16.6)%	(55.7)%

Our 2019 consolidated effective income tax rate includes \$2.3 million associated with the impact of various discrete tax items, including \$28.3 million of tax expense associated with final rules related to U.S. tax reform, gains on repurchase of debt and settlement proceeds, partially offset by \$26.0 million of tax benefit related to restructuring

transactions, changes in liabilities for unrecognized tax benefits associated with tax positions taken in prior years and other resolutions of prior year tax matters and rig sales.

Our 2018 consolidated effective income tax includes the impact of various discrete tax items, including \$46.0 million of tax benefit associated with the utilization of foreign tax credits subject to a valuation allowance, the transition tax on deemed repatriation of the deferred foreign income of our U.S. subsidiaries and a restructuring transaction, partially offset by \$21.0 million of tax expense related to recovery of certain costs associated with an ongoing legal matter, repurchase and redemption of senior notes, unrecognized tax benefits associated with tax positions taken in prior years and rig sales.

Our 2017 consolidated effective income tax rate includes \$32.2 million associated with the impact of various discrete tax items, including \$16.5 million of tax expense associated with U.S. tax reform and \$15.7 million of tax expense associated with the exchange offers and debt repurchases, rig sales, a restructuring transaction, settlement of a previously disclosed legal contingency, the effective settlement of a liability for unrecognized tax benefits associated with a tax position taken in prior years and other resolutions of prior year tax matters.

Excluding the impact of the aforementioned discrete tax items, our consolidated effective income tax rates for the years ended December 31, 2019, 2018 and 2017 were (14.6)%, (24.8)% and (96.0)%. The changes in our consolidated effective income tax rate, excluding discrete tax items, during the three-year period result primarily from U.S. tax reform and changes in the relative components of our earnings from the various taxing jurisdictions in which our drilling rigs are operated and/or owned and differences in tax rates in such taxing jurisdictions.

As discussed in Note 7, on February 3, 2020, Rowan and RCI transferred substantially all their assets and liabilities to Valaris plc and Valaris plc became the obligor on the Rowan Notes. We expect to recognize a deferred tax benefit ranging from \$40 million to \$60 million during the first quarter of 2020 in connection with this transaction.

Unrecognized Tax Benefits

Our tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon effective settlement with a taxing authority that has full knowledge of all relevant information. As of December 31, 2019, we had \$296.7 million of unrecognized tax benefits, of which \$264.2 million was included in other liabilities on our consolidated balance sheet and the remaining \$32.5 million, which is associated with a tax position taken in tax years with NOL carryforwards, was presented as a reduction of deferred tax assets. As of December 31, 2018, we had \$143.0 million of unrecognized tax benefits, of which \$136.5 million was included in other liabilities on our consolidated balance sheet and the remaining \$6.5 million, which is associated with a tax position taken in tax years with NOL carryforwards, was presented as a reduction of deferred tax assets. If recognized, \$253.9 million of the \$296.7 million unrecognized tax benefits as of December 31, 2019 would impact our consolidated effective income tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2019 and 2018 is as follows (in millions):

	2019	2018
	\$ 143.0	\$ 147.6
Balance, beginning of year	\$ 143.0	\$ 147.6
Increases in unrecognized tax benefits as a result of the Rowan Transaction	149.9	—
Increases in unrecognized tax benefits as a result of tax positions taken during the current year	17.8	6.5
Impact of foreign currency exchange rates	(.3)	(5.0)
Lapse of applicable statutes of limitations	(4.4)	(4.5)
Increase in unrecognized tax benefits as a result of tax positions taken during prior years	1.1	2.5
Decreases in unrecognized tax benefits as a result of tax positions taken during prior years	(2.4)	(3.8)
Settlements with taxing authorities	(8.0)	(.3)
Balance, end of year	\$ 296.7	\$ 143.0

Several of our rigs are owned by subsidiaries in Switzerland that are subject to a special finance taxation regime under Swiss income tax rules. Swiss federal and cantonal governments have enacted tax legislation (“Swiss tax reform”) effective January 1, 2020. Under Swiss tax reform, the finance taxation regime has been abolished but our Swiss subsidiaries will remain subject to the finance taxation regime through December 31, 2021 and transition to deriving income tax based on net income beginning January 1, 2022. There are various uncertainties relating to the application of Swiss tax reform to finance taxation regime taxpayers, the most prominent of which is the determination of the Swiss tax basis of property and equipment. After considering these uncertainties and all information currently available, we have concluded the tax basis of the property and equipment of our Swiss subsidiaries will more likely than not approximate its U.S. GAAP basis and, accordingly, we have not recognized deferred taxes. As the Swiss tax authorities further clarify the application of Swiss tax reform to finance taxation regime taxpayers, we may recognize deferred tax adjustments and they may have a material effect on our consolidated financial statements.

Accrued interest and penalties totaled \$58.9 million and \$40.5 million as of December 31, 2019 and 2018, respectively, and were included in other liabilities on our consolidated balance sheets. We recognized a net expense of \$5.7 million, \$1.9 million and \$4.4 million associated with interest and penalties during the years ended December 31, 2019, 2018, and 2017 respectively. Interest and penalties are included in current income tax expense in our consolidated statements of operations.

Three of our subsidiaries file U.S. tax returns and the tax returns of one or more of these subsidiaries is under exam for years 2009 to 2012 and for 2014 and subsequent years. None of these examinations are expected to have an impact on the Company's consolidated results of operations and cash flows. Tax years as early as 2005 remain subject to examination in the other major tax jurisdictions in which we operated.

Statutes of limitations applicable to certain of our tax positions lapsed during 2019, 2018 and 2017, resulting in net income tax benefits, inclusive of interest and penalties, of \$5.3 million, \$5.3 million and \$1.1 million, respectively.

Absent the commencement of examinations by tax authorities, statutes of limitations applicable to certain of our tax positions will lapse during 2020. Therefore, it is reasonably possible that our unrecognized tax benefits will decline during the next 12 months by \$800,000, inclusive of \$550,000 of accrued interest and penalties, all of which would impact our consolidated effective income tax rate if recognized.

Recent Tax Assessments

During 2019, the Luxembourg tax authorities issued aggregate tax assessments totaling approximately €142.0 million (approximately \$159.0 million converted using the current period-end exchange rates) related to tax years

2014, 2015 and 2016 for several of Rowan's Luxembourg subsidiaries, which assessments accrue interest at the rate of 7.2% per annum. We may make a payment to the Luxembourg tax authorities in advance of the final resolution of these assessments. Although the outcome of such assessments cannot be predicted with certainty, unfavorable outcomes could have a material adverse effect on our financial position, operating results and cash flows. We have recorded a \$104 million liability for these assessments as of December 31, 2019.

During 2019, the Australian tax authorities issued aggregate tax assessments totaling approximately A\$101 million (approximately \$70.9 million converted at current period-end exchange rates) plus interest related to the examination of certain of our tax returns for the years 2011 through 2016. During the third quarter of 2019, we made a A\$42 million payment (approximately \$29 million at then-current exchange rates) to the Australian tax authorities to litigate the assessment. We have recorded a \$15 million liability for these assessments as of December 31, 2019. We believe our tax returns are materially correct as filed, and we are vigorously contesting these assessments. Although the outcome of such assessments and related administrative proceedings cannot be predicated with certainty, we do not expect these matters to have a material adverse effect on our financial position, operating results and cash flows.

Undistributed Earnings

Dividend income received by Valaris plc from its subsidiaries is exempt from U.K. taxation. We do not provide deferred taxes on undistributed earnings of certain subsidiaries because our policy and intention is to reinvest such earnings indefinitely. Each of the subsidiaries for which we maintain such policy has sufficient net assets, liquidity, contract backlog and/or other financial resources available to meet operational and capital investment requirements, which allows us to continue to maintain our policy of reinvesting the undistributed earnings indefinitely.

As of December 31, 2019, the aggregate undistributed earnings of the subsidiaries for which we maintain a policy and intention to reinvest earnings indefinitely totaled \$289.0 million. Should we make a distribution from these subsidiaries in the form of dividends or otherwise, we would be subject to additional income taxes. The unrecognized deferred tax liability related to these undistributed earnings was not practicable to estimate as of December 31, 2019.

13. COMMITMENTS AND CONTINGENCIES

Capital Commitments

The following table summarizes the estimated timing of our remaining contractual payments of our rigs under construction as of December 31, 2019 for our rigs under construction and (in millions):

	2020	2021	2022	Thereafter	Total⁽¹⁾
VALARIS DS-13 ⁽²⁾	\$ —	\$ 83.9	\$ —	\$ —	\$ 83.9
VALARIS DS-14 ⁽²⁾	—	—	165.0	—	165.0
	\$ —	\$ 83.9	\$ 165.0	\$ —	\$ 248.9

⁽¹⁾ Total commitments are based on fixed-price shipyard construction contracts, exclusive of costs associated with project management, commissioning and systems integration testing. Total commitments also exclude holding costs and interest.

Based on our current projections, excluding integration-related capital expenditures, we expect capital expenditures during 2020 to approximate \$160 million for newbuild construction, rig enhancement projects and minor upgrades and improvements. Approximately \$30 million of our projected capital expenditures is reimbursable by our customers. Depending on market conditions and opportunities, we may reduce our planned expenditures or make additional capital expenditures to upgrade rigs for customer requirements or acquire additional rigs.

(2) During the third quarter of 2019, we entered into amendments to our construction agreements with the shipyard for VALARIS DS-13 and VALARIS DS-14 to provide for, among other things, two-year extensions of the delivery date of each rig in exchange for payment of all accrued holding costs through March 31, 2019, totaling approximately \$23 million. The new delivery dates for the VALARIS DS-13 and VALARIS DS-14 are September 30, 2021 and June 30, 2022, respectively. We can elect to request earlier delivery in certain circumstances. The interest rate on the final milestone payments increased from 5% to 7% per annum from October 1, 2019, for the VALARIS DS-13, and from July 1, 2020, for the VALARIS DS-14, until the actual delivery dates. The final milestone payments and interest are due at the new delivery dates (or, if accelerated, the actual delivery dates) and are estimated to be approximately \$313.3 million in aggregate for both rigs, inclusive of interest, assuming we take delivery on the new delivery dates. In lieu of making the final milestone payments, we have the option to take delivery of the rigs and issue a promissory note for each rig to the shipyard owner for the amount due. If we issue the promissory note to the shipyard owner, we would also be required to provide a guarantee from Valaris plc.

Upon delivery, the remaining milestone payments and accrued interest thereon may be financed through a promissory note with the shipyard for each rig. The promissory notes will bear interest at a rate of 9% per annum with a maturity date of December 30, 2022 and will be secured by a mortgage on each respective rig. The remaining milestone payments for VALARIS DS-13 and VALARIS DS-14 are included in the table above in the period in which we expect to take delivery of the rig. However, we may elect to execute the promissory notes and defer payment until December 2022.

DSA Dispute

On January 4, 2016, Petrobras sent a notice to us declaring the drilling services agreement with Petrobras (the "DSA") for VALARIS DS-5, a drillship ordered from Samsung Heavy Industries, a shipyard in South Korea ("SHI"), void effective immediately, reserving its rights and stating its intention to seek any restitution to which it may be entitled. The previously disclosed arbitral hearing on liability related to the matter was held in March 2018. Prior to the arbitration tribunal issuing its decision, we and Petrobras agreed in August 2018 to a settlement of all claims relating to the DSA. No payments were made by either party in connection with the settlement agreement. The parties agreed to normalize business relations and the settlement agreement provides for our participation in current and future Petrobras tenders on the same basis as all other companies invited to these tenders. No losses were recognized during 2018 with respect to this settlement as all disputed receivables with Petrobras related to the DSA were fully reserved in 2015.

In April 2016, we initiated separate arbitration proceedings in the U.K. against SHI for the losses incurred in connection with the foregoing Petrobras arbitration and certain other losses relating to the DSA. In January 2018, the arbitration tribunal for the SHI matter issued an award on liability fully in our favor. The January 2018 arbitration award provides that SHI is liable to us for \$10 million or damages that we can prove. We submitted our claim for damages to the tribunal, and the arbitral hearing on damages owed to us by SHI took place during the first quarter of 2019.

In May 2019, the arbitration tribunal for the SHI matter awarded us \$180.0 million in damages. Further, we are entitled to claim interest on this award and costs incurred in connection with this matter. In June 2019, we and SHI filed separate applications with the English High Court to seek leave to appeal the damages awarded.

In December 2019, the English High Court denied the parties' applications for leave to appeal the tribunal's \$180.0 million damages award. Following this decision, the parties reached an agreement and SHI paid us \$200.0 million in cash. Collection of this payment resulted in the recognition of a gain of the same amount, which is included in other, net, in our consolidated statement of operations for the year ended December 31, 2019. This payment, along with the previously disclosed settlement and normalization of our business relationship with Petrobras, concludes our dispute surrounding VALARIS DS-5.

Indonesian Well-Control Event

In July 2019, a well being drilled offshore Indonesia by one of our jackup rigs experienced a well-control event requiring the cessation of drilling activities. The operator could seek to terminate the contract under certain circumstances. If this drilling contract were to be terminated for cause, it would result in an approximate \$8.5 million decrease in our backlog as of December 31, 2019.

Indonesian authorities have initiated a preliminary investigation into the event and have contacted the customer, us and other parties involved in drilling the well for additional information. We are cooperating with the Indonesian authorities. We cannot predict the scope or ultimate outcome of this preliminary investigation or whether the Indonesian authorities will open a full investigation into our involvement in this matter. If the Indonesian authorities determine that we violated local laws in connection with this matter, we could be subject to penalties including environmental or other liabilities, which may have a material adverse impact on us.

Middle East Dispute

On July 30, 2019, we received notice that a local partner of legacy Ensto plc in the Middle East filed a lawsuit in the U.K. against the Company alleging it induced the breach of a non-compete provision in an agreement between the local partner and a subsidiary of the Company. The lawsuit included a claim for an unspecified amount of damages in excess of £100 million and other relief. The Company expects to reach an agreement to settle this matter and to acquire the local partner's interest in the subsidiary for an aggregate amount of \$27.5 million. Of this amount, we concluded that \$20.3 million was attributable to the settlement of the dispute and was recognized as a loss included in other, net, in our consolidated statement of operations for the year ended December 31, 2019. The remaining amount is attributable to the acquisition of the local partner's interest in the subsidiary and will be recorded to equity in 2020.

ARO Funding Obligations

Valaris and Saudi Aramco have agreed to take all steps necessary to ensure that ARO purchases at least 20 newbuild jackup rigs ratably over an approximate 10-year period. In January 2020, ARO ordered the first two newbuild jackups for delivery scheduled in 2022. The partners intend for the newbuild jackup rigs to be financed out of available cash from ARO's operations and/or funds available from third-party debt financing. In the event ARO has insufficient cash from operations or is unable to obtain third-party financing, each partner may periodically be required to make additional capital contributions to ARO, up to a maximum aggregate contribution of \$1.25 billion from each partner to fund the newbuild program. Each partner's commitment shall be reduced by the actual cost of each newbuild rig, on a proportionate basis. The partners agreed that Saudi Aramco, as a customer, will provide drilling contracts to ARO in connection with the acquisition of the newbuild rigs. The initial contracts for each newbuild rig will be determined using a pricing mechanism that targets a six-year payback period for construction costs on an EBITDA basis. The initial eight-year contracts will be followed by a minimum of another eight years of term, re-priced in three-year intervals based on a market pricing mechanism.

Other Matters

In addition to the foregoing, we are named defendants or parties in certain other lawsuits, claims or proceedings incidental to our business and are involved from time to time as parties to governmental investigations or proceedings, including matters related to taxation, arising in the ordinary course of business. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, we do not expect these matters to have a material adverse effect on our financial position, operating results and cash flows.

In the ordinary course of business with customers and others, we have entered into letters of credit to guarantee our performance as it relates to our drilling contracts, contract bidding, customs duties, tax appeals and other obligations in various jurisdictions. Letters of credit outstanding as of December 31, 2019 totaled \$99.5 million and are issued under facilities provided by various banks and other financial institutions. Obligations under these letters of credit

and surety bonds are not normally called, as we typically comply with the underlying performance requirement. As of December 31, 2019, we had not been required to make collateral deposits with respect to these agreements.

14. LEASES

We have operating leases for office space, facilities, equipment, employee housing and certain rig berthing facilities. For all asset classes, except office space, we account for the lease component and the non-lease component as a single lease component. Our leases have remaining lease terms of less than one year to 10 years, some of which include options to extend. Additionally, we sublease certain office space to third parties.

During the year ended December 31, 2019, we recorded lease impairments of \$5.6 million related to the impairment of the right-of-use assets associated with an office space and a leased yard facility that were abandoned due to the consolidation of certain corporate offices and leased facilities.

The components of lease expense as of December 31, 2019 is as follows (in millions):

Long-term operating lease cost	\$	29.5
Short-term operating lease cost		12.2
Sublease income		(2.4)
Total operating lease cost	\$	39.3

Supplemental balance sheet information related to our operating leases is as follows (in millions, except lease term and discount rate) as of December 31, 2019:

Operating lease right-of-use assets ⁽¹⁾	\$	58.1
Current lease liability ⁽¹⁾	\$	21.1
Long-term lease liability ⁽¹⁾		51.8
Total operating lease liabilities	\$	72.9
Weighted-average remaining lease term (in years)		5.1
Weighted-average discount rate ⁽²⁾		8.23%

⁽¹⁾ The right-of-use assets include \$12.2 million acquired in the Rowan Transaction. The current and long-term lease liabilities include \$3.9 million and \$10.6 million, respectively, assumed in the Rowan Transaction.

⁽²⁾ Represents our estimated incremental borrowing cost on a secured basis for similar terms as the underlying leases.

For the year ended December 31, 2019, cash paid for amounts included in the measurement of our operating lease liabilities was \$29.9 million.

We are obligated under leases for certain of our offices and equipment. Rental expense relating to operating leases was \$40.1 million and \$37.0 million during the years ended December 31, 2018 and 2017, respectively.

Maturities of lease liabilities as of December 31, 2019 were as follows (in millions):

2020	\$	25.4
2021		18.4
2022		12.6
2023		10.7
2024		8.1
Thereafter		17.2
Total lease payments	\$	92.4
Less imputed interest		19.5
Total	\$	72.9

Future minimum rental payments under non-cancelable operating leases as of December 31, 2018 were as follows (in millions):

2019	\$	32.3
2020		18.7
2021		11.9
2022		9.2
2023		8.9
Thereafter		15.2
Total lease payments	\$	96.2

15. SEGMENT INFORMATION

Prior to the Rowan Transaction, our business consisted of three operating segments: (1) Floaters, which included our drillships and semisubmersible rigs, (2) Jackups, and (3) Other, which consisted of management services on rigs owned by third-parties. Floaters and Jackups were also reportable segments.

As a result of the Rowan Transaction, we concluded that we would maintain the aforementioned segment structure while adding ARO as a reportable segment for the new combined company. We also concluded that the activities associated with our arrangements with ARO, consisting of our Transition Services Agreement, Rig Lease Agreements and Secondment Agreement, do not constitute reportable segments and are therefore included within Other in the following segment disclosures. Substantially all of the expenses incurred associated with our Transition Services Agreement are included in general and administrative under "Reconciling Items" in the table set forth below.

General and administrative expense and depreciation expense incurred by our corporate office are not allocated to our operating segments for purposes of measuring segment operating income (loss) and are included in "Reconciling Items." We measure segment assets as property and equipment. The full operating results included below for ARO (representing only results of ARO from the Transaction Date) are not included within our consolidated results and thus deducted under "Reconciling Items" and replaced with our equity in earnings of ARO. See Note 4 for additional information on ARO and related arrangements.

Segment information for each of the years in the three-year period ended December 31, 2019 is presented below (in millions).

Year Ended December 31, 2019

	Floater	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 1,014.4	\$ 834.6	\$ 410.5	\$ 204.2	\$ (410.5)	\$ 2,053.2
Operating expenses						
Contract drilling (exclusive of depreciation)	898.6	788.9	280.2	118.5	(280.2)	1,806.0
Loss on impairment	88.2	10.2	—	—	5.6	104.0
Depreciation	378.6	212.4	40.3	—	(21.6)	609.7
General and administrative	—	—	27.1	—	161.8	188.9
Equity in earnings of ARO	—	—	—	—	(12.6)	(12.6)
Operating income (loss)	\$ (351.0)	\$ (176.9)	\$ 62.9	\$ 85.7	\$ (288.7)	\$ (668.0)
Property and equipment, net	\$ 10,073.1	\$ 4,322.7	\$ 650.7	\$ 701.1	\$ (650.7)	\$ 15,096.9
Capital expenditures	\$ 31.4	\$ 184.6	\$ 27.5	\$ —	\$ (16.5)	\$ 227.0

Year Ended December 31, 2018

	Floater	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 1,013.5	\$ 630.9	\$ —	\$ 61.0	\$ —	\$ 1,705.4
Operating expenses						
Contract drilling (exclusive of depreciation)	737.4	526.5	—	55.5	—	1,319.4
Loss on impairment	—	40.3	—	—	—	40.3
Depreciation	311.8	153.3	—	—	13.8	478.9
General and administrative	—	—	—	—	102.7	102.7
Operating income (loss)	\$ (35.7)	\$ (89.2)	\$ —	\$ 5.5	\$ (116.5)	\$ (235.9)
Property and equipment, net	\$ 9,465.6	\$ 3,114.1	\$ —	\$ —	\$ 36.5	\$ 12,616.2
Capital expenditures	\$ 105.5	\$ 317.7	\$ —	\$ —	\$ 3.5	\$ 426.7

Year Ended December 31, 2017

	Floaters	Jackups	ARO	Other	Reconciling Items	Consolidated Total
Revenues	\$ 1,143.5	\$ 640.3	\$ —	\$ 59.2	\$ —	\$ 1,843.0
Operating expenses						—
Contract drilling (exclusive of depreciation)	624.2	512.1	—	53.2	—	1,189.5
Loss on impairment	174.7	8.2	—	—	—	182.9
Depreciation	297.4	131.5	—	—	15.9	444.8
General and administrative	—	—	—	—	157.8	157.8
Operating income (loss)	\$ 47.2	\$ (11.5)	\$ —	\$ 6.0	\$ (173.7)	\$ (132.0)
Property and equipment, net	\$ 9,650.9	\$ 3,177.6	\$ —	\$ —	\$ 45.2	\$ 12,873.7
Capital expenditures	\$ 470.3	\$ 62.1	\$ —	\$ —	\$ 4.3	\$ 536.7

Information about Geographic Areas

As of December 31, 2019, our Floaters segment consisted of 16 drillships, eight dynamically positioned semisubmersible rigs and two moored semisubmersible rigs deployed in various locations. Of the drillships included in our Floaters segment, two ultra-deepwater drillships are under construction in South Korea. Our Jackups segment consisted of 41 jackup rigs which were deployed in various locations and our Other segment consisted of nine jackup rigs that are leased to our 50/50 joint venture with Saudi Aramco. Additionally, we had three rigs classified as held-for-sale.

As of December 31, 2019, the geographic distribution of our and ARO's drilling rigs was as follows:

	Floaters	Jackups	Other	Total	ARO
North & South America	10	8	—	18	—
Europe & the Mediterranean	7	14	—	21	—
Middle East & Africa	4	12	9	25	7
Asia & Pacific Rim	3	7	—	10	—
Asia & Pacific Rim (under construction)	2	—	—	2	—
Held-for-sale	1	2	—	3	—
Total	27	43	9	79	7

We provide management services on two rigs owned by third-parties not included in the table above.

For purposes of our long-lived asset geographic disclosure, we attribute assets to the geographic location of the drilling rig as of the end of the applicable year. For new construction projects, assets are attributed to the location of future operation if known or to the location of construction if the ultimate location of operation is undetermined.

Information by country for those countries that account for more than 10% of our long-lived assets as well as the United Kingdom, our country of domicile, was as follows (in millions):

	Long-lived Assets		
	2019	2018	2017
Spain	\$ 3,012.4	\$ 2,306.6	\$ 2,004.2
United States	2,943.9	2,270.0	2,764.9
Saudi Arabia	1,257.7	668.6	93.6
United Kingdom	1,204.0	1,185.2	609.4
Nigeria	787.3	1,368.2	583.3
Singapore	22.6	23.9	2,859.3
Other countries	5,869.0	4,793.7	3,959.0
Total	\$ 15,096.9	\$ 12,616.2	\$ 12,873.7

16. SUPPLEMENTAL FINANCIAL INFORMATION

Consolidated Balance Sheet Information

Accounts receivable, net, as of December 31, 2019 and 2018 consisted of the following (in millions):

	2019	2018
Trade	\$ 466.4	\$ 301.7
Other	60.3	46.4
	526.7	348.1
Allowance for doubtful accounts	(6.0)	(3.4)
	\$ 520.7	\$ 344.7

Other current assets as of December 31, 2019 and 2018 consisted of the following (in millions):

	2019	2018
Materials and supplies	\$ 340.1	\$ 268.1
Prepaid taxes	36.2	35.0
Deferred costs	23.3	23.5
Prepaid expenses	13.5	15.2
Other	33.4	19.1
	\$ 446.5	\$ 360.9

Other assets as of December 31, 2019 and 2018 consisted of the following (in millions):

	2019	2018
Right-of-use assets	\$ 58.1	\$ —
Tax receivables	36.3	8.4
Deferred tax assets	26.6	29.4
Supplemental executive retirement plan assets	26.0	27.2
Intangible assets	11.9	2.5
Deferred costs	7.1	13.5
Other	22.3	16.8
	\$ 188.3	\$ 97.8

Accrued liabilities and other as of December 31, 2019 and 2018 consisted of the following (in millions):

	2019	2018
Personnel costs	\$ 134.4	\$ 82.5
Accrued interest	115.2	100.6
Income and other taxes payable	61.2	36.9
Deferred revenue	30.0	56.9
Lease liabilities	21.1	—
Other	55.8	41.1
	\$ 417.7	\$ 318.0

Other liabilities as of December 31, 2019 and 2018 consisted of the following (in millions):

	2019	2018
Unrecognized tax benefits (inclusive of interest and penalties)	\$ 323.1	\$ 177.0
Pension and other post-retirement benefits	246.7	—
Deferred tax liabilities	99.0	70.7
Intangible liabilities	52.1	53.5
Lease liabilities	51.8	—
Supplemental executive retirement plan liabilities	26.7	28.1
Personnel costs	24.5	25.1
Deferred revenue	9.7	20.5
Other	33.8	21.1
	\$ 867.4	\$ 396.0

Accumulated other comprehensive income as of December 31, 2019 and 2018 consisted of the following (in millions):

	2019	2018
Derivative instruments	\$ 22.6	\$ 12.6
Pension and other post-retirement benefits	(21.7)	—
Currency translation adjustment	7.1	7.3
Other	(1.8)	(1.7)
	\$ 6.2	\$ 18.2

Consolidated Statement of Operations Information

Repair and maintenance expense related to continuing operations for each of the years in the three-year period ended December 31, 2019 was as follows (in millions):

	2019	2018	2017
Repair and maintenance expense	\$ 303.7	\$ 198.4	\$ 188.7

Other, net, for each of the years in the three-year period ended December 31, 2019 consisted of the following (in millions):

	2019	2018	2017
Gain on bargain purchase and measurement period adjustments	\$ 637.0	\$ 1.8	\$ 140.2
SHI settlement	200.0	—	—
Gain (loss) on extinguishment of debt	194.1	(19.0)	(2.6)
Settlement of legal dispute	(20.3)	—	—
Currency translation adjustments	(7.4)	(17.2)	(5.1)
Other	1.0	(.4)	1.9
	\$ 1,004.4	\$ (34.8)	\$ 134.4

Consolidated Statement of Cash Flows Information

Net cash provided by (used in) operating activities of continuing operations attributable to the net change in operating assets and liabilities for each of the years in the three-year period ended December 31, 2019 was as follows (in millions):

	2019	2018	2017
(Increase) decrease in accounts receivable	\$ 29.5	\$ (6.2)	\$ 83.2
Increase in other assets	(32.0)	(2.8)	(14.0)
Increase (Decrease) in liabilities	(25.4)	2.7	3.2
	\$ (27.9)	\$ (6.3)	\$ 72.4

During periods in which our business contracts, resulting in significantly lower revenues and expenses as compared to the prior year, we typically generate positive cash flows from the net change in operating assets and liabilities as the impact from the collection of receivables that were accrued during the prior period is generally larger than the impact from the payment of expenses incurred in the prior period. During 2019, we experienced moderate improvements in fleet utilization coupled with the Rowan Transaction that resulted in negative cash flows from changes in operating assets and liabilities. During 2018, our business contracted at a more moderate pace, resulting in modest negative cash flows from the net change in operating assets and liabilities. During 2017, our business contracted significantly as compared to the respective prior year periods resulting in positive cash generated from the net change in operating assets and liabilities.

Cash paid for interest and income taxes for each of the years in the three-year period ended December 31, 2019 was as follows (in millions):

	2019	2018	2017
Interest, net of amounts capitalized	\$ 410.0	\$ 232.6	\$ 199.8
Income taxes	107.6	58.4	62.8

Capitalized interest totaled \$20.9 million, \$62.6 million and \$72.5 million during the years ended December 31, 2019, 2018 and 2017, respectively. Capital expenditure accruals totaling \$16.3 million, \$27.8 million and \$243.3 million for the years ended December 31, 2019, 2018 and 2017, respectively, were excluded from investing activities in our consolidated statements of cash flows.

Amortization, net, includes amortization of deferred mobilization revenues and costs, deferred capital upgrade revenues, intangible amortization and other amortization.

Other includes amortization of debt discounts and premiums, deferred financing costs, deferred charges for income taxes incurred on intercompany transfers of drilling rigs and other items.

Concentration of Risk

We are exposed to credit risk relating to our receivables from customers, our cash and cash equivalents, investments and our use of derivatives in connection with the management of foreign currency exchange rate risk. We mitigate our credit risk relating to receivables from customers, which consist primarily of major international, government-owned and independent oil and gas companies, by performing ongoing credit evaluations. We also maintain reserves for potential credit losses, which generally have been within our expectations. We mitigate our credit risk relating to cash and investments by focusing on diversification and quality of instruments. Short-term investments consist of a portfolio of time deposits held with several well-capitalized financial institutions, and we monitor the financial condition of those financial institutions.

We mitigate our credit risk relating to counterparties of our derivatives through a variety of techniques, including transacting with multiple, high-quality financial institutions, thereby limiting our exposure to individual counterparties and by entering into ISDA Master Agreements, which include provisions for a legally enforceable master netting agreement, with our derivative counterparties. See "Note 8 - Derivative Instruments" for additional information on our derivative activity.

The terms of the ISDA agreements may also include credit support requirements, cross default provisions, termination events or set-off provisions. Legally enforceable master netting agreements reduce credit risk by providing protection in bankruptcy in certain circumstances and generally permitting the closeout and netting of transactions with the same counterparty upon the occurrence of certain events.

Consolidated revenues by customer for the years ended December 31, 2019, 2018 and 2017 were as follows:

	2019	2018	2017
Total ⁽¹⁾	16%	15%	22%
BP ⁽²⁾	9%	7%	15%
Saudi Aramco ⁽³⁾	7%	11%	9%
Petrobras ⁽⁴⁾	4%	8%	11%
Other	64%	59%	43%
	100%	100%	100%

⁽¹⁾ For the years ended December 31, 2019, 93% of revenues provided by Total were attributable to the Floater segment and the remainder was attributable to the Jackup segment. During the years 2018 and 2017, all Total revenues were attributable to the Floater segment.

⁽²⁾ For the year ended December 31, 2019, 16%, 43% and 41% of BP revenues were attributable to our Floater, Other and Jackup segments, respectively.

For the year ended December 31, 2018, 27%, 53% and 20% of BP revenues were attributable to our Floater, Other and Jackup segments, respectively.

For the year ended December 31, 2017, 78% of BP revenues were attributable to our Floater segment and the remaining revenues were attributable to our Other segment.

⁽³⁾ For the years ended December 31, 2019, 2018 and 2017, all Saudi Aramco revenues were attributable to the Jackup segment.

⁽⁴⁾ For the years ended December 31, 2019, 2018 and 2017, all Petrobras revenues were attributable to the Floater segment.

For purposes of our geographic disclosure, we attribute revenues to the geographic location where such revenues are earned. Consolidated revenues by region, including the United Kingdom, our country of domicile, for the years ended December 31, 2019, 2018 and 2017 were as follows (in millions):

	2019	2018	2017
Saudi Arabia ⁽¹⁾	\$ 313.4	\$ 182.2	\$ 171.8
U.S. Gulf of Mexico ⁽²⁾	301.0	214.7	149.8
Angola ⁽³⁾	284.0	285.7	445.7
United Kingdom ⁽⁴⁾	213.1	192.6	164.6
Australia ⁽⁵⁾	204.2	283.9	206.7
Brazil ⁽⁶⁾	117.8	139.6	196.2
Egypt ⁽⁷⁾	40.4	31.2	214.8
Other	579.3	375.5	293.4
	\$2,053.2	\$1,705.4	\$1,843.0

⁽¹⁾ For the years ended December 31, 2019, 65% and 35% of revenues were attributable to our Jackup and Other segments, respectively. For the years ended December 31, 2018 and 2017, all revenues earned were attributable to our Jackup segment.

⁽²⁾ For the years ended December 31, 2019, 2018 and 2017, 46%, 30% and 29% of revenues earned in the U.S. Gulf of Mexico, respectively, were attributable to our Floaters segment, 28%, 42% and 31% of revenues were attributable to our Jackup segment, respectively, and the remaining revenues were attributable to our Other segment, respectively.

⁽³⁾ For the years ended December 31, 2019, 2018 and 2017, 87%, 86% and 88% of revenues earned in Angola, respectively, were attributable to our Floaters segment with the remaining revenues attributable to our Jackup segment.

⁽⁴⁾ For the years ended December 31, 2019, 2018 and 2017, all revenues earned in the United Kingdom were attributable to our Jackup segment.

⁽⁵⁾ For the years ended December 31, 2019, 2018 and 2017, 90%, 92% and 87% of revenues earned in Australia, respectively, were attributable to our Floaters segment with the remaining revenues attributable to our Jackup segment.

⁽⁶⁾ For the years ended December 31, 2019, 2018 and 2017, all revenues earned in Brazil were attributable to our Floaters segment.

⁽⁷⁾ For the years ended December 31, 2019, 2018 and 2017, all revenues earned in Egypt were attributable to our Floaters segment.

17. GUARANTEE OF REGISTERED SECURITIES

In connection with the Pride acquisition, Valaris and Pride entered into a supplemental indenture to the indenture dated as of July 1, 2004 between Pride and the Bank of New York Mellon, as indenture trustee, providing for, among other matters, the full and unconditional guarantee by Valaris of Pride's 6.875% senior notes due 2020 and 7.875% senior notes due 2040, which had an aggregate outstanding principal balance of \$422.9 million as of December 31, 2019. The Valaris guarantee provides for the unconditional and irrevocable guarantee of the prompt payment, when due, of any amount owed to the holders of the notes.

Valaris is also a full and unconditional guarantor of the 7.2% Debentures due 2027 issued by Ensen International Incorporated in November 1997, which had an aggregate outstanding principal balance of \$112.1 million as of December 31, 2019.

Pride International LLC and Ensen International Incorporated are 100% owned subsidiaries of Valaris. All guarantees are unsecured obligations of Valaris ranking equal in right of payment with all of its existing and future unsecured and unsubordinated indebtedness.

The following tables present our condensed consolidating statements of operations for each of the years in the three-year period ended December 31, 2019; our condensed consolidating statements of comprehensive income (loss) for each of the years in the three-year period ended December 31, 2019; our condensed consolidating balance sheets as of December 31, 2019 and 2018; and our condensed consolidating statements of cash flows for each of the years in the three-year period ended December 31, 2019, in accordance with Rule 3-10 of Regulation S-X.

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Year Ended December 31, 2019
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
OPERATING REVENUES	\$ 56.7	\$ 165.5	\$ —	\$ 2,168.9	\$ (337.9)	\$ 2,053.2
OPERATING EXPENSES						
Contract drilling (exclusive of depreciation)	82.6	147.1	—	1,914.2	(337.9)	1,806.0
Loss on impairment	—	—	—	104.0	—	104.0
Depreciation	.1	17.3	—	592.3	—	609.7
General and administrative	85.5	.4	—	103.0	—	188.9
	168.2	164.8	—	2,713.5	(337.9)	2,708.6
EQUITY IN EARNINGS OF ARO	—	—	—	(12.6)	—	(12.6)
OPERATING INCOME (LOSS)	(111.5)	0.7	—	(557.2)	—	(668.0)
OTHER INCOME (EXPENSE), NET	723.9	(35.7)	(80.8)	(20.2)	17.0	604.2
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	612.4	(35.0)	(80.8)	(577.4)	17.0	(63.8)
INCOME TAX EXPENSE	—	39.8	—	88.6	—	128.4
EQUITY EARNINGS (LOSSES) IN AFFILIATES, NET OF TAX	(810.4)	47.8	25.0	—	737.6	—
NET LOSS	(198.0)	(27.0)	(55.8)	(666.0)	754.6	(192.2)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	—	—	(5.8)	—	(5.8)
NET LOSS ATTRIBUTABLE TO VALARIS	\$ (198.0)	\$ (27.0)	\$ (55.8)	\$ (671.8)	\$ 754.6	\$ (198.0)

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Year Ended December 31, 2018
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
OPERATING REVENUES	\$ 49.5	\$ 155.2	\$ —	\$ 1,802.8	\$ (302.1)	\$ 1,705.4
OPERATING EXPENSES						
Contract drilling (exclusive of depreciation)	51.0	139.5	—	1,431.0	(302.1)	1,319.4
Loss on impairment	—	—	—	40.3	—	40.3
Depreciation	—	14.2	—	464.7	—	478.9
General and administrative	46.3	.4	—	56.0	—	102.7
OPERATING INCOME (LOSS)	(47.8)	1.1	—	(189.2)	—	(235.9)
OTHER INCOME (EXPENSE), NET	2.7	(135.2)	(89.0)	(109.0)	27.5	(303.0)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(45.1)	(134.1)	(89.0)	(298.2)	27.5	(538.9)
INCOME TAX EXPENSE	—	43.3	—	46.3	—	89.6
DISCONTINUED OPERATIONS, NET	—	—	—	(8.1)	—	(8.1)
EQUITY EARNINGS (LOSSES) IN AFFILIATES, NET OF TAX	(594.6)	121.8	93.3	—	379.5	—
NET INCOME (LOSS)	(639.7)	(55.6)	4.3	(352.6)	407.0	(636.6)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	—	—	(3.1)	—	(3.1)
NET INCOME (LOSS) ATTRIBUTABLE TO VALARIS	\$ (639.7)	\$ (55.6)	\$ 4.3	\$ (355.7)	\$ 407.0	\$ (639.7)

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Year Ended December 31, 2017
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
OPERATING REVENUES	\$ 52.9	\$ 163.3	\$ —	\$ 1,941.2	\$ (314.4)	\$ 1,843.0
OPERATING EXPENSES						
Contract drilling (exclusive of depreciation)	50.0	149.9	—	1,304.0	(314.4)	1,189.5
Loss on impairment	—	—	—	182.9	—	182.9
Depreciation	—	15.9	—	428.9	—	444.8
General and administrative	45.4	50.8	—	61.6	—	157.8
OPERATING LOSS	(42.5)	(53.3)	—	(36.2)	—	(132.0)
OTHER INCOME (EXPENSE), NET	(6.8)	(110.5)	(71.7)	110.5	14.5	(64.0)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(49.3)	(163.8)	(71.7)	74.3	14.5	(196.0)
INCOME TAX EXPENSE	—	45.0	—	64.2	—	109.2
DISCONTINUED OPERATIONS, NET	—	—	—	1.0	—	1.0
EQUITY EARNINGS (LOSSES) IN AFFILIATES, NET OF TAX	(254.4)	129.6	84.2	—	40.6	—
NET INCOME (LOSS)	(303.7)	(79.2)	12.5	11.1	55.1	(304.2)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	—	—	.5	—	.5
NET INCOME (LOSS) ATTRIBUTABLE TO VALARIS	\$ (303.7)	\$ (79.2)	\$ 12.5	\$ 11.6	\$ 55.1	\$ (303.7)

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
Year Ended December 31, 2019
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- Guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
NET LOSS	\$ (198.0)	\$ (27.0)	\$ (55.8)	\$ (666.0)	\$ 754.6	\$ (192.2)
OTHER COMPREHENSIVE INCOME (LOSS), NET						
Net changes in pension and other postretirement plan assets and benefit obligations recognized in other comprehensive loss, net of income tax benefits of (\$5.9 million)	—	—	—	(21.7)	—	\$ (21.7)
Net change in fair value of derivatives	—	1.6	—	—	—	1.6
Reclassification of net gains on derivative instruments from other comprehensive loss into net loss	—	8.3	—	—	—	8.3
Other	—	—	—	(.2)	—	(.2)
NET OTHER COMPREHENSIVE INCOME (LOSS)	—	9.9	—	(21.9)	—	(12.0)
COMPREHENSIVE LOSS	(198.0)	(17.1)	(55.8)	(687.9)	754.6	(204.2)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	—	—	(5.8)	—	(5.8)
COMPREHENSIVE LOSS ATTRIBUTABLE TO VALARIS	\$ (198.0)	\$ (17.1)	\$ (55.8)	\$ (693.7)	\$ 754.6	\$ (210.0)

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
Year Ended December 31, 2018
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- Guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
NET INCOME (LOSS)	\$ (639.7)	\$ (55.6)	\$ 4.3	\$ (352.6)	\$ 407.0	\$ (636.6)
OTHER COMPREHENSIVE LOSS, NET						
Net change in fair value of derivatives	—	(9.7)	—	—	—	(9.7)
Reclassification of net losses on derivative instruments from other comprehensive income into net income	—	(1.0)	—	—	—	(1.0)
Other	—	—	—	(.5)	—	(.5)
NET OTHER COMPREHENSIVE LOSS	—	(10.7)	—	(.5)	—	(11.2)
COMPREHENSIVE INCOME (LOSS)	(639.7)	(66.3)	4.3	(353.1)	407.0	(647.8)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	—	—	(3.1)	—	(3.1)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO VALARIS	\$ (639.7)	\$ (66.3)	\$ 4.3	\$ (356.2)	\$ 407.0	\$ (650.9)

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
Year Ended December 31, 2017
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- Guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
NET INCOME (LOSS)	\$ (303.7)	\$ (79.2)	\$ 12.5	\$ 11.1	\$ 55.1	\$ (304.2)
OTHER COMPREHENSIVE INCOME, NET						
Net change in fair value of derivatives	—	8.5	—	—	—	8.5
Reclassification of net gains on derivative instruments from other comprehensive income into net loss	—	.4	—	—	—	.4
Other	—	—	—	.7	—	.7
NET OTHER COMPREHENSIVE INCOME	—	8.9	—	.7	—	9.6
COMPREHENSIVE INCOME (LOSS)	(303.7)	(70.3)	12.5	11.8	55.1	(294.6)
COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	—	—	.5	—	.5
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO VALARIS	\$ (303.7)	\$ (70.3)	\$ 12.5	\$ 12.3	\$ 55.1	\$ (294.1)

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2019
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 21.5	\$ —	\$ —	\$ 75.7	\$ —	\$ 97.2
Short-term investments	—	—	—	—	—	—
Accounts receivable, net	0.2	19.7	—	500.8	—	520.7
Accounts receivable from affiliates	4,031.4	386.0	—	897.2	(5,314.6)	—
Other	.6	11.6	—	434.3	—	446.5
Total current assets	4,053.7	417.3	—	1,908.0	(5,314.6)	1,064.4
PROPERTY AND EQUIPMENT, AT COST	1.9	108.8	—	18,283.1	—	18,393.8
Less accumulated depreciation	1.9	84.7	—	3,210.3	—	3,296.9
Property and equipment, net	—	24.1	—	15,072.8	—	15,096.9
SHAREHOLDER NOTE FROM ARO	—	—	—	452.9	—	452.9
INVESTMENT IN ARO	—	—	—	128.7	—	128.7
DUE FROM AFFILIATES	73.8	—	38.9	1,775.7	(1,888.4)	—
INVESTMENTS IN AFFILIATES	9,778.5	788.8	1,224.9	—	(11,792.2)	—
OTHER ASSETS	7.9	3.8	—	182.6	(6.0)	188.3
	\$ 13,913.9	\$ 1,234.0	\$ 1,263.8	\$ 19,520.7	\$ (19,001.2)	\$ 16,931.2
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	\$ 99.2	\$ 29.3	\$ 12.2	\$ 565.2	\$ —	\$ 705.9
Accounts payable to affiliates	818.8	147.8	815.1	3,532.9	(5,314.6)	—
Current maturities of long - term debt	—	—	124.8	—	—	124.8
Total current liabilities	918.0	177.1	952.1	4,098.1	(5,314.6)	830.7
DUE TO AFFILIATES	710.3	478.8	586.6	112.7	(1,888.4)	—
LONG-TERM DEBT	2,990.6	111.7	373.3	2,447.9	—	5,923.5
OTHER LIABILITIES	(14.6)	90.6	—	797.4	(6.0)	867.4
VALARIS SHAREHOLDERS' EQUITY (DEFICIT)	9,309.6	375.8	(648.2)	12,065.9	(11,792.2)	9,310.9
NONCONTROLLING INTERESTS	—	—	—	(1.3)	—	(1.3)
Total equity (deficit)	9,309.6	375.8	(648.2)	12,064.6	(11,792.2)	9,309.6
	\$ 13,913.9	\$ 1,234.0	\$ 1,263.8	\$ 19,520.7	\$ (19,001.2)	\$ 16,931.2

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2018
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 199.8	\$ —	\$ 2.7	\$ 72.6	\$ —	\$ 275.1
Short-term investments	329.0	—	—	—	—	329.0
Accounts receivable, net	7.3	25.4	—	312.0	—	344.7
Accounts receivable from affiliates	1,861.2	171.4	—	131.7	(2,164.3)	—
Other	.6	6.0	—	354.3	—	360.9
Total current assets	2,397.9	202.8	2.7	870.6	(2,164.3)	1,309.7
PROPERTY AND EQUIPMENT, AT COST	1.8	125.2	—	15,390.0	—	15,517.0
Less accumulated depreciation	1.8	91.3	—	2,807.7	—	2,900.8
Property and equipment, net	—	33.9	—	12,582.3	—	12,616.2
DUE FROM AFFILIATES	2,413.8	234.5	125.0	2,715.1	(5,488.4)	—
INVESTMENTS IN AFFILIATES	8,522.6	3,713.7	1,199.9	—	(13,436.2)	—
OTHER ASSETS	8.1	—	—	89.7	—	97.8
	\$ 13,342.4	\$ 4,184.9	\$ 1,327.6	\$ 16,257.7	\$ (21,088.9)	\$ 14,023.7
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	\$ 85.3	\$ 32.0	\$ 12.7	\$ 398.5	\$ —	\$ 528.5
Accounts payable to affiliates	59.7	139.5	38.2	1,926.9	(2,164.3)	—
Total current liabilities	145.0	171.5	50.9	2,325.4	(2,164.3)	528.5
DUE TO AFFILIATES	1,432.0	1,226.9	1,366.5	1,463.0	(5,488.4)	—
LONG-TERM DEBT	3,676.5	149.3	502.6	682.0	—	5,010.4
OTHER LIABILITIES	0.1	64.3	—	331.6	—	396.0
VALARIS SHAREHOLDERS' EQUITY (DEFICIT)	8,088.8	2,572.9	(592.4)	11,458.3	(13,436.2)	8,091.4
NONCONTROLLING INTERESTS	—	—	—	(2.6)	—	(2.6)
Total equity (deficit)	8,088.8	2,572.9	(592.4)	11,455.7	(13,436.2)	8,088.8
	\$ 13,342.4	\$ 4,184.9	\$ 1,327.6	\$ 16,257.7	\$ (21,088.9)	\$ 14,023.7

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2019
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
OPERATING ACTIVITIES						
Net cash provided by (used in) operating activities of continuing operations	\$ (181.2)	\$ (57.9)	\$ (111.3)	\$ 73.5	\$ —	\$ (276.9)
INVESTING ACTIVITIES						
Acquisition of Rowan, net of cash acquired	—	—	—	931.9	—	931.9
Maturities of short-term investments	474.0	—	—	—	—	474.0
Purchases of short-term investments	(145.0)	—	—	—	—	(145.0)
Additions to property and equipment	—	—	—	(227.0)	—	(227.0)
Net proceeds from disposition of assets	—	—	—	17.7	—	17.7
Other	(.1)	—	—	.1	—	—
Net cash provided by investing activities of continuing operations	328.9	—	—	722.7	—	1,051.6
FINANCING ACTIVITIES						
Reduction of long-term borrowings	(536.6)	(30.4)	—	(361.1)	—	(928.1)
Borrowings on credit facility	215.0	—	—	—	—	215.0
Repayments of credit facility borrowings	(215.0)	—	—	—	—	(215.0)
Advances from (to) affiliates	220.6	88.3	108.6	(417.5)	—	—
Debt solicitation fees	—	—	—	(9.5)	—	(9.5)
Cash dividends paid	(4.5)	—	—	—	—	(4.5)
Other	(5.5)	—	—	(4.7)	—	(10.2)
Net cash provided by (used in) financing activities	(326.0)	57.9	108.6	(792.8)	—	(952.3)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(.3)	—	(.3)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(178.3)	—	(2.7)	3.1	—	(177.9)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	199.8	—	2.7	72.6	—	275.1
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 21.5	\$ —	\$ —	\$ 75.7	\$ —	\$ 97.2

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2018
(in millions)

	<u>Valaris plc</u>	<u>ENSCO International Incorporated</u>	<u>Pride International LLC</u>	<u>Other Non- guarantor Subsidiaries of Valaris</u>	<u>Consolidating Adjustments</u>	<u>Total</u>
OPERATING ACTIVITIES						
Net cash provided by (used in) operating activities of continuing operations	\$ 18.1	\$ (135.1)	\$ (97.6)	\$ 158.9	\$ —	\$ (55.7)
INVESTING ACTIVITIES						
Maturities of short-term investments	1,030.0	—	—	—	—	1,030.0
Purchases of short-term investments	(919.0)	—	—	—	—	(919.0)
Additions to property and equipment	—	—	—	(426.7)	—	(426.7)
Net proceeds from disposition of assets	—	—	—	11.0	—	11.0
Purchase of affiliate debt	(551.7)	—	—	—	551.7	—
Sale of affiliate debt	479.0	—	—	—	(479.0)	—
Net cash provided by (used in) investing activities of continuing operations	38.3	—	—	(415.7)	72.7	(304.7)
FINANCING ACTIVITIES						
Proceeds from issuance of senior notes	1,000.0	—	—	—	—	1,000.0
Advances from (to) affiliates	(845.0)	135.1	612.5	97.4	—	—
Reduction of long-term borrowings	(159.9)	—	(537.8)	(0.8)	(72.7)	(771.2)
Debt issuance costs	(17.0)	—	—	—	—	(17.0)
Cash dividends paid	(17.9)	—	—	—	—	(17.9)
Other	(2.0)	—	—	(3.7)	—	(5.7)
Net cash provided by (used in) financing activities	(41.8)	135.1	74.7	92.9	(72.7)	188.2
Net cash provided by discontinued operations	—	—	—	2.5	—	2.5
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(.6)	—	(.6)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14.6	—	(22.9)	(162.0)	—	(170.3)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	185.2	—	25.6	234.6	—	445.4
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 199.8	\$ —	\$ 2.7	\$ 72.6	\$ —	\$ 275.1

VALARIS PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended December 31, 2017
(in millions)

	Valaris plc	ENSCO International Incorporated	Pride International LLC	Other Non- guarantor Subsidiaries of Valaris	Consolidating Adjustments	Total
OPERATING ACTIVITIES						
Net cash provided by (used in) operating activities of continuing operations	\$ (18.2)	\$ (117.6)	\$ (100.1)	\$ 495.3	\$ —	\$ 259.4
INVESTING ACTIVITIES						
Purchases of short-term investments	(1,022.9)	—	—	(17.1)	—	(1,040.0)
Additions to property and equipment	—	—	—	(536.7)	—	(536.7)
Maturities of short-term investments	1,748.0	5.5	—	289.0	—	2,042.5
Net proceeds from disposition of assets	—	—	—	2.8	—	2.8
Purchase of affiliate debt	(316.3)	—	—	—	316.3	—
Acquisition of Atwood, net of cash acquired	—	—	—	(871.6)	—	(871.6)
Net cash provided by (used in) investing activities of continuing operations	408.8	5.5	—	(1,133.6)	316.3	(403.0)
FINANCING ACTIVITIES						
Reduction of long-term borrowing	(220.7)	—	—	—	(316.3)	(537.0)
Cash dividends paid	(13.8)	—	—	—	—	(13.8)
Debt issuance costs	(12.0)	—	—	—	—	(12.0)
Advances from (to) affiliates	(848.9)	112.1	105.9	630.9	—	—
Other	(2.6)	—	—	(5.1)	—	(7.7)
Net cash provided by (used in) financing activities	(1,098.0)	112.1	105.9	625.8	(316.3)	(570.5)
Net cash used in discontinued operations	—	—	—	(.8)	—	(.8)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	.6	—	.6
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(707.4)	—	5.8	(12.7)	—	(714.3)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	892.6	—	19.8	247.3	—	1,159.7
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 185.2	\$ —	\$ 25.6	\$ 234.6	\$ —	\$ 445.4

18. UNAUDITED QUARTERLY FINANCIAL DATA

The following tables summarize our unaudited quarterly condensed consolidated income statement data for the years ended December 31, 2019 and 2018 (in millions, except per share amounts):

	2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	\$ 405.9	\$ 583.9	\$ 551.3	\$ 512.1	\$ 2,053.2
Operating expenses					
Contract drilling (exclusive of depreciation)	332.6	500.3	496.5	476.6	1,806.0
Loss on impairment ⁽¹⁾	—	2.5	88.2	13.3	104.0
Depreciation	125.0	157.9	163.0	163.8	609.7
General and administrative	29.6	81.2	36.1	42.0	188.9
Equity in earnings of ARO	—	0.6	(3.7)	(9.5)	(12.6)
Operating loss	(81.3)	(157.4)	(236.2)	(193.1)	(668.0)
Other income (expense), net	(75.2)	597.3	40.2	41.9	604.2
Income (loss) from continuing operations before income taxes	(156.5)	439.9	(196.0)	(151.2)	(63.8)
Income tax expense	31.5	32.6	1.5	62.8	128.4
Net income (loss)	(188.0)	407.3	(197.5)	(214.0)	(192.2)
Net (income) loss attributable to noncontrolling interests	(2.4)	(1.8)	.4	(2.0)	(5.8)
Net income (loss) attributable to Valaris	\$ (190.4)	\$ 405.5	\$ (197.1)	\$ (216.0)	\$ (198.0)
Income (loss) per share – basic and diluted					
Continuing operations	\$ (1.75)	\$ 2.09	\$ (1.00)	\$ (1.09)	\$ (1.14)
Discontinued operations	—	—	—	—	—
	\$ (1.75)	\$ 2.09	\$ (1.00)	\$ (1.09)	\$ (1.14)

⁽¹⁾ The quarterly periods included losses associated with the impairment of older, less capable, non-core rigs and operating lease impairments. See "Note 6 - Property and Equipment" and "Note 14 - Leases" for additional information.

	2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	\$ 417.0	\$ 458.5	\$ 430.9	\$ 399.0	\$ 1,705.4
Operating expenses					
Contract drilling (exclusive of depreciation)	325.2	344.3	327.1	322.8	1,319.4
Loss on impairment ⁽¹⁾	—	—	—	40.3	40.3
Depreciation	115.2	120.7	120.6	122.4	478.9
General and administrative	27.9	26.1	25.1	23.6	102.7
Operating loss	(51.3)	(32.6)	(41.9)	(110.1)	(235.9)
Other expense, net	(70.7)	(84.8)	(77.7)	(69.8)	(303.0)
Loss from continuing operations before income taxes	(122.0)	(117.4)	(119.6)	(179.9)	(538.9)
Income tax expense	18.4	24.7	23.3	23.2	89.6
Loss from continuing operations	(140.4)	(142.1)	(142.9)	(203.1)	(628.5)
Loss from discontinued operations, net	(.1)	(8.0)	—	—	(8.1)
Net loss	(140.5)	(150.1)	(142.9)	(203.1)	(636.6)
Net (income) loss attributable to noncontrolling interests	.4	(.9)	(2.1)	(.5)	(3.1)
Net loss attributable to Valaris	\$ (140.1)	\$ (151.0)	\$ (145.0)	\$ (203.6)	\$ (639.7)
Loss per share – basic and diluted					
Continuing operations	\$ (1.29)	\$ (1.31)	\$ (1.34)	\$ (1.88)	\$ (5.82)
Discontinued operations	—	(0.08)	—	—	(0.08)
	\$ (1.29)	\$ (1.39)	\$ (1.34)	\$ (1.88)	\$ (5.90)

⁽¹⁾ Fourth quarter included an aggregate loss of \$40.3 million associated with the impairment of an older, non-core jackup rig. See "Note 6 - Property and Equipment" for additional information.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

VALARIS



**Boldly
First**

2019 UNITED KINGDOM STATUTORY ACCOUNTS

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FORWARD-LOOKING STATEMENTS

Statements contained in the U.K. Statutory Accounts that are not historical facts are forward-looking statements. Forward-looking statements include words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "could," "may," "might," "should," "will" and similar words and specifically include statements involving expected financial performance; backlog; rig commitments and contracts; contract duration, status, terms and other contract commitments; contract cancellations; and general market, business and industry conditions, trends and outlook. The forward-looking statements contained herein are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including the coronavirus global pandemic and the response thereto; actions by regulatory authorities, rating agencies or other third parties; actions by our security holders; costs and difficulties related to the integration of Ensco and Rowan and the related impact on our financial results and performance; our ability to repay debt and the timing thereof; availability and terms of any financing; commodity price fluctuations, customer demand, new rig supply, downtime and other risks associated with offshore rig operations, relocations, severe weather or hurricanes; changes in worldwide rig supply and demand, competition and technology; future levels of offshore drilling activity; governmental action, civil unrest and political and economic uncertainties; terrorism, piracy and military action; risks inherent to shipyard rig construction, repair, maintenance or enhancement; possible cancellation, suspension or termination of drilling contracts as a result of mechanical difficulties, performance, customer finances, the decline or the perceived risk of a further decline in oil and/or natural gas prices, or other reasons, including terminations for convenience (without cause); our ability to enter into, and the terms of, future drilling contracts; any failure to execute definitive contracts following announcements of letters of intent, letters of award or other expected work commitments; the outcome of litigation, legal proceedings, investigations or other claims or contract disputes; governmental regulatory, legislative and permitting requirements affecting drilling operations; our ability to attract and retain skilled personnel on commercially reasonable terms; environmental or other liabilities, risks or losses; debt restrictions that may limit our liquidity and flexibility; and cybersecurity risks and threats.

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Strategic report

Our business

Valaris plc ("we," "our", the "company" or the "group") is a leading provider of offshore contract drilling services to the international oil and gas industry. Exclusive of two rigs under construction and one rig marked for retirement and held-for-sale, we currently own and operate an offshore drilling rig fleet of 74 rigs, with drilling operations in almost every major offshore market across six continents. Inclusive of our rigs under construction, our rig fleet includes 16 drillships, eight dynamically positioned semisubmersible rigs, two moored semisubmersible rigs and 50 jackup rigs, nine of which are leased to our 50/50 venture with Saudi Aramco. We operate the world's largest fleet amongst competitive rigs, including one of the newest ultra-deepwater fleets in the industry and a leading premium jackup fleet.

Our customers include many of the leading national and international oil companies, in addition to many independent operators. We are among the most geographically diverse offshore drilling companies, with current operations spanning 24 countries on six continents. The markets in which we operate include the Gulf of Mexico, Brazil, the Mediterranean, the North Sea, Norway, the Middle East, West Africa, Australia and Southeast Asia.

We provide drilling services on a day rate contract basis. Under day rate contracts, we provide an integrated service that includes the provision of a drilling rig and rig crews for which we receive a daily rate that may vary between the full rate and zero rate throughout the duration of the contractual term, depending on the operations of the rig. We also may receive lump-sum fees or similar compensation for the mobilisation, demobilisation and capital upgrades of our rigs. Our customers bear substantially all of the costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well.

Rowan transaction

On 7 October 2018, we entered into a transaction agreement (the "Transaction Agreement") with Rowan Companies Limited (formerly Rowan Companies plc ("Rowan")), and on 11 April 2019 (the "Transaction Date"), we completed our combination with Rowan pursuant to the Transaction Agreement (the "Rowan Transaction") and changed our name to Enscos Rowan plc. On 30 July 2019, we changed our name to Valaris plc. Rowan's financial results are included in our consolidated results beginning on the Transaction Date.

As a result of the Rowan Transaction, Rowan shareholders received 2.75 Valaris Class A ordinary shares for each Rowan Class A ordinary share, representing a value of \$43.67 per Rowan share based on a closing price of \$15.88 per Valaris share on 10 April 2019, the last trading day before the Transaction Date. Total consideration delivered in the Rowan Transaction consisted of 88.3 million Valaris shares with an aggregate value of \$1.4 billion. All share and per share data included in this report have been retroactively adjusted to reflect the Reverse Stock Split (as defined below).

The Rowan Transaction enhanced the market leadership of the combined company with a fleet of high-specification floaters and jackups and positions us well to meet evolving customer demand. Exclusive of two older jackup rigs marked for retirement, Rowan's offshore rig fleet at the Transaction Date consisted of four ultra-deepwater drillships and 19 jackup rigs.

Prior to the Rowan Transaction, Rowan and Saudi Aramco formed a 50/50 venture to own, manage and operate drilling rigs offshore Saudi Arabia ("Saudi Aramco Rowan Offshore Drilling Company" or "ARO"). ARO currently owns a fleet of seven jackup rigs, leases another nine jackup rigs from us and has plans to purchase up to 20 newbuild jackup rigs over an approximate 10 year period. In January 2020, ARO ordered the first two newbuild jackups scheduled for delivery in 2022. The rigs we lease to ARO are done through bareboat charter agreements whereby substantially all operating costs are incurred by ARO. All nine jackup rigs leased to ARO and all seven ARO-owned jackup rigs are under long-term contracts with Saudi Aramco. For additional information about our ARO venture, see note 4 of our consolidated financial statements.

Reverse stock split

Upon closing of the Rowan Transaction, we effected a consolidation (being a reverse stock split under English law) whereby every four existing Valaris Class A ordinary shares, each with a nominal value of \$0.10, were consolidated into one Class A ordinary share, each with a nominal value of \$0.40 (the "Reverse Stock Split"). Our shares began trading on a reverse stock split-adjusted

basis on 11 April 2019. All share and per share data included in this Annual Report and Financial Statements have been retroactively adjusted to reflect the Reverse Stock Split.

Going concern

Whilst the financial statements are prepared on a going concern basis, the directors have identified circumstances that represent a material uncertainty over the group's ability to continue as a going concern. See note 1.

Principal risks and uncertainties

The achievement of the group's strategy and objectives, together with accounting estimates and judgements used to prepare the financial statements and the forward-looking statements contained in this annual report are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated.

Subsequent to the 31 December 2019 year end, the coronavirus global pandemic and the response thereto have negatively impacted the macro-economic environment and global economy. Global oil demand has fallen sharply at the same time global oil supply has increased as a result of certain oil producers competing for market share, leading to a supply glut. As a consequence, the price of brent crude oil has fallen from around \$60 per barrel at year-end 2019 to around \$20 per barrel as of mid-April. In response to dramatically reduced oil price expectations for the near term, our customers are reviewing, and in most cases lowering significantly, their capital expenditure plans in light of revised pricing expectations. We are unable to accurately predict the full impact that the pandemic and the precipitous decline in oil prices will have on our results of operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the outbreak, the duration of the price decline, and the extent of disruptions to our operations. To date, there have been various impacts from the pandemic and drop in oil prices, including contract cancellations or the cancellation of drilling programs by operators, stacking rigs, inability to staff rigs due to travel restrictions, and workforce reductions. Our operations and business may be subject to further disruptions as a result of the spread of COVID-19 among our workforce, the extension or imposition of further public health measures affecting supply chain and logistics, and the impact of the pandemic on key customers, suppliers, and other counterparties.

We may not be able to regain compliance with the continued listing requirements of the New York Stock Exchange ("NYSE"). On 15 April 2020, we were notified by the NYSE that the average closing price of our Class A ordinary shares was below \$1.00 per share over a period of 30 consecutive trading days, which is the minimum average share price required to maintain listing on NYSE. We have until late December 2020 to regain compliance with the NYSE's minimum share price requirement, during which time our shares would continue to be listed and traded on the NYSE, subject to our compliance with other continued listing standards. A delisting of our shares from the NYSE could negatively impact us by, among other things, reducing the liquidity and market price of our shares, reducing the number of investors willing to hold or acquire our shares and limiting our ability to issue securities or obtain financing in the future. If our shares are delisted from the NYSE and not concurrently listed on Nasdaq, the holders of our 3.00% exchangeable senior notes due 2024 would have the right to require us to repurchase the notes at a price equal to the principal amount thereof of \$849.5 million plus accrued interest to the repurchase date.

There are numerous other factors that affect our business and operating results, many of which are beyond our control. The success of our business largely depends on the level of activity in the oil and gas industry, which can be significantly affected by volatile oil and natural gas prices. The offshore contract drilling industry historically has been highly competitive and cyclical, with periods of low demand and excess rig availability that could result in adverse effects on our business.

Our customers may be unable or unwilling to fulfil their contractual commitments to us, including their obligations to pay for losses, damages or other liabilities resulting from operations under the contract. We may suffer losses if our customers are granted concessions, terminate or seek to renegotiate our contracts, if operations are suspended or interrupted (including as a result of the coronavirus) or if a rig becomes a total loss. The loss of a significant customer or customer contract could adversely affect us. During 2020, we have received requests for concessions and notices of termination on a number of our customer contracts, including the termination of a contract as a result of dropping the blowout preventer stack off the VALARIS DS-8, and received notice of cancellations and/or deferrals of drilling programs by operators, and we expect to receive additional termination and/or deferral notices in the current market environment. Our business will be adversely affected if we are unable to secure contracts on economically favourable terms or if option periods in existing contracts that we expect to be exercised are not so exercised.

We may incur material impairments as a result of declines in demand for offshore drilling rigs, which may result in a breach of a financial covenant under our revolving credit facility. Such breach would result in an event of default under the facility if we are unable to obtain a waiver from the lenders. An event of default would prevent us from borrowing under our revolving credit facility, which would in turn have a material adverse effect on our available liquidity. In addition, an event of default would permit a majority of the lenders under the facility to declare all outstanding borrowings under the facility immediately due and payable, which would trigger a cross-acceleration event of default with respect to approximately \$2.1 billion of our outstanding senior notes.

We have a significant amount of debt with significant near-term maturities. We may not be able to comply with the financial covenants in our revolving credit facility. Our operations currently result in negative cash flow, which is expected to continue for the foreseeable future. Our debt levels and debt agreement restrictions may limit our liquidity and flexibility in refinancing our debt, obtaining financing and pursuing other business opportunities.

We have engaged financial and legal advisors to assist us in, among other things, analysing various alternatives to address our liquidity and capital structure. We may seek to extend maturities and/or reduce the overall principal amount of our debt through exchange offers, other liability management, recapitalisation and/or restructuring transactions. As part of the evaluation of alternatives, we also are engaged in discussions with our lenders and bondholders regarding the terms of a potential comprehensive restructuring of our indebtedness. Any comprehensive restructuring of our indebtedness and capital structure may require a substantial impairment or conversion of our indebtedness to equity, as well as impairment, losses or substantial dilution for our shareholders and other stakeholders, which may result in our shareholders receiving minimal, if any, recovery for their existing shares and may place our shareholders at significant risk of losing some or all of their investment. We may also require new capital and any new capital we raise may be secured by some or substantially all of our assets and may rank senior to our existing indebtedness.

We may not achieve the intended results from the Rowan Transaction, and we may not be able to successfully integrate our operations after the Rowan Transaction. Failure to successfully integrate Rowan may adversely affect our future results, and consequently, the value of our shares. We have taken, and continue to take, cost-reduction actions. Our cost-reduction initiatives may not be successful.

We may not realise the expected benefits of the ARO venture and it may introduce additional risks to our business. We may experience difficulty jointly managing the venture, and integrating our existing employees, business systems, technologies and services with those of Saudi Aramco in order to operate the venture efficiently. Further, in the event ARO has insufficient cash from operations or is unable to obtain third party financing, we may periodically be required to make additional capital contributions to ARO. Additionally, in order to establish or preserve our relationship with our venture partner, we may agree to risks and contributions of resources that are proportionately greater than the returns we could receive, which could reduce our income and return on our investment in ARO compared to what we may traditionally require in other areas of our business.

We operate in geographical locations which are subject to political, economic and other uncertainties (including taxation), including countries known to have a reputation for corruption. Legal and regulatory proceedings could affect us adversely. Rig construction, upgrade and enhancement projects are subject to risks, including delays and cost overruns. Failure to recruit and retain skilled personnel could adversely affect our operations and financial results. Increases in regulatory requirements could significantly increase our costs, limit our drilling activity or reduce demand for our drilling services. Compliance with or breach of environmental laws can be costly and could limit our operations. Our debt levels and debt agreement restrictions may limit our liquidity and flexibility in obtaining additional financing and pursuing other business opportunities.

Climate change is receiving increasing attention from scientists and legislators, and significant focus is being put on companies that are active producers of depleting natural resources. Globally, there are a number of legislative and regulatory proposals at various levels of government to address the greenhouse gas emissions that contribute to climate change. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address greenhouse gas emissions would impact our business, any such future laws and regulations could require us or our customers to incur increased operating costs. Any such legislation or regulatory programs could also increase the cost of consuming oil, and thereby reduce demand for oil, which could reduce our customers' demand for our services. Consequently, legislation and regulatory programs to reduce greenhouse gas emissions could have an adverse effect on our financial position, operating results and cash flows.

In June 2016, a referendum was held in the UK which resulted in a majority voting in favour of the UK withdrawing from the EU (commonly referred to as "Brexit"). Pursuant to legislation approved by the UK Parliament and the EU Parliament in January 2020,

the UK withdrew from the EU with effect from 11 p.m. (GMT) on 31 January 2020 on the terms of a withdrawal agreement agreed between the UK and the EU in October 2019 (the "Withdrawal Agreement"). The Withdrawal Agreement provides that the UK's withdrawal is followed by a "transition period", during which, in summary, the UK is not a member of the EU but most EU rules and regulations continue to apply to the UK. During the transition period, the UK and the EU will seek to negotiate the terms of a long-term trading relationship between the UK and the EU based on a "Political Declaration" agreed between the UK and the EU in October 2019. The transition period provided for in the Withdrawal Agreement will expire on 31 December 2020 (unless both the UK and the EU agree to extend the period of transition by one or two years).

The political negotiation surrounding the terms of the UK's future trading relationship with the EU has created significant uncertainty about the future relationship between the UK and the EU, including with respect to the laws and regulations that will apply. This is because, once the "transition period" expires then, subject to the terms of any long-term trading relationship agreed between the UK and the EU, the UK will determine which EU-derived laws to replace or replicate. The UK's withdrawal from the EU has also given rise to calls for the governments of other EU member states to consider withdrawal, while the UK's withdrawal negotiation process has increased the risk of the possibility of a further referendum concerning Scotland's independence from the rest of the UK.

If no long-term trading relationship is agreed between the UK and the EU by the end of the transition period provided for in the Withdrawal Agreement, the UK's membership of the EU could ultimately terminate under a so-called "hard Brexit." Under this scenario, there could be increased costs from the imposition of tariffs on trade or non-tariff barriers between the UK and EU, shipping delays because of the need for customs inspections and temporary shortages of certain goods. Any of the foregoing might cause our UK suppliers to pass along these increased costs, if realised, to us in the UK. In addition, trade and investment between the UK, the EU and other countries would be impacted by the fact that the UK currently operates under tax and trade treaties concluded between the EU and other countries. Following a "hard Brexit", the UK would need to negotiate its own tax and trade treaties with other countries, as well as with the EU. Any new, or changes to existing, UK tax laws could make the UK a less desirable jurisdiction of incorporation for our parent company, Valaris plc. In addition, one of our UK subsidiaries owns two jackup rigs, and following a "hard Brexit" the EU might require some form of importation fee or guarantee on certain UK owned rigs that operate outside UK waters.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global, regional and/or national economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity, result in changes to currency exchange rates, tariffs, treaties, taxes, import/export regulations, laws and other regulatory matters, and/or restrict our access to capital and the free movement of our employees, which could have a material adverse effect on our financial position, operating results or cash flows. Approximately 10% of our turnover was generated in the UK for the year ended 31 December 2019.

Our industry

Operating results in the offshore contract drilling industry are highly cyclical and are directly related to the demand for drilling rigs and the available supply of drilling rigs. Low demand and excess supply can independently affect day rates and utilisation of drilling rigs. Therefore, adverse changes in either of these factors can result in adverse changes in our industry. While the cost of moving a rig may cause the balance of supply and demand to vary somewhat between regions, significant variations between regions are generally of a short-term nature due to rig mobility.

The decline in oil prices from 2014 highs led to a significant reduction in global demand for offshore drilling services. Customers significantly reduced their capital spending budgets, including the cancellation or deferral of existing programs, resulting in fewer contracting opportunities for offshore drilling rigs. Declines in capital spending levels, together with the oversupply of rigs from newbuild deliveries, resulted in significantly reduced day rates and utilisation that led to one of the most severe downturns in the industry's history.

Drilling rig demand

Customer capital spending levels are heavily dependent upon the price of oil and expectations about future prices. Following the decade lows reached during 2016, oil prices increased meaningfully in 2017 and though most of 2018, leading to signs of a gradual recovery in demand for offshore drilling services. However, macro-economic and geopolitical headwinds triggered a decline in brent crude prices in late 2018. In 2019, oil prices experienced a gradual recovery from this decline with brent crude prices

averaging approximately \$64 per barrel. However, brent crude prices declined to near \$20 per barrel in April 2020 and customers are reviewing, and in many cases lowering significantly, their capital expenditure plans in light of revised pricing expectations.

During 2020, we have received notices of termination on a number of our customer contracts and received notice of cancellations and/or deferrals of drilling programs by operators, and we expect to receive additional termination and/or deferral notices during the pendency of the current market environment.

Drilling rig supply

Drilling rig supply continues to exceed drilling rig demand for both floaters and jackups. However, the decline in customer capital expenditure budgets over the past several years has led to a lack of contracting opportunities resulting in meaningful global fleet attrition. Since the beginning of the downturn, drilling contractors have retired approximately 135 floaters and 100 jackups. Newer more capable rigs have been the first to obtain new contract awards, increasing the likelihood that older, less capable rigs do not return to the global active fleet.

Divestitures

Our business strategy has been to focus on ultra-deepwater floater and premium jackup operations and de-emphasise other assets and operations that are not part of our long-term strategic plan or that no longer meet our standards for economic returns. Consistent with this strategy, we sold 12 jackup rigs, two dynamically positioned semisubmersible rigs and two moored semisubmersible rigs during the three-year period ended 31 December 2019.

We continue to focus on our fleet management strategy in light of the composition of our rig fleet. As part of this strategy, we may act opportunistically from time to time to monetise assets to enhance shareholder value and improve our liquidity profile, in addition to selling or disposing of older, lower-specification or non-core rigs.

Consolidated results of operations

The following table summarises our consolidated results of operations for the years ended 31 December 2019 and 2018:

	2019 \$ millions	2018 \$ millions
Turnover	2,053.2	1,705.4
Group operating loss	(2,496.7)	(177.1)
Loss before taxation	(2,727.8)	(240.3)
Tax on loss	<u>(108.0)</u>	<u>(89.1)</u>
Loss for financial year	<u><u>(2,835.8)</u></u>	<u><u>(329.4)</u></u>

Turnover increased by \$347.8 million, or 20%, as compared to the prior year primarily due to \$322.2 million of turnover earned by the Rowan rigs, \$125.5 million due to turnover earned from our rigs leased to ARO and turnover earned from the Secondment Agreement and Transition Services Agreement, and \$84.1 million due to the commencement of VALARIS DS-9, VALARIS JU-123, VALARIS JU-140 and VALARIS JU-141 drilling operations. This increase was partially offset by the sale of ENSCO 6001, VALARIS 5006 and ENSCO 97, which operated in the prior year, and lower average day rates across the remaining fleet.

Contract drilling expense increased by \$479.0 million, or 36%, as compared to the prior year primarily due to \$351.2 million of contract drilling expense incurred by the Rowan rigs, \$57.0 million due to expenses incurred under the Secondment Agreement and by our rigs leased to ARO, \$38.2 million due to the commencement of VALARIS DS-9, and \$31.3 million due to the commencement of drilling operations for VALARIS JU-123, VALARIS JU-140 and VALARIS JU-141. This increase was partially offset by the sale of ENSCO 6001, VALARIS 5006 and ENSCO 97, which operated in the prior year.

Impairment loss

Together with the Rowan Transaction, and as a result of the evaluation of the strategy of the combined fleet, at 30 June 2019, we determined that an impairment triggering event occurred resulting in the performance of a recoverability test over the legacy Ensco fleet. We determined that the estimated discounted cash flows over the remaining useful life of certain rigs were not sufficient to recover the rig's carrying value and concluded certain rigs were impaired. We also determined that for certain rigs there were indicators that impairments taken in prior years had reduced and/or reversed, and that the estimated discounted cash flows over the remaining useful life of certain rigs were sufficient to reverse impairments in prior years.

During 2019, we recorded within group operating loss a pre-tax, non-cash loss on impairment of \$2.7 billion and an impairment reversal of \$0.4 billion related to our fleet, resulting in a net impairment loss of \$2.3 billion.

Subsequent to the 31 December 2019 year end, due to the coronavirus global pandemic and the response thereto which have negatively impacted the macro-economic environment and global economy, our overall business outlook and our expectations regarding the marketability of certain of our drilling rigs has deteriorated further. An impairment triggering event was identified as at 31 March 2020 and we expect material impairment charges will be recorded in the year ending 31 December 2020.

Utilisation and average day rates

The following table summarises our and ARO's rig utilisation and average day rates from continuing operations by reportable segment for each of the years in the two-year period ended 31 December 2019. Rig utilisation and average day rates include results for Rowan rigs and ARO from the Transaction Date through 31 December 2019:

	2019	2018
Rig utilisation⁽¹⁾		
Floater	47%	46%
Jackups	66%	63%
Other ⁽²⁾	100%	100%
Total Valaris	<u>63%</u>	<u>56%</u>
ARO	<u>93%</u>	-%
	2019	2018
	\$	\$
Average day rates⁽³⁾		
Floater	218,837	248,395
Jackups	78,133	77,086
Other ⁽²⁾	49,236	81,751
Total Valaris	<u>108,313</u>	<u>128,365</u>
ARO	71,170	-

⁽¹⁾ Rig utilisation is derived by dividing the number of days under contract by the number of days in the period. Days under contract equals the total number of days that rigs have earned and recognised day rate turnover, including days associated with early contract terminations, compensated downtime and mobilisations. When turnover is deferred and amortised over a future period, for example when we receive fees while mobilising to commence a new contract or while being upgraded in a shipyard, the related days are excluded from days under contract.

For newly-constructed or acquired rigs, the number of days in the period begins upon commencement of drilling operations for rigs with a contract or when the rig becomes available for drilling operations for rigs without a contract.

⁽²⁾ Includes our two managed services contracts and our nine rigs leased to ARO under bareboat charter contracts.

⁽³⁾ Average day rates are derived by dividing contract drilling turnover, adjusted to exclude certain types of non-recurring reimbursable turnover, lump-sum turnover and turnover attributable to amortisation of drilling contract intangibles, by the

aggregate number of contract days, adjusted to exclude contract days associated with certain mobilisations, demobilisations and shipyard contracts.

Segment highlights

Prior to the Rowan Transaction, our business consisted of three operating segments: (1) Floaters, which included our drillships and semisubmersible rigs, (2) Jackups and (3) Other, which consisted only of our management services provided on rigs owned by third parties. Our Floater and Jackups were also reportable segments. As a result of the Rowan Transaction, we concluded that we would maintain the aforementioned segment structure while adding ARO as a reportable segment for the new combined company.

Floaters

During 2019, turnover was consistent with the prior year. The \$109.3 million of turnover earned by the Rowan rigs and \$41.0 million due to the commencement of VALARIS DS-9 drilling operations were offset by the sale of VALARIS 5006 and ENSCO 6001, fewer days under contract and lower average day rates across the remaining floater fleet.

Contract drilling expense increased by \$157.2 million, or 21%, as compared to the prior year primarily due to \$142.4 million of contract drilling expense incurred by the Rowan rigs and \$38.2 million due to the commencement of VALARIS DS-9 drilling operations. The increase was partially offset by the sale of VALARIS 5006 and ENSCO 6001 and lower costs on idle rigs.

Jackups

During 2019, turnover increased by \$203.7 million, or 32%, as compared to the prior year primarily due to \$212.9 million of turnover earned by the Rowan rigs and \$43.1 million due to the commencement of VALARIS JU-123, VALARIS JU-140 and VALARIS JU-141 drilling operations. This increase was partially offset by the sale of ENSCO 97 and ENSCO 80, which operated in the prior year.

Contract drilling expense increased by \$262.4 million, or 50%, as compared to the prior year primarily due to \$208.8 million of contract drilling expense incurred by the Rowan rigs and \$31.3 million due to the commencement of drilling operations for VALARIS JU-123, VALARIS JU-140 and VALARIS JU-141. This increase was partially offset by the sale of ENSCO 97 and ENSCO 80.

ARO

ARO currently owns a fleet of seven jackup rigs, leases another nine jackup rigs from us and plans to purchase up to 20 newbuild jackup rigs over an approximate 10 year period. In January 2020, ARO ordered the first two newbuild jackups with delivery scheduled in 2022. The rigs we lease to ARO are done so through bareboat charter agreements whereby substantially all operating costs are incurred by ARO. All nine jackup rigs leased to ARO are under three-year contracts with Saudi Aramco. All seven ARO-owned jackup rigs are under long-term contracts with Saudi Aramco.

The operating turnover of ARO reflect turnover earned under drilling contracts with Saudi Aramco for the seven ARO-own jackup rigs and the nine rigs leased from us that operated during the period from the Transaction Date through 31 December 2019.

Contract drilling expenses are inclusive of the bareboat charter fees for the rigs leased from us and costs incurred under the Secondment Agreement during the period from the Transaction Date through 31 December 2019.

Other

Other turnover increased \$143.2 million, or 235%, for the year ended 31 December 2019, as compared to the prior year period, primarily due to turnover earned from our rigs leased to ARO, turnover earned under the Secondment Agreement and Transition Services Agreement of \$58.2 million, \$49.9 million and \$17.3 million, respectively.

Other contract drilling expenses increased \$63.0 million, or 114%, for the year ended 31 December 2019, respectively, as compared to the prior year period, primarily due to costs incurred for services provided to ARO under the Secondment Agreement and other costs for ARO rigs.

Backlog information

Our contract drilling backlog reflects commitments, represented by signed drilling contracts, and is calculated by multiplying the contracted day rate by the contract period. The contracted day rate excludes certain types of lump sum fees for rig mobilisation, demobilisation, contract preparation, as well as customer reimbursables and bonus opportunities. Contract backlog is adjusted for drilling contracts signed or terminated after each respective balance sheet date until 21 February 2020 and 28 February 2019, respectively. Our backlog excludes ARO's backlog, but includes bareboat charter and related revenue for the jackup rigs leased to ARO.

The following table summarises our contract backlog of business as of 31 December 2019 and 2018:

	2019 \$ millions	2018 \$ millions
Floaters	847.3	941.5
Jackups	1,281.2	1,071.0
Other ⁽¹⁾	324.3	169.9
Total	2,452.8	2,182.4

⁽¹⁾ Other includes the bareboat charter backlog for the nine jackup rigs leased to ARO to fulfil contracts between ARO and Saudi Aramco, in addition to backlog for our managed rig services. Substantially all the operating costs for jackups leased to ARO through the bareboat charter agreements will be borne by ARO.

As of 31 December 2019, our backlog was \$2.5 billion as compared to \$2.2 billion as of 31 December 2018. Our floater backlog declined \$94.2 million and our jackup backlog increased \$210.2 million. Changes resulted from turnover realised during the period, offset by the addition of backlog from the Rowan Transaction, new contract awards and contract extensions. Our other segment backlog increased \$154.4 million due to the addition of backlog from the Rowan Transaction related to the rigs leased to ARO.

Our drilling contracts generally contain provisions permitting early termination of the contract (i) if the rig is lost or destroyed or (ii) by the customer if operations are suspended for a specified period of time due to breakdown of major rig equipment, unsatisfactory performance, "force majeure" events beyond the control of either party or other specified conditions. In addition, our drilling contracts generally permit early termination of the contract by the customer for convenience (without cause), exercisable upon advance notice to us, and in some cases without making an early termination payment to us. There can be no assurances that our customers will be able to or willing to fulfil their contractual commitments to us.

Liquidity and capital resources

We proactively manage our capital structure in an effort to most effectively execute our strategic priorities and maximise value for shareholders. In support of these objectives, we are focused on our liquidity, debt levels and maturity profile and cost of capital. Over the past several years, we have executed a number of financing transactions to improve our financial statement position and manage our debt maturities, including tender offers. Based on our balance sheet, our contractual backlog and availability under our credit facility, we expect to fund our forecast liquidity needs for the next 12 months, including negative operating cash flows, debt service and other contractual obligations, anticipated capital expenditures, as well as working capital requirements, from cash and funds borrowed under our credit facility or other future financing arrangements, including available shipyard financing options for our two drillships under construction.

Our credit facility is an integral part of our financial flexibility and liquidity. Our revolving credit facility requires compliance with covenants to maintain specified financial and guarantee coverage ratios, including a total debt to total capitalisation ratio calculated under U.S. GAAP that is less than or equal to 60%. We may incur material impairments as a result of declines in demand for offshore drilling rigs. Further details of the inherent uncertainty which arises as a result of the current coronavirus global pandemic, the response thereto and the recent material decline in oil prices are provided in note 1 to the financial statements. This highlights that, in a severe but plausible downside forecast scenario, the company may exceed the total debt to total capitalisation covenant in its credit facility, in which case further borrowings under the credit facility would not be permitted, absent a waiver, and all outstanding borrowings could become immediately due and payable by action of lenders holding a majority of the commitments

under the facility. Any such acceleration would trigger a cross-acceleration event of default with respect to approximately \$2.1 billion of our outstanding senior notes. The revolving facility generally limits the company to no more than \$200.0 million in available cash (including certain liquid investments as defined in the facility documents), and requires consent of all lenders for draws on the facility that would result in the company having more than \$200.0 million in available cash and liquid investments. There can be no assurances that the lenders would approve borrowing requests that would result in the company having more than \$200.0 million in available cash and liquid investments.

Furthermore, the agent under the revolving facility has reserved the right to assert that a material adverse effect has occurred based on changes in the oil market and certain company-specific operating incidents, including the drop of the blowout preventer stack off the VALARIS DS-8. We do not believe that a material adverse effect has occurred, but there can be no assurance that the revolving lenders will not assert a material adverse effect as a basis to deny further borrowing requests.

We may require the issuance of debt and/or equity securities in the future to supplement our liquidity needs. In the current market environment, however, we do not expect to have access to the capital markets on terms we would find favourable, if at all. We have engaged financial and legal advisors to assist us in, among other things, analysing various alternatives to address our liquidity and capital structure. We may seek to extend our maturities and/or reduce the overall principal amount of our debt through exchange offers, other liability management, recapitalisation and/or restructuring transactions. As part of the evaluation of alternatives, we also are engaged in discussions with our lenders and bondholders regarding the terms of a potential comprehensive restructuring of our indebtedness. Any comprehensive restructuring of our indebtedness and capital structure may require a substantial impairment or conversion of our indebtedness to equity, as well as impairment, losses or substantial dilution for our shareholders and other stakeholders, which may result in our shareholders receiving minimal, if any, recovery for their existing shares and may place our shareholders at significant risk of losing some or all of their investment. We also have significant financial flexibility within our capital structure, including the ability to issue debt that would be structurally senior to our currently outstanding debt, on both an unsecured and secured basis, subject to restrictions contained in our existing debt arrangements. Our liability management, recapitalisation and/or restructuring efforts, if undertaken, may be unsuccessful or may not improve our financial position to the extent anticipated.

Our ability to maintain a sufficient level of liquidity to meet our financial obligations will also be dependent upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. For example, if demand for offshore drilling remains at current depressed levels or further deteriorates, our longer term ability to maintain a sufficient level of liquidity could be materially and adversely impacted, which could have a material adverse impact on our business, financial condition, results of operations, cash flows and our ability to repay or refinance our debt.

As of 31 December 2019, we had \$6.5 billion in total principal debt outstanding. We also had \$97.2 million in cash and \$1.6 billion undrawn capacity under our credit facility, which matures in September 2022. As of 17 April 2020, we had \$184.6 million in cash and \$328.9 million of borrowings outstanding under the credit facility.

As a result of the Rowan Transaction, we acquired the following debt: (1) \$201.4 million in aggregate principal amount of 7.875% unsecured senior notes, which was repaid at maturity in August 2019, (2) \$620.8 million in aggregate principal amount of 4.875% unsecured senior notes due 2022, (3) \$398.1 million in aggregate principal amount of 4.75% unsecured senior notes due 2024, (4) \$500.0 million in aggregate principal amount of 7.375% unsecured senior notes due 2025, (5) \$400.0 million in aggregate principal amount of 5.4% unsecured senior notes due 2042 and (6) \$400.0 million in aggregate principal amount of 5.85% unsecured senior notes due 2044. Upon closing of the Rowan Transaction, we terminated Rowan's outstanding credit facilities.

Effective upon closing of the Rowan Transaction, we amended our credit facility to, among other changes, increase the borrowing capacity. Previously, our credit facility had a borrowing capacity of \$2.0 billion through September 2019 that declined to \$1.3 billion through September 2020 and \$1.2 billion through September 2022. Subsequent to the amendment our borrowing capacity is \$1.6 billion through September 2022. The credit agreement governing the credit facility includes an accordion feature allowing us to increase the future commitments by up to an aggregate amount not to exceed \$250.0 million. Credit facility covenants are disclosed in note 19 to our consolidated financial statements.

In December 2019, we received \$200.0 million in cash resulting from the settlement of a dispute with Samsung Heavy Industries. See note 24 to our consolidated financial statements.

On 25 June 2019, we commenced cash tender offers for certain senior notes issued by us, Ensono International Incorporated and Rowan Companies, Inc., our wholly-owned subsidiaries. The tender offers expired on 23 July 2019, and we repurchased \$951.8 million aggregate principal amount of notes for a total purchase price of approximately \$724.1 million, plus accrued interest.

As of 31 December 2019, our principal debt maturities include \$122.9 million in 2020, \$113.5 million in 2021, \$620.8 million in 2022 and \$1.8 billion in 2024.

During the three-year period ended 31 December 2019, our primary sources of cash were \$1.4 billion from net maturities of short-term investments, \$1.0 billion in proceeds from the issuance of senior notes, and Rowan cash acquired of \$931.9 million. Our primary uses of cash during the same period included \$2.2 billion for the repurchase and redemption of outstanding debt, \$1.2 billion for the construction, enhancement and other improvement of our drilling rigs, including \$813.7 million invested in newbuild construction, \$871.6 million for the repayment of debt acquired in the acquisition of Atwood Oceanics in 2017 and \$36.2 million for dividend payments.

Government regulation and environmental matters

Our operations are affected by political initiatives and by laws and regulations that relate to the oil and gas industry, including laws and regulations that have or may impose increased financial responsibility and oil spill abatement contingency plan capability requirements. Accordingly, we will be directly affected by the approval and adoption of laws and regulations curtailing exploration and development drilling for oil and natural gas for economic, environmental, safety or other policy reasons. It is also possible that these laws and regulations and political initiatives could adversely affect our operations in the future by significantly increasing our operating costs or restricting areas open for drilling activity.

Our operations are subject to laws and regulations controlling the discharge of materials into the environment, pollution, contamination and hazardous waste disposal or otherwise relating to the protection of the environment. These laws and regulations may, among other things:

- require the acquisition of various permits before drilling commences;
- require notice to stakeholders of proposed and ongoing operations;
- require the installation of expensive pollution control equipment;
- restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling; and
- restrict the production rate of natural resources below the rate that would otherwise be possible.

Environmental laws and regulations specifically applicable to our business activities could impose significant liability on us for damages, clean-up costs, fines and penalties in the event of oil spills or similar discharges of pollutants or contaminants into the environment or improper disposal of hazardous waste generated in the course of our operations, which may not be covered by contractual indemnification or insurance or for which indemnity is prohibited by applicable law and could have a material adverse effect on our financial position, operating results and cash flows. To date, such laws and regulations have not had a material adverse effect on our operating results. However, the legislative, judicial and regulatory response to any well-control incidents could substantially increase our customers' liabilities in respect of oil spills and also could increase our liabilities. In addition to potential increased liabilities, such legislative, judicial or regulatory action could impose increased financial, insurance or other requirements that may adversely impact the entire offshore drilling industry.

Additionally, environmental laws and regulations are revised frequently, and any changes, including changes in implementation or interpretation, that result in more stringent and costly waste handling, disposal and clean-up requirements for our industry could have a significant impact on our operating costs.

The International Convention on Oil Pollution Preparedness, Response and Cooperation, the International Convention on Civil Liability for Oil Pollution Damage 1992, the UK Merchant Shipping Act 1995, Marpol 73/78 (the International Convention for the Prevention of Pollution from Ships), the UK Merchant Shipping (Oil Pollution Preparedness, Response and Co-operation Convention) Regulations 1998, as amended, and other related legislation and regulations and the Oil Pollution Act of 1990 ("OPA 90"), as amended, the Clean Water Act and other U.S. federal statutes applicable to us and our operations, as well as similar statutes in Texas, Louisiana, other coastal states and other non-U.S. jurisdictions, address oil spill prevention, reporting and control and have significantly expanded potential liability, fine and penalty exposure across many segments of the oil and gas industry. Such statutes and related regulations impose a variety of obligations on us related to the prevention of oil spills, disposal of waste and liability for resulting damages. For instance, OPA 90 imposes strict and, with limited exceptions, joint and several liability upon

each responsible party for oil removal costs as well as a variety of fines, penalties and damages. Similar environmental laws apply in our other areas of operation. Failure to comply with these statutes and regulations may subject us to civil or criminal enforcement action, which may not be covered by contractual indemnification or insurance, or for which indemnity is prohibited under applicable law, and could have a material adverse effect on our financial position, operating results and cash flows.

High-profile and catastrophic events such as the 2010 Macondo well incident have heightened governmental and environmental concerns about the oil and gas industry. From time to time, legislative proposals have been introduced that would materially limit or prohibit offshore drilling in certain areas. We are adversely affected by restrictions on drilling in certain areas of the U.S. Gulf of Mexico and elsewhere, including the adoption of additional safety requirements and policies regarding the approval of drilling permits and restrictions on development and production activities in the U.S. Gulf of Mexico that have and may further impact our operations.

As a result of Macondo, the Bureau of Safety and Environmental Enforcement ("BSEE") issued a drilling safety rule in 2012 that included requirements for the cementing of wells, well-control barriers, blowout preventers, well-control fluids, well completions, workovers and decommissioning operations. BSEE also issued regulations requiring operators to have safety and environmental management systems ("SEMS") prior to conducting operations and requiring operators and contractors to agree on how the contractors will assist the operators in complying with the SEMS. In addition, in August 2012, BSEE issued an Interim Policy Document ("IPD") stating that it would begin issuing Incidents of Non-Compliance to contractors as well as operators for serious violations of BSEE regulations. Following federal court decisions successfully challenging the scope of BSEE's jurisdiction over offshore contractors, this IPD has been removed from the list of IPDs on the BSEE website. If this judicial precedent stands, it may reduce regulatory and civil litigation liability exposures.

In late 2014, the United States Coast Guard ("USCG") proposed new regulations that would impose GPS equipment and positioning requirements for mobile offshore drilling units ("MODUs") and jackup rigs operating in the U.S. Gulf of Mexico and issued notices regarding the development of guidelines for cybersecurity measures used in the marine and offshore energy sectors for all vessels and facilities that are subject to the Maritime Transportation Security Act of 2002 ("MTSA"), including our rigs. The regulations imposing GPS equipment and positioning requirements have not yet been issued. On 12 July 2017, the USCG announced the availability of and requested comments on draft guidelines for addressing cyber risks at MTSA-regulated facilities.

On 28 July 2016, BSEE adopted a new well-control rule that will be implemented in phases over the next several years (the "2016 Well Control Rule"). This new rule includes more stringent design requirements for well-control equipment used in offshore drilling operations. Subsequently, on 2 May 2019, BSEE issued the 2019 Well Control Rule, the revised well control and blowout preventer rule governing the Outer Continental Shelf (OCS) activities. The new rule revised existing regulations impacting offshore oil and gas drilling, completions, workovers and decommissioning activities. Specifically, the 2019 Well Control Rule addresses six areas of offshore operations: well design, well control, casing, cementing, real-time monitoring and subsea containment. The revisions were targeted to ensure safety and environmental protection while correcting errors in the 2016 rule and reducing unnecessary regulatory burden. Based on our current assessment of the rules, we do not expect to incur significant costs to comply with the 2016 Well Control Rule or 2019 Well Control Rule.

The continuing and evolving threat of cyber attacks will likely require increased expenditures to strengthen cyber risk management systems for MODUs and onshore facilities. For example, on 11 May 2017, President Trump issued EO 13800, entitled Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure, which is intended to improve the nation's ability to defend against increasing and evolving cyber attacks, and in July 2017 the USCG issued proposed cybersecurity guidelines for port facilities and offshore facilities, including MODUs, that could be impacted by cyber attacks. We cannot currently estimate the future expenditures associated with increased regulatory requirements, which may be material, and we continue to monitor regulatory changes as they occur.

Additionally, climate change is receiving increasing attention from scientists and legislators, and significant focus is being put on companies that are active producers of depleting natural resources. Globally, there are a number of legislative and regulatory proposals at various levels of government to address the greenhouse gas emissions that contribute to climate change. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address greenhouse gas emissions would impact our business, any such future laws and regulations could require us or our customers to incur increased operating costs. Any such legislation or regulatory programs could also increase the cost of consuming oil, and thereby reduce demand for oil, which could reduce our customers' demand for our services. Consequently, legislation and regulatory programs to reduce greenhouse gas emissions could have an adverse effect on our financial position, operating results and cash flows.

If new laws are enacted or other government actions are taken that restrict or prohibit offshore drilling in our principal areas of operation or impose additional regulatory (including environmental protection) requirements that materially increase the liabilities, financial requirements or operating or equipment costs associated with offshore drilling, exploration, development or production of oil and natural gas, our financial position, operating results and cash flows could be materially adversely affected.

Employees

We employed 5,832 personnel worldwide as of 31 December 2019, which does not include contractors working for the company. The majority of our personnel work on rig crews and are compensated on an hourly basis. The following table summarises the split of women and men within the group as of 31 December 2019:

	Women	Men
Directors	2	9
Senior management	11	120
Other employees	<u>323</u>	<u>5,367</u>
Total	<u><u>336</u></u>	<u><u>5,496</u></u>

The company places considerable value on the involvement of its employees and maintains a practice of keeping them informed through formal and informal meetings and various internal publications.

Full and fair consideration is given to the employment and promotion of disabled persons, taking into account the degree of disablement, proposed job function and working environment. An employee who becomes disabled while in employment will continue where possible in the employment in which he or she was engaged prior to the disablement. Training and development is undertaken for all employees including disabled persons.

Social, community and human rights issues

Valaris has a number of policies setting out its commitment to human rights, including its Ethics and Compliance Policy, Vendor-Supplier Business Integrity Principles, Code of Business Conduct and Slavery and Human Trafficking Statement. Valaris is committed to conducting business ethically and legally throughout the world and in accordance with its core values. Valaris undertakes appropriate employee training and vetting of vendors and suppliers across its supply chain in order to implement these core values in its operations.

By order of the board

/s/ Thomas P. Burke

Thomas P. Burke
*Director, Chief Executive Officer
and President*

24 April 2020

Directors' report

The directors of Valaris plc present their report for the year ended 31 December 2019. On 11 April 2019, we completed our combination with Rowan Companies Limited (formerly Rowan Companies plc ("Rowan")) and changed our name to Enso Rowan plc. On 30 July 2019, we changed our name to Valaris plc.

Principal activity

The principal activity of Valaris plc, referred to herein as the company, and its subsidiaries, referred to herein as the group, is to provide offshore contract drilling services to the international oil and gas industry. Further information on our operations is included in the strategic report.

Business review and future outlook

Information on the performance of the business and the future outlook for the group is included in the strategic report.

Greenhouse gas emissions

Valaris' greenhouse gas emissions are categorised into two groups: direct emissions (from rig power generation and loss of refrigerants) and indirect emissions (from electricity purchased for rig shore-power). As a result of the merger of Enso plc and Rowan, 2019 is the first year of reporting for Valaris plc. All material emissions from the facilities over which Valaris has direct operational control were included, including both legacy Enso and legacy Rowan facilities for all of 2019.

The Companies Act 2006 requires reporting on the following greenhouse gases:

- Carbon dioxide ("CO₂");
- Methane ("CH₄");
- Nitrous oxide ("N₂O");
- Hydrofluorocarbons ("HFCs");
- Perfluorocarbons ("PFCs"); and
- Sulphur Hexafluoride ("SF₆").

PFCs and SF₆ are not emitted by Valaris, and are therefore not considered in this report.

Valaris' greenhouse gas emissions are reported in metric tons (Mt) carbon dioxide equivalents ("CO₂e"). Calculations are performed using the emission factors and global warming potential for each chemical compound, which are in accordance with the current guidance from the UK Department for Environment, Food and Rural Affairs, UK Department for Business, Energy & Industrial Strategy and the WRI / WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).

The 2019 annual CO₂e emitted from Valaris' worldwide operations is 985,058 Mt CO₂e.

Valaris has developed an intensity ratio that we believe is the most relevant to the company and will provide the most useful information to readers on a comparative year-over-year basis. Valaris' intensity ratio is determined by dividing annual emissions by total installed horsepower for the operating rig fleet (proportional approach used based on the rig operating hours). Valaris' 2019 base year intensity ratio is 0.944 Mt CO₂e/hp.

Assessment parameters:

Base Year: 2019

Consolidation approach: Operational control

Boundary summary: All facilities under operational control were included. Managed client platforms and rigs leased to or owned by the ARO Drilling venture are excluded.

Assessment methodology: WBCSD/WRI, 2004. Greenhouse Gas Protocol: a Corporate Accounting and Reporting Standard (Revised Edition)

Materiality threshold: 1% (Emissions from purchased electricity for office/warehouse use and emissions from operation of passenger vehicles are immaterial and excluded from this report.)

The following table details our emissions by category:

Greenhouse Gas Emissions	2019 (Valaris Base Year)	2018 (Combined legacy data)
Scope 1 Direct emissions Fuel combustion and refrigerant emissions	970,569 Mt CO2e	956,161 Mt CO2e
Scope 2 Indirect emissions Purchased electricity for rig shorepower	14,489 Mt CO2e	16,833 Mt CO2e
Intensity Ratio	0.944 Mt CO2e / hp	0.903 Mt CO2e / hp ⁽¹⁾

⁽¹⁾ Legacy groups used different methods for calculating intensity ratio. For comparison purposes, the legacy EnSCO method was applied to legacy 2018 combined data to determine an intensity ratio for 2018.

Directors

The directors who held office during the year ended 31 December 2019 and up to the date of this report were as follows:

Thomas P. Burke	(appointed 11 April 2019)
Carl G. Trowell (Chairman)	
William E. Albrecht	(appointed 11 April 2019)
Frederick Arnold	(appointed 26 November 2019)
J. Roderick Clark	(resigned 12 November 2019)
Roxanne J. Decyk	(resigned 11 April 2019)
Mary E. Francis CBE	
C. Christopher Gaut	(resigned 12 November 2019)
Jack E. Golden	(resigned 11 April 2019)
Gerald W. Haddock	(resigned 11 April 2019)
Francis S. Kalman	(resigned 11 April 2019)
Georges J. Lambert	(appointed 12 November 2019)
Suzanne P. Nimocks	(appointed 11 April 2019)
Thierry Pilenko	(appointed 11 April 2019)
Keith O. Rattie	
Paul E. Rowsey, III	(appointed 11 April 2019)
Charles L. Szews	(resigned 11 April 2019)
Phil D. Wedemeyer	(appointed 4 February 2020)
Adam Weitzman	

Directors' engagement statement

The directors are fully aware of their duties under Section 172 of the UK Companies Act 2006. Consideration of the Directors' Section 172 duties form an important part of Boardroom discussions. The directors continue to have regard to the interest of the company's key stakeholders and, throughout the year, the Board and executive management have actively engaged with a variety of stakeholders on items of importance to them. We set out in the table below our key stakeholder groups, their material issues and how the company engages with and considers the interest of each stakeholder group.

Stakeholder Group	Material issues	How the company engages and considers stakeholder interests
Shareholders and Other Investors	<ul style="list-style-type: none">• Financial performance and strategy• Capital allocation• Corporate governance• Environmental, social and governance ("ESG") matters	<ul style="list-style-type: none">• Members of our Executive Management Committee have historically held regular conference calls with investors and analysts following the release of our earnings results and have regular one-on-one interactions with representatives from institutional shareholders to discuss our financial performance and strategy.• Our investor relations team is available to respond to questions raised by investors during the year. The investor relations team regularly reports on matters raised by our investors to the Board.• The Board formed a Finance Committee with specific responsibility for reviewing capital structure and financial strategies. The Finance Committee's charter empowers the Committee to review and evaluate the company's liquidity, balance sheet, capital allocation, asset portfolio management and capital structure. The Finance Committee makes recommendations to the Board in furtherance of optimising the company's use of capital and its capital structure.• The Board formed a Special Committee with specific responsibilities for reviewing and evaluating potential restructuring transactions. The Special Committee's charter empowers the Committee to investigate, develop, and discuss with stakeholders options for a potential restructuring transaction. The Special Committee makes recommendations to the Board with regards to restructuring transactions.• Board members and Executive Management held annual (or more frequent) interactions with proxy advisory groups regarding our investors' material issues, such as corporate governance, ESG matters and remuneration.• We hold an annual general meeting of shareholders, where all shareholders have been able to engage with and ask questions of the Board.• We publish an annual Sustainability Report, which demonstrates the ways in which the company and its Board and management and employees are committed to ESG issues and enhancing long-term shareholder value.

Employees	<ul style="list-style-type: none"> • Engagement and work culture • Training and development • Diversity and inclusion • Remuneration 	<ul style="list-style-type: none"> • The company holds employee forums to communicate company policy and initiatives. This provides an opportunity for executive management to engage with employees and answer questions that employees may have. • The company distributes employee satisfaction surveys, tracks voluntary attrition rates, and conducts exit interviews of employees leaving the organisation, all to gather feedback to further engagement with employees on work culture. • The company promotes a "speak up" culture through the establishment and operation of our ethics hotline. Employees who use our ethics hotline report directly to the Chair of Board Committees or Chief Compliance Officer. The company has a zero tolerance policy for retaliation against employees who raise concerns through our ethics hotline. • The Competency Assurance Management Program, an International Association of Drilling Contractors ("IADC") accredited program, is a formal on-the-job training program that provides employees the opportunity to demonstrate proficiency in current roles and operational tasks while helping to prepare them for future promotions. • The company actively seeks to promote diversity and inclusion throughout its workforce. For example, the Valaris Women's Network is an organisation that is focused on representation, visibility and professional support for our female employees. • The company provides competitive compensation and benefit packages that reward personnel based on merit. The company offers developmental opportunities based on individual performance and identified potential. • The company works with industry and government partners in various countries to sponsor and train localised labor. For example: <ul style="list-style-type: none"> • In Australia, the company participates in the Broome Indigenous Trainee & Cadet Partnership Program to provide on-the-rig work experience and equip new entrants with practical skills and knowledge in shipboarding operations and safety systems. • In Saudi Arabia, the company sponsors multiple local students at the Saudi Arabian Drilling Academy, a non-profit technical vocational training centre that builds industry skillsets. • Our savings plans allow eligible employees to make tax-deferred contributions to purchase the company's Class A
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		ordinary shares, among other investments, to encourage employee involvement in the company's performance.
Customers	<ul style="list-style-type: none"> • Cost • Productivity and efficiency • Expertise • Credibility/trust/reliability and reputation • Innovation • Service, collaboration, and responsiveness 	<ul style="list-style-type: none"> • Customer information and performance metrics are regularly reported to executive management and the Board. • We participate in independent surveys, such as the EnergyPoint Research survey, to track customer satisfaction levels. • We develop and foster credibility and trust among a large and diverse customer base. Customers include most of the leading national and international oil companies, plus many independent operators. • The company strives to comply with its customer contracts, which, in turn, helps us create and maintain long-term customer relationships. • The company is committed to conducting business in a fair, transparent and competitive manner. Many countries have laws that protect competition, making anti-competitive behaviors illegal. We seek to always comply with the letter and spirit of competition laws wherever we conduct business. • We have expanded and have devoted resources further expand our intellectual property portfolio with a focus on technology that creates efficiency in customers' drilling programs.
Partners, sub-contractors and supply chain	<ul style="list-style-type: none"> • Expertise • Credibility/trust and reputation • Long-term partnership • Collaborative approach 	<ul style="list-style-type: none"> • We endeavor to conduct our business so that it is aligned with the International Bill of Human Rights and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, which together provide an authoritative list of internationally recognised human rights. • We carefully select business partners that share our commitment to safety and integrity. • We have in place systems intended to detect and, when we become aware of relevant issues, report human rights abuses (such as child labor, forced labor, or human trafficking) in our operations or those of our business partners. • Our Code of Business Conduct includes provisions addressing conflicts of interest, corporate opportunities, compliance with our policies and with laws, rules and regulations, including laws addressing insider trading, antitrust and anti-bribery. We expect our business partners, including suppliers and vendors, to act consistently with our Code. • The company strives to comply with its supplier contracts, which, in turn, helps us create and maintain long-term supplier relationships.

Local communities	<ul style="list-style-type: none"> • ESG matters • Local economy 	<ul style="list-style-type: none"> • We are committed to making a positive impact in the communities where we live and work. We support local economies by creating jobs and sponsoring community initiatives where we operate. • The company publishes an annual Sustainability Report, which demonstrates the ways in which the company and its Board, management and employees are committed to ESG issues and local communities. • The company strives to comply with local labor laws and local content requirements and actively engages with local partners on these matters. • We employ an Environmental Management System focused on emission monitoring, waste management and discharge prevention to minimise our impact on the local communities in which we operate.
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Statement of corporate governance arrangements

We have adopted a Corporate Governance Policy, which includes governance guidelines that assist the Board and its committees in the exercise of their responsibilities under applicable law and the listing standards of the NYSE. These governance guidelines provide a framework for the company's governance and the Board's activities, covering such matters as Board membership criteria, director independence, Board meetings, Board structure, Board access to management and independent advisors, limitations on outside directorships, conflicts of interest, director compensation, shareholder communications to the Board, director attendance at shareholder meetings, evaluation of Board and Chief Executive Officer performance, management succession planning, risk oversight, share ownership guidelines and other corporate governance practices and principles.

Our Corporate Governance Policy established the Board positions of Executive Chairman and Independent Lead Director and sets out the responsibilities of such positions. For so long as the chairman of the Board is an Executive Chairman, the Board will be required to appoint an Independent Lead Director.

Our Corporate Governance Policy also provides that, for two years following the Rowan Transaction, the Nominating, Governance and Sustainability Committee (the "NGS Committee") of the Board will consist of two legacy Ensto designees and two legacy Rowan designees. Each other committee of the Board will consist of at least one legacy Ensto designee and at least one legacy Rowan designee, and the Chairmen of such committees will be divided as evenly as possible between legacy Ensto and legacy Rowan designees.

In addition to changing the leadership positions of the Board, our Corporate Governance Policy also adds certain requirements of the Board that will continue for up to two years following the effective time of the Rowan Transaction unless amended, modified or terminated by unanimous vote of the Board. Such unanimous approval of the Board is required for, among other things, amendments to the employment agreements of Messrs. Burke and Trowell during the two-year and 18-month periods, respectively, following the effective time of the closing of the Rowan Transaction. In addition, if the NGS Committee of the Board, by unanimous vote, determines not to renominate any Ensto or Rowan designee, then such designee shall not be renominated. If such designee is a member of the NGS Committee of the Board, then a unanimous vote of every other member of such committee and the unanimous vote of the Board other than such designee is required to not nominate such designee for re-election.

Third party indemnity provisions

The group has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the UK Companies Act 2006. Such qualifying third party indemnity provision remains in force as of the date of approving the directors' report.

Dividends

Our Board of Directors declared a \$0.01 quarterly cash dividend, on a pre-Reverse Stock Split basis, for the first quarter of 2019. Starting in the second quarter of 2019, our Board of Directors determined that we will not pay a regular quarterly cash dividend. The declaration and amount of future dividends is at the discretion of our Board of Directors and could change in future periods.

Our revolving credit facility prohibits us from paying dividends in excess of \$0.01 per share per fiscal quarter. Dividends in excess of this amount would require the amendment or waiver of such provision.

Exposure to price, credit, liquidity and cash flow risk

Price risk arises on financial instruments because of changes in, for example, equity prices. The group currently is not exposed to any material price risk.

Credit risk is the risk that one party to a contract or financial instrument will cause a financial loss for the other party by failing to discharge an obligation. We are exposed to credit risk relating to our receivables from customers, our cash and cash equivalents, investments and our use of derivatives in connection with the management of foreign currency exchange rate risk. We mitigate our credit risk relating to receivables from customers, which consist primarily of major international, government-owned and independent oil and gas companies, by performing ongoing credit evaluations. We also maintain reserves for potential credit losses, which generally have been within our expectations. We mitigate our credit risk relating to cash and investments by focusing on diversification and quality of instruments. Short-term investments consist of a portfolio of time deposits held with several well-capitalised financial institutions, and we monitor the financial condition of those financial institutions.

We mitigate our credit risk relating to counterparties of our derivatives through a variety of techniques, including transacting with multiple, high-quality financial institutions, thereby limiting our exposure to individual counterparties and by entering into International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreements, which include provisions for a legally enforceable master netting agreement, with our derivative counterparties. The terms of the ISDA agreements may also include credit support requirements, cross default provisions, termination events or set-off provisions. Legally enforceable master netting agreements reduce credit risk by providing protection in bankruptcy in certain circumstances and generally permitting the closeout and netting of transactions with the same counterparty upon the occurrence of certain events.

We proactively manage our capital structure in an effort to most effectively execute our strategic priorities and maximise value for shareholders. In support of these objectives, we are focused on our liquidity, debt levels and maturity profile and cost of capital. Over the past several years, we have executed a number of financing transactions to improve our financial position and manage our debt maturities, including the July 2019 tender offers discussed below. Based on our balance sheet, our contractual backlog and undrawn capacity under our credit facility, we expect to fund our liquidity needs, including expected negative operating cash flows, contractual obligations, anticipated capital expenditures, as well as working capital requirements, from cash and funds borrowed under our credit facility or other future financing arrangements, including available shipyard financing options for our two drillships under construction.

Our credit facility is an integral part of our financial flexibility and liquidity. We have engaged financial and legal advisors to assist us in, among other things, analysing various alternatives to address our liquidity and capital structure. We may seek to extend our maturities and/or reduce the overall principal amount of our debt through exchange offers, other liability management, recapitalisation and/or restructuring transactions. As part of the evaluation of alternatives, we also are engaged in discussions with our lenders and bondholders regarding the terms of a potential comprehensive restructuring of our indebtedness. Any comprehensive restructuring of our indebtedness and capital structure may require a substantial impairment or conversion of our indebtedness to equity, as well as impairment, losses or substantial dilution for our shareholders and other stakeholders, which may result in our shareholders receiving minimal, if any, recovery for their existing shares and may place our shareholders at significant risk of losing some or all of their investment. We also have significant financial flexibility within our capital structure, including

the ability to issue debt that would be structurally senior to our currently outstanding debt, on both an unsecured and secured basis, subject to restrictions contained in our existing debt arrangements. Our liability management, recapitalisation and/or restructuring efforts, if undertaken, may be unsuccessful or may not improve our financial position to the extent anticipated.

Use of derivatives

We use derivatives to reduce our exposure to foreign currency exchange rate risk. Our functional currency is the U.S. dollar. As is customary in the oil and gas industry, a majority of our revenues and expenses are denominated in U.S. dollars; however, a portion of the turnover earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than the U.S. dollar. We maintain a foreign currency exchange rate risk management strategy that utilises derivatives to reduce our exposure to unanticipated fluctuations in earnings and cash flows caused by changes in foreign currency exchange rates.

We utilise cash flow hedges to hedge forecasted foreign currency denominated transactions, primarily to reduce our exposure to foreign currency exchange rate risk on future expected contract drilling expenses and capital expenditures denominated in various foreign currencies. We predominantly structure our drilling contracts in U.S. dollars, which significantly reduces the portion of our cash flows and assets denominated in foreign currencies. As of 31 December 2019, we had cash flow hedges outstanding to exchange an aggregate \$199.1 million for various foreign currencies. We do not designate such derivatives as hedging instruments.

We have net assets and liabilities denominated in numerous foreign currencies and use various strategies to manage our exposure to changes in foreign currency exchange rates. We occasionally enter into derivatives that hedge the fair value of recognised foreign currency denominated assets or liabilities, thereby reducing exposure to earnings fluctuations caused by changes in foreign currency exchange rates. We do not designate such derivatives as hedging instruments. In these situations, a natural hedging relationship generally exists whereby changes in the fair value of the derivatives offset changes in the carrying value of the underlying hedged items. As of 31 December 2019, we held derivatives not designated as hedging instruments to exchange an aggregate \$47.1 million for various foreign currencies.

If we were to incur a hypothetical 10% adverse change in foreign currency exchange rates, net unrealised losses associated with our foreign currency denominated assets and liabilities as of 31 December 2019 would approximate \$27.1 million. Approximately \$1.6 million of these unrealised losses would be offset by corresponding gains on the derivatives utilised to offset changes in the fair value of net assets and liabilities denominated in foreign currencies.

We utilise derivatives and undertake foreign currency exchange rate hedging activities in accordance with our established policies for the management of market risk. We do not enter into derivatives for trading or other speculative purposes. We believe that our use of derivatives and related hedging activities reduces our exposure to foreign currency exchange rate risk and does not expose us to material credit risk or any other material market risk. All our derivatives mature during the next 18 months.

Policy and practice on payment of creditors

Statutory regulations issued under the UK Companies Act 2006 require companies to make a statement of their policy and practice in respect of the payment of trade creditors. Individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring that suppliers are aware of the terms of payment. At year end, there were 50 days (2018: 52 days) of purchases in trade creditors.

Political contributions

The company did not make any political contributions during the year (2018: nil).

Employee matters included in the strategic report

Disclosures relating to employees are presented in the strategic report.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

In accordance with Section 489 of the UK Companies Act 2006, a resolution for the re-appointment of KPMG LLP as statutory auditor of the company is to be proposed at the forthcoming annual general meeting.

Post balance sheet events

Coronavirus global pandemic

Subsequent to the 31 December 2019 year end, the coronavirus global pandemic and the response thereto have negatively impacted the macro-economic environment and global economy. Global oil demand has fallen sharply at the same time global oil supply has increased as a result of certain oil producers competing for market share, leading to a supply glut. As a consequence, the price of brent crude oil has fallen from around \$60 per barrel at year-end 2019 to around \$20 per barrel as of mid-April. In response to dramatically reduced oil price expectations for the near term, our customers are reviewing, and in most cases lowering significantly, their capital expenditure plans in light of revised pricing expectations. The full impact that the pandemic and the precipitous decline in oil prices will have on our results of operations, financial condition, liquidity and cash flows is uncertain due to numerous factors, including the duration and severity of the outbreak, the duration of the price decline, and the extent of disruptions to our operations. To date, there have been various impacts from the pandemic and drop in oil prices, including contract cancellations or the cancellation of drilling programs by operators, stacking rigs, inability to change crews due to travel restrictions, and workforce reductions. Our operations and business may be subject to further disruptions as a result of the spread of COVID-19 among our workforce, the extension or imposition of further public health measures affecting supply chain and logistics, and the impact of the pandemic on key customers, suppliers, and other counterparties. Rig asset carrying values under FRS 102 will be subject to material impairment charges in the financial year ending 31 December 2020.

Listing notification

On 15 April 2020, the company was notified by the New York Stock Exchange ("NYSE") that the average closing price of the company's Class A ordinary shares was below \$1.00 per share over a period of 30 consecutive trading days, which is the minimum average share price required to maintain listing on NYSE. The company has until late December 2020 to regain compliance.

VALARIS DS-8 non-drilling incident

On 7 March 2020, the VALARIS DS-8 experienced a non-drilling incident while operating offshore Angola resulting in the blowout preventer ("BOP") stack being disconnected from the riser while the rig was moving between well locations. No injuries, environmental pollution or third-party damage resulted from the BOP stack being disconnected. The company is investigating the cause of the incident. The rig had been contracted to operate through November 2020 at an operating rate of approximately \$620,000 per day. The company received a termination notice for the drilling contract from the operator. The drilling contract represented approximately \$150.0 million of the company's contracted revenue backlog of \$2.5 billion as of 31 December 2019. The company has loss of hire insurance for \$602,500 per day after the expiration of a 45-day deductible waiting period through the end of the contract. The company will seek to recover losses incurred in accordance with the terms of such insurance policy, which would largely offset the lost backlog noted above. There can be no assurance as to the timing and amount of insurance proceeds paid to the company.

Company reorganisation transaction

The following transactions were completed and resulted in the company becoming the obligor of the Rowan third party senior notes.

On 31 January 2020, the company acquired Rowan Companies Inc. in exchange for an intercompany note payable of \$1,450.0 million with a term of ten years and an interest rate of 7.5%. Later that day, the company acquired substantially all of the assets of Rowan Companies Inc., and assumed its third party senior notes, in exchange for two intercompany notes. The notes in the amounts of \$1,570.0 million and \$220.0 million have terms of ten years and an interest rate of 7.5%. The company then sold an investment it received from the aforementioned transaction to a related party in exchange of an intercompany note receivable in the amount of \$86.0 million with a term of ten years and an interest rate of 7.5%.

On 31 January 2020, the company acquired Rowan No. 1 Limited for an intercompany note payable of \$1,137.0 million with a term of ten years and an interest rate of 7.5%.

On 3 February 2020, Rowan No. 1 Limited assumed \$5,222.0 million of notes payable due to the company, which were acquired in the Rowan Companies Inc. transaction above. The company then forgave the notes payable due from Rowan No. 1 Limited.

On 3 February 2020, Rowan Companies Inc. forgave the \$1,570.0 million note due from the company, which was issued in the Rowan Companies Inc. transaction above.

By order of the board

/s/ Thomas P. Burke

Thomas P. Burke
*Director, Chief Executive Officer
and President*

110 Cannon Street
London
EC4N 6EU
24 April 2020

Directors remuneration report

Introduction

On 11 April 2019, we completed our combination with Rowan Companies Limited (formerly Rowan Companies plc ("Rowan")) (the "Rowan Transaction") and changed our name to Ensono Rowan plc. On 30 July 2019, we changed our name to Valaris plc. Valaris plc's ("we," "our" or the "company") Board of Directors (the "Board") believes that our current programme is competitive and appropriate within the market where we primarily compete for directors and executive talent. However, we are sensitive to the compensation governance practices prevalent in the United Kingdom and recognise that some characteristics of our current programmes may not be consistent with those practices. Some characteristics of our programmes that differ from typical UK practice but are common and competitively appropriate within our market include:

- Awards of time-vested restricted shares to executives: restricted shares are a common award type among our compensation and performance peer groups and are intended to help encourage retention, facilitate long-term share ownership and further align our executive directors with our shareholders' interests. In 2019, time-vested restricted shares made up 50% of our executive director's annual long-term incentive awards. The other 50% was granted in the form of performance unit awards that will be settled in cash at the end of a three-year performance cycle, which are contingent upon achievement of certain levels of total shareholder return ("TSR") and return on capital employed ("ROCE") relative to our performance peer group.
- The use of equity for compensating non-executive directors: equity is a common component of non-executive director compensation within our compensation and performance peer groups, where it is widely considered to be a "best practice" for non-executive directors to receive at least 50% of their annual compensation in equity.

Our director compensation programme takes into account the additional director responsibilities attendant with service on the board of a public limited company that is incorporated under the laws of England and Wales and listed on the New York Stock Exchange and subject to U.S. Securities and Exchange Commission reporting requirements, as compared with other public companies that are listed and incorporated in the U.S. References in this Remuneration Report to the Board include the Board as well as any other relevant committees of the Board.

2019 compensation highlights

Below are highlights of the compensation-related decisions that impacted our executive directors and non-executive directors during 2019:

- **Base salary and retainers:** Mr. Burke's initial base salary of \$950,000 was established per his employment contract. Mr. Burke voluntarily elected to reduce his by 10% from \$950,000 to \$855,000 in December 2019. Mr. Trowell's base salary was reduced in connection with his transition from CEO to Executive Chairman. There were no changes in 2019 to the retainers paid to our non-executive directors.
- **Ensono Cash Incentive Plan ("ECIP") performance measures:** The ECIP provides annual cash bonus incentives to participating employees, including our executive director, based on the achievement of short-term and medium-term performance goals and objectives. Following the completion of the Rowan Transaction, the company and the Compensation Committee adopted ECIP measures, which aligned with the company's key business objectives and budget for 2019. The company and the Compensation Committee undertook a thorough goal-setting process which evaluated the potential risks and opportunities for the business. For certain metrics (e.g., EBITDA), this review process resulted in us setting target goals that were lower than our prior year's actual performance; however, we believed that these goals were appropriate and sufficiently rigorous given the challenges facing the offshore drilling industry. As further evidence of the rigor of our goals, the company's 2019 EBITDA performance still fell short of the Committee's \$220.0 million target and the executive directors earned below-target payouts for this portion of the annual incentive plan.

Our non-executive directors do not participate in the ECIP.

- **Annual formula-derived ECIP bonuses for 2019 performance paid out at 116.3%:** We achieved maximum performance for Safety (PSI and TRIR). We achieved strategic team goals ("STGs") and Synergies in excess of target and above-threshold performance for EBITDA, Floater Downtime and Jackup Downtime.
- **Long-term performance units paid out at 144.0% of target with realised value at 72% of target grant date value:** With respect to performance units granted in 2017 with a three-year performance period ended 31 December 2019, we achieved a rank of 6 and 3 out of 6 performance peer group companies in relative Total Shareholder Return ("TSR") and Return on Capital Employed ("ROCE") performance, respectively. After giving effect to the decline in our share price over the three-year performance period, the realisable value of these awards as of the end of 2019 was 72% of the original grant date value.

Mr. Burke receives performance units. Our non-executive directors and our executive chairman do not receive performance units.

Board and Compensation Committee membership

The following table lists the current members of the Board and the Compensation Committee:

Board of Directors	Compensation Committee
Thomas P. Burke	
Carl G. Trowell	
William E. Albrecht	Member
Frederick Arnold	
Georges J. Lambert	
Suzanne P. Nimocks	Chairperson
Mary E. Francis CBE	
Thierry Pilenko	Member
Keith O. Rattie	
Paul E. Rowsey, III	Member
Charles L. Szews	
Adam Weitzman	Member

Mr. Trowell and Mr. Burke are the executive directors currently on the Board. Mr Burke was appointed to the Board on 11 April 2019. Mr. Trowell was appointed to the Board on 2 June 2014. While serving as executive directors, Mr. Trowell nor Mr. Burke receive additional compensation for their services as directors. All other members of the Board are non-executive directors.

Compensation methodology and process

In carrying out its responsibilities for establishing, implementing and monitoring the effectiveness of our general and executive compensation philosophy, plans and programmes, our Compensation Committee relies on outside experts to assist in its deliberations. Until 11 April 2019, the date of the closing of the Rowan Transaction, the Compensation Committee received independent compensation advice and data from Pearl Meyer. Following the Rowan Transaction, the Compensation Committee retained FW Cook as its independent compensation consultant. Prior to retaining FW Cook, the Compensation Committee assessed the independence of FW Cook and concluded that the retention of FW Cook raised no conflicts of interest.

Pearl Meyer and FW Cook were engaged by the Compensation Committee to provide counsel regarding:

- Compensation philosophy and best practices;
- Peer group composition;
- Compensation programme design;
- Short-term and long-term incentive plan administration;
- Competitive compensation analyses for executive officers and non-executive directors; and
- Trends in executive compensation.

With respect to non-executive director compensation, Pearl Meyer and FW Cook reviewed the company's philosophy and practices regarding general Board compensation, committee compensation, committee chair compensation and non-executive director equity award programmes. In connection with these reviews, Pearl Meyer and FW Cook provided the Compensation Committee with comparative market assessments of executive and non-executive director compensation levels, including information relative to compensation trends and retention prevailing practices.

In addition to providing the Compensation Committee with information regarding compensation trends in the general marketplace, compensation practices of other companies in the offshore drilling and oilfield services industries and regulatory compliance developments, Pearl Meyer and FW Cook also evaluated certain data that our Human Resources department submitted to the Compensation Committee regarding incentive compensation calculations for awards payable under the ECIP and the Long-Term Incentive Plan ("LTIP").

The Compensation Committee meets regularly in executive session with FW Cook outside the presence of management. FW Cook did not provide any services to the company or management other than services requested by or with the approval of the Compensation Committee, and its services were limited to executive and non-executive director compensation consulting.

Fees paid to Pearl Meyer and FW Cook by the company during 2019 of approximately \$71,325 and \$191,612, respectively, were less than 1% of Pearl Meyer and FW Cook's total turnover. Fees are paid to our compensation consultants on a time and materials basis.

The Compensation Committee regularly reviews the services provided by its outside consultants and believes that FW Cook is independent in providing executive compensation consulting services. The Compensation Committee continues to monitor the independence of its compensation consultant on a periodic basis.

We compete for executive-level talent with oilfield service companies as well as other industries and professions. To provide guidance to the Board and Compensation Committee, comparative salary data is obtained from several sources, including FW Cook, industry-specific surveys and compensation peer company proxy statements filed with the U.S. Securities and Exchange Commission. Our current compensation peer group was approved by the Compensation Committee in May 2019 following the completion of the Rowan Transaction. In looking for potential peer companies, our Compensation Committee focused on companies with reasonably similar business characteristics, which included:

- Size measured by revenue, assets and market value;
- Energy industry focus;
- Traded on a major stock exchange;
- Asset intensity;
- Multi-national with broad geographic reach;
- Offshore focus; and
- Robust pay disclosure.

Compensation risk

The Compensation Committee carefully considers the relationship between risk and our overall compensation policies, programmes and practices for the Chairman, Chief Executive Officer and non-executive directors. The Compensation Committee continually monitors the company's general compensation practices, specifically the design, administration and assessment of our incentive plans, to identify any components, measurement factors or potential outcomes that might create an incentive for excessive risk-taking detrimental to the company. The Compensation Committee has determined that the company's compensation plans and policies do not encourage excessive risk-taking.

The Compensation Committee also paid particular attention to potential unintended consequences associated with the establishment of the ECIP and performance unit award goals and related measurement criteria under the LTIP. In formulating such goals and performance criteria, the Compensation Committee focused on matters such as safety performance, financial performance, relative TSR, relative ROCE, recurring EBITDA improvement and STGs. The Compensation Committee determined that such goals and performance criteria did not encourage participation in high-risk activities that are reasonably likely to have a material adverse effect on the company.

In addition, the Compensation Committee believes that there are numerous governance characteristics of our compensation programmes that serve to mitigate excessive risk taking. We have clawback and award disqualification provisions in place in the LTIP awards and through the ECIP.

Remuneration policy summary for Executive Directors

Our current Remuneration Policy, which was approved at the Annual General Meeting on 22 May 2017, will apply until the 2020 Annual General Meeting of Shareholders. The following is a summary of the current Remuneration Policy as it applies to executive directors:

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity⁽¹⁾	Performance Measures	Clawback/Award Disqualification⁽²⁾
Salary and Fees	Attract and retain high performing individuals reflecting market value of role and the executive director's skills, experience and performance.	Salaries are set by the Board and are reviewed annually taking into account the executive director's role, experience and performance and by reference to the median salary paid to executive directors of our compensation peer group companies. Salary increases typically take effect in the first quarter of each year.	Salary increases will ordinarily be in line with increases awarded to other employees in the company and will not ordinarily exceed 10% per year. Salary adjustments may be made to reflect wider market conditions in the geography in which the individual operates.	None, although overall performance of the individual is considered by the Board when setting salaries annually.	Not applicable
Benefits	Competitive benefits taking into account market value and benefits offered to the wider UK and U.S. management population.	Benefits include, but are not limited to, health insurance, life insurance and annual executive health physicals. Benefits include provisions for relocation assistance upon appointment when applicable. Overseas allowance and reimbursement components could include: monthly housing allowance; cost of living allowance; transportation allowance; annual home leave allowance; dependents' schooling assistance; tax equalisation for certain overseas allowance and reimbursement benefits; foreign service premium; supplemental equity awards and other similar benefits. Benefit provision is tailored to reflect market practice in the geography in which the executive director is based and different policies may apply if current or future executive directors are based in a different country.	Set at a level the Board considers appropriate as compared to benefits offered in connection with comparable roles by companies of a similar size in the relevant market. Executive director benefits will ordinarily be in line with benefits offered to other salaried employees. The Board reserves the discretion to increase its spend on benefits in appropriate circumstances such as in response to an increase in benefits costs. The Board further reserves the discretion to introduce new benefits where it concludes that it is in the interests of the company to do so, having regard for the particular circumstances.	None	Not applicable
Annual Cash Bonus	Incentivise delivery of company strategic objectives and enhance performance on an annual basis.	Awards are provided to the executive director through the Ensco Cash Incentive Plan (the "ECIP"). Awards are tied to achievement of specific performance measures and are paid out in cash after the end of the financial year based on performance against the targets and performance measures set annually by the Board.	The maximum ECIP payout is \$5 million per year. The maximum payout is established as two times the target payout. The threshold payout is one-half of target payout.	Performance metrics are formula-derived and selected annually based on the current business objectives. The Board may select performance measures from a list of financial, business and operational goals set forth in the ECIP, as it may be amended, restated or replaced from time to time. ⁽³⁾	The Board will seek to reduce the size of cash incentive awards for executive directors who violate our Code of Business Conduct Policy or in the case of certain financial restatements.

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity⁽¹⁾	Performance Measures	Clawback/Award Disqualification⁽²⁾
Employer Matching and Profit Sharing Programmes	Incentivise the delivery of company strategic targets.	The executive director may participate in the employer matching and profit sharing provisions of our defined contribution savings plans on a tax-deferred basis.	The maximum total matching contribution annually is 5% of eligible salary. Annual profit sharing distributions are limited to a maximum of 10% of eligible employee salary.	None	Not applicable
Long-Term Incentive Plan ("LTIP")⁽⁴⁾	<p>Incentivise long-term company financial performance in line with the company's strategy and long-term shareholder returns.</p> <p>Promote alignment with shareholders by tying executive compensation to creation of long-term shareholder value and encouraging executives to build meaningful equity ownership stakes.</p>	<p>Awards will normally be made annually under the LTIP. The Board also has a practice of granting special equity awards to newly-hired or promoted officers and may grant special equity awards to ensure the retention of officers and to further support our succession planning efforts.</p> <p>Awards will take the form of either share options, restricted share awards, restricted share unit awards, stock appreciation rights, performance awards and performance unit awards. Except in exceptional circumstances, awards will generally vest over a three year period.</p> <p>Participation and individual award levels will be determined at the discretion of the Board within the terms of the LTIP.</p> <p>Performance awards and performance unit awards may be settled in cash, shares or a combination of cash and shares.</p>	<p>The maximum aggregate grant date fair value of awards under the LTIP made to a participant will not exceed \$10 million per year.</p>	<p>Awards of share options, restricted share awards and restricted share unit awards will be time-based and are not subject to performance measures.</p> <p>Performance awards and performance unit awards are earned at the end of a pre-determined period subject to performance against pre-determined performance measures and targets.</p> <p>The Board may select performance measures from a list of financial, business and operational goals set forth in the LTIP, as it may be amended, restated or replaced from time to time.⁽⁵⁾</p> <p>The Board has discretion to amend the performance measures in exceptional circumstances if it considers it appropriate to do so, such as during cases of accounting changes, relevant merger and acquisition activity and any non-significant changes. Any such amendments would be fully disclosed in the following year's remuneration report.</p>	<p>The Board will seek to claw back or reduce equity incentive awards for executive directors who violate our Code of Business Conduct Policy or in the case of certain financial restatements.</p>

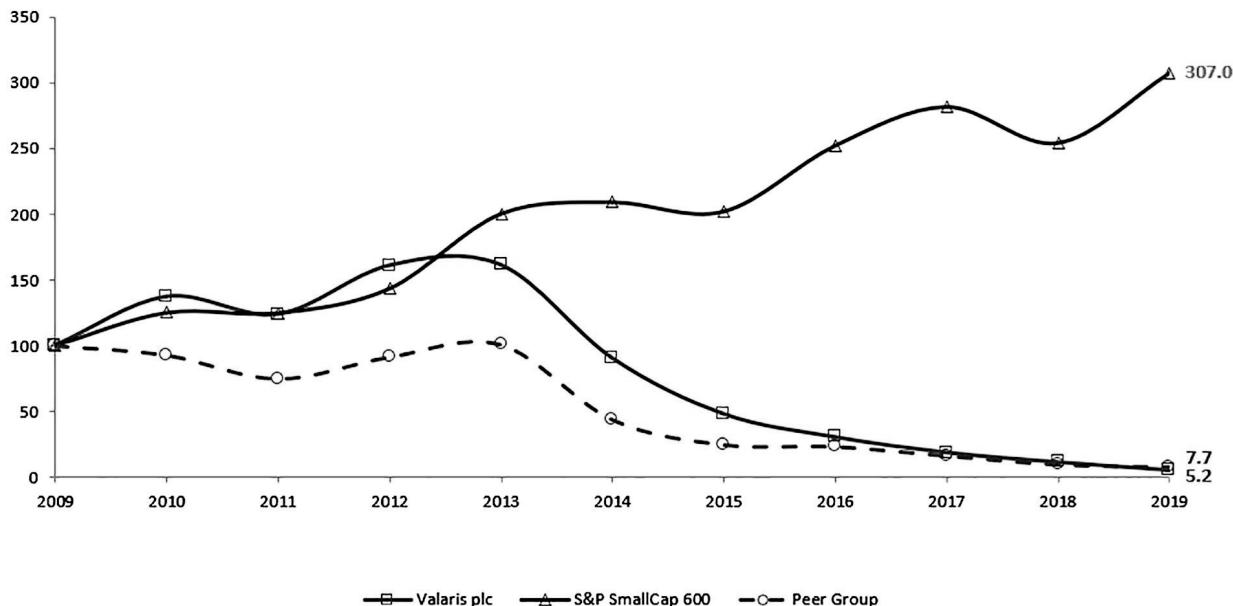
- (1) The Board reserves the right to make payments and to agree to make payments outside the Remuneration Policy in exceptional circumstances. The Board would only use this right where it believes the use is in the best interests of the company and when it would be impractical to seek prior specific approval of the shareholders of the company at a general meeting.
- (2) The company has clawback provisions in its long-term incentive award agreements and award disqualification measures in the LTIP and the ECIP. Using this authority, the Board may seek to claw back or reduce equity incentive awards or reduce the size of cash incentive awards for executive officers, including executive directors, who violate our Code of Business Conduct or in the case of certain financial restatements (including application of the provisions of the Sarbanes-Oxley Act of 2002, as amended, in the event of a restatement of our earnings).
- (3) Performance measures that may be selected by the Board in granting an ECIP award include: (a) net income as a percentage of revenue; (b) earnings per share (EPS); (c) return on net assets employed before interest and taxes (RONAEBIT); (d) operating margin as a percentage of revenue; (e) safety performance relative to industry standards and the company annual target; (f) strategic team goals (STGs); (g) net operating profit after taxes; (h) net operating profit after taxes per share; (i) return on invested capital; (j) return on assets or net assets; (k) total stockholder return (TSR); (l) return on capital employed (ROCE); (m) relative total stockholder return (as compared with a peer group of the company or other appropriate index); (n) earnings or adjusted earnings before interest, taxes, depletion, depreciation and/or amortisation (EBIT, EBITD, EBITDA); (o) net income; (p) free cash flow; (q) free cash flow per share; (r) revenue (or any component thereof); (s) revenue growth; (t) days sales outstanding (DSO); (u) downtime for any asset; (v) backlog related measures or (w) any other performance objective approved by the shareholders of the company in accordance with Section 162(m) of the U.S. Internal Revenue Code of 1986. For example, the 2016 ECIP awards were made to the executive director based on the following performance measures: EBITDA; EPS; DSO; Safety (TRIR); Downtime for Floaters and Jackups and STGs.
- (4) Under the LTIP, the Board may grant, in addition to the restricted shares and performance unit awards under the previous Remuneration Policy, share options, restricted share unit awards, stock appreciation rights and performance awards, to align the policy with the awards that could be granted under the terms of the LTIP.
- (5) Performance measures that may be selected by the Board in granting a LTIP performance award or performance unit award include: (a) net income as a percentage of revenue; (b) earnings per share (EPS); (c) return on net assets employed before interest and taxes (RONAEBIT); (d) operating margin as a percentage of revenue; (e) safety performance relative to industry standards and the company annual target; (f) strategic team goals (STGs); (g) net operating profit after taxes; (h) net operating profit after taxes per share; (i) return on invested capital; (j) return on assets or net assets; (k) total shareholder return (TSR); (l) relative total shareholder return (as compared with a peer group of the company or other appropriate index) (relative TSR); (m) absolute return on capital employed (absolute ROCE); (n) relative return on capital employed (as compared with a peer group of the company or other appropriate index) (relative ROCE); (o) earnings or adjusted earnings before interest, taxes, depletion, depreciation and/or amortisation (EBIT, EBITD, EBITDA); (p) net income; (q) free cash flow; (r) free cash flow per share; (s) revenue (or any component thereof); (t) revenue growth; (u) backlog related measures or (v) any other performance criteria, objective or goal that has been approved by the holder of Shares, in accordance with Section 162(m) of the U.S. Internal Revenue Code of 1986. For example, performance unit awards were granted to the executive director based upon long-term relative performance criteria during 2016 for the performance period beginning 1 January 2016 and ending 31 December 2018 based upon the relative TSR and Relative ROCE performance measures.

Total shareholder return

The chart below presents a comparison of the ten-year cumulative total return, assuming \$100 invested on 31 December 2009 for Valaris plc, the Standard and Poor's SmallCap 600 Index and a self-determined peer group. Total return assumes the reinvestment of dividends, if any, in the security on the ex-dividend date. Since Valaris operated exclusively as an offshore drilling company, a self-determined peer group composed exclusively of major offshore drilling companies has been included as a comparison.* Valaris is no longer part of the Standard & Poor's MidCap 400 Index. The Standard & Poor's SmallCap 600 Index includes Valaris and has been included as a comparison.

COMPARISON OF CUMULATIVE TOTAL RETURN*

Among Valaris plc, the S&P SmallCap 600 Index and Peer Group



\$100 invested on 12/31/09; includes the reinvestment of dividends in the same security on the ex-dividend date.

*The self-determined peer group is weighted according to market capitalization at the beginning of each year and consists of the following companies: Transocean Ltd., Diamond Offshore Drilling Inc., Noble Corp., and SeaDrill Ltd.

Share price

The highest and lowest prices of the company's Class A ordinary shares during the year ended 31 December 2019 were \$19.56 and \$3.42, respectively. The closing market price of the company's Class A ordinary shares on 31 December 2019 was \$6.56.

Information subject to audit

The auditors are required to report on the information contained in the Share Price section above and tables A, B, C, D and E below.

Remuneration of Chief Executive Officer and Executive Chairman

The Chief Executive Officer and Executive Chairman currently serve as executive directors and do not receive any additional compensation for their services as director.

An objective of the Board has been to motivate, reward and retain our executive directors by means of equity compensation through our LTIP. The value of equity awards over time bears a direct relationship to the market price of our shares, which the Board believes will promote alignment with shareholders, instill a sense of ownership and shareholder perspective that will

Mr. Burke was appointed as our President and Chief Executive Officer in April 2019 in connection with the Rowan Transaction. Upon hiring Mr. Burke, Mr. Trowell retired as Chief Executive Officer but remained as Executive Chairman of the Board of Directors. The 2019 remuneration disclosed below reflects the total remuneration for Mr. Burke during the period he served as CEO, including a prorated annual bonus payout.

	2019
Total Remuneration	\$ 5,983,505
Annual Bonus as a Percentage of Maximum	58%
Performance Awards Vesting as a Percentage of Maximum ⁽¹⁾	N/A

⁽¹⁾ Mr. Burke did not participate in the performance award plan in 2019.

Mr. Trowell was hired as our President and Chief Executive Officer on 2 June 2014. Upon hiring Mr. Trowell, Daniel W. Rabun retired as Chief Executive Officer but remained employed by the company as an executive director to serve as Chairman of the Board of Directors until 18 May 2015. The remuneration disclosed in the table below reflects the total remuneration for Mr. Trowell since his appointment as Chief Executive Officer in June 2014, including prorated annual bonus payout and remuneration for 2019 for the period he served as CEO.

	2019	2018	2017	2016	2015	2014⁽¹⁾
Total Remuneration	\$ 6,502,955	\$ 6,207,433	\$ 5,906,374	\$ 4,550,662	\$ 4,933,408	\$ 7,758,001
Annual Bonus as a Percentage of Maximum	58%	43%	64%	50%	69%	30%
Performance Awards Vesting as a Percentage of Maximum	—% (2)	34%	12%	7%	N/A	N/A

⁽¹⁾ In connection with Mr. Trowell's hiring, he was granted a make-whole restricted share award subject to a three-year cliff vesting of \$4.0 million.

⁽²⁾ Mr. Trowell agreed to forfeit all non-vested 2017, 2018 and 2019 cash performance unit awards and any entitlement to restricted share awards in 2019 in exchange for a payment of \$5,000,000 upon closing of the Rowan Transaction.

The 2014 remuneration disclosed below reflects the total remuneration for Mr. Rabun for the period he served as a CEO, including a prorated annual bonus payout.

	2014	2013	2012	2011	2010	2009
Total Remuneration	\$ 5,835,655	\$ 9,878,742	\$ 10,188,238	\$ 10,897,191	\$ 7,152,858	\$ 4,619,128
Annual Bonus as a Percentage of Maximum	30%	54%	77%	61%	68%	66%
Performance Awards Vesting as a Percentage of Maximum	30%	40%	66%	43%	77%	57%

Remuneration of Executive Directors - Table A

The compensation paid to our executive director for the years ended 31 December 2019 and 2018 is reported in the tables below.

Name	Year	Salary and Fees (\$)	Taxable Benefits (\$)⁽³⁾	Annual Incentives (\$)⁽⁴⁾	Long-Term Incentives (\$)⁽⁵⁾	Pensions (\$)⁽⁶⁾	Other (\$)⁽⁷⁾	Total (\$)
Thomas P. Burke ⁽¹⁾	2019	676,927	455,044	882,367	—	195,417	3,773,750	5,983,505
Carl G. Trowell ⁽²⁾	2019	629,168	71,499	802,288	—	—	5,000,000	6,502,955
	2018	801,600	102,007	3,262,722	838,704	—	1,202,400	6,207,433

- (1) Mr. Burke was appointed to the Board on 11 April 2019.
- (2) Mr. Trowell was appointed to the Board on 2 June 2014.
- (3) Taxable benefits provided to our executive directors include the following:

Name	Year	Group Term Life Insurance	Dividends on Share Awards*	Overseas Allowance**	Other	Total
Thomas P. Burke	2019	\$ 973	\$ —	449,851	\$ 4,220	\$ 455,044
Carl G. Trowell	2019	\$ 628	\$ 39,413	—	\$ 31,458	\$ 71,499
	2018	\$ 642	\$ 61,285	—	\$ 40,080	\$ 102,007

* The amounts disclosed in this column represent the dividends or dividend equivalents earned and paid during 2019 and 2018 on the director's unvested restricted shares and share units.

** The amounts disclosed in this column for Mr. Burke include payments made in regards to relocation, housing allowance, and dependent tuition allowance.

- (4) The amounts disclosed in this column represent the aggregate grant date fair value of restricted share awards or units granted during the respective year and bonuses awarded for the respective years pursuant to the ECIP. No amounts pursuant to the ECIP were deferred.

The following table sets forth information regarding the components of annual incentives earned and restricted share awards granted to our executive directors for the years ended 31 December 2019 and 2018:

Name	Year	Restricted Share Awards		ECIP (\$)	Total (\$)
		(\$)	(\$)		
Thomas P. Burke	2019	—	—	882,367	882,367
Carl G. Trowell*	2019	—	—	802,288	802,288
	2018	2,500,000	—	762,722	3,262,722

* In connection with the employment agreement, Mr. Trowell agreed to forfeit the 2017, 2018 and 2019 performance unit awards and the 2019 restricted shares awards in exchange for a lump sum cash payment of \$5,000,000 upon closing of the Rowan Transaction.

During 2019, the Board approved financial, safety performance and STG conditions for our executive officers, including our executive directors, for the 2019 plan year. The ECIP performance measures and actual results for the executive officers for the 2019 plan year were as follows:

2019 ECIP performance measures

Performance Measure	Weighting	Threshold	Target	Maximum	Actual Results	% of Target Earned
EBITDA (000) ⁽¹⁾	40.0%	\$175,000	\$220,000	\$255,000	\$205,700	33.6%
Synergies (000s)	20.0%	\$101,800	\$121,800	\$141,800	\$132,000	30.2%
PSI	5.0%	0.15	0.10	0.08	0.03	10.0%
TRIR	5.0%	0.40	0.35	0.30	0.28	10.0%
Downtime - Floaters	5.0%	4.50%	3.50%	3.00%	4.12%	3.5%
Downtime - Jackups	5.0%	2.10%	1.60%	1.35%	1.61%	5.0%
STGs	20.0%	1.00	2.00	3.00	2.402	24.0%
TOTAL AWARD	100.0%					116.3%

Individual award calculation

Executive Officer	2019 Target Opportunity	\times	Weighted % of Target Earned	=	Formula- Derived ECIP Award	+	Discretionary Adjustment (\$)	=	Actual ECIP Award
Thomas P. Burke	\$ 758,699		116.3%	=	\$ 882,367		—	=	\$ 882,367
Carl G. Trowell	\$ 689,843		116.3%	=	\$ 802,288		—	=	\$ 802,288

- (5) The amounts disclosed in this column represent aggregate amounts received or receivable in respect of performance unit awards where final vesting is or was determined as a result of the achievement of performance measures or targets relating to a period ending in the relevant financial year. Please see below for further information on individual award calculations and performance unit awards outstanding at the beginning and end of 2019.

LTIP performance measures

The performance measures and actual results for performance unit awards granted under the LTIP during 2017 for the performance period beginning 1 January 2017 and ending 31 December 2019 were as follows:

Performance Measure	Weight		Threshold	Target	Maximum	Actual Results	% of Target Payout Achieved
Relative TSR	50%	Rank Award Multiplier	5 of 7 0.67	4 of 7 1.00	1 of 7 2.0	6	—%
Relative ROCE	50%	Rank Award Multiplier	5 of 7 0.67	4 of 7 1.00	1 of 7 2.0	3	144%

Performance unit awards granted under the LTIP during 2017 for the performance period beginning 1 January 2017 and ending 31 December 2019 were paid in cash in March 2020. Mr. Burke did not participate in the 2017 LTIP programme. Mr. Trowell forfeited his 2017, 2018 and 2019 performance awards and 2019 share awards in exchange for a payment of \$5,000,000 upon closing of the Rowan Transaction. As a result, the executive directors did not receive compensation for the performance unit awards granted under the 2017 LTIP.

- (6) The amount disclosed in this column represents the amount credited in the legacy Rowan Restoration Plan.
- (7) Other benefits provided to our executive directors include the following:

Name	Year	Lump Sum Cash Payment		Bonus	SERP	Total
		\$	\$			
Thomas P. Burke	2019	\$ 3,750,000	\$ —	\$ 23,750	\$ 3,773,750	
Carl G. Trowell	2019	\$ 5,000,000	\$ —	\$ —	\$ 5,000,000	
	2018	\$ —	\$ 1,202,400	\$ —	\$ 1,202,400	

Performance unit awards - Table B

The following table sets forth information regarding performance unit awards outstanding at the beginning and end of 2019 for our executive director. Our non-executive directors do not receive performance unit awards.

	Date of Grant	End of Period Over Which Qualifying Conditions Must be Fulfilled for Each Award ⁽¹⁾	Grant Date Fair Value of Performance Unit Awards at Beginning of FY (\$) ⁽²⁾⁽³⁾⁽⁴⁾	Grant Date Fair Value of Performance Unit Awards Granted During the FY (\$) ⁽²⁾⁽³⁾	Actual Payout Related to Awards Which Vested During the FY (\$)	Grant Date Fair Value of Performance Unit Awards at End of FY (\$)
Carl G. Trowell	3/3/2016	(4)	31/12/2018	2,275,000	—	838,704
	6/3/2017		31/12/2019	2,500,000	—	N/A
	5/3/2018		31/12/2020	2,500,000	—	N/A
	6/3/2019		31/12/2021	—	2,500,000	N/A

- ⁽¹⁾ Performance unit awards are measured over a three-year performance period. Any amounts earned under the performance unit awards are not payable until after the close of the performance period. Performance awards are subject to forfeiture if the recipient leaves the company prior to award payout.
- ⁽²⁾ Grant date fair value for performance unit awards is measured using the estimated probable payout on the grant date. The performance unit awards are based upon financial performance measured over the three-year performance period. Performance unit awards granted in 2019, 2018 and 2017 are denominated and paid in cash. The goals for the performance unit awards granted have three performance bands: a threshold, a target and a maximum. If the minimum threshold for the respective financial performance measure is not met, no amount will be paid for that component. Payments are calculated using straight-line interpolation for performance between the threshold and target and between the target and maximum for each component.
- ⁽³⁾ TSR is defined as dividends paid during the performance period plus the ending share price of the performance period minus the beginning share price of the performance period, divided by the beginning share price of the performance period. The beginning share price is based on the average daily closing price during the quarter preceding the performance period, and the ending share price is based on the average daily closing price of the last quarter of the performance period. ROCE is defined as net income from continuing operations, adjusted for certain nonrecurring gains and losses, plus after-tax net interest expense, divided by total equity as of 1 January of the respective year plus the average of the long-term debt balances as of 1 January and 31 December of the respective year.
- ⁽⁴⁾ The performance unit award for the performance period beginning 1 January 2016 and ending 31 December 2018 was paid in cash in March 2019.
- ⁽⁵⁾ Mr. Trowell agreed to forfeit his 2017, 2018 and 2019 performance awards and 2019 share awards in exchange for a payment of \$5,000,000 upon closing of the Rowan Transaction.

Remuneration of Non-Executive Directors

The Remuneration Policy, which was approved at the Annual General Meeting on 22 May 2017, will apply until the 2020 Annual General Meeting of Shareholders. The following is a summary of the Current Remuneration Policy as it applies to non-executive directors

Element	Purpose and Link to Strategy	Operation	Maximum Opportunity
Fees	<p>Attract and retain qualified candidates.</p> <p>Reviewed annually by the Board by reference to the median of our compensation peer group companies.</p> <p>Compensation adjustments, if applicable, are normally effective from on or around 1 June. Adjustments will not ordinarily exceed 10% per annum.</p> <p>The Chairman of the Board and the chairs of the Audit, Compensation and Nominating, Governance and Sustainability Committees receive additional retainers to compensation for their roles. The additional retainer for the Chairman of the Board and the committee chairs are established by reference to the market median of our compensation peer group companies.</p> <p>No eligibility for bonuses or retirement benefits.</p> <p>Compensation also includes an annual award of stock-based compensation under the LTIP that is not subject to performance tests. Annual equity awards made to the Chairman of the Board and to other non-executive directors.</p>		No prescribed maximum annual increase.
Benefits	<p>Attract and retain qualified candidates.</p> <p>Travel to Board meeting locations or the location of other company business.</p> <p>Eligible to participate in U.S. and UK group health and welfare insurance plans.</p>		None

Non-Executive Directors compensation - Table C

The compensation paid to our non-executive directors for the years ended 31 December 2019 and 2018 is reported in the tables below. The compensation paid to non-executive directors includes an element of equity-based compensation, designed to provide greater alignment of interests between non-executive directors and the company's shareholders. This equity-based compensation is not subject to the achievement of performance metrics given the nature of the role performed by the non-executive directors.

Name	Year	Salary and Fees (\$)	Taxable Benefits (\$) ⁽¹⁾	Annual Incentives (\$) ⁽²⁾	Total (\$)
William E. Albrecht	2019	114,583	5,763	200,009	320,355
Frederick Arnold	2019	34,783	2,200	103,826	140,809
Mary E. Francis CBE	2019	100,000	5,097	200,009	305,106
	2018	100,000	3,771	200,006	303,777
Georges J. Lambert	2019	38,587	1,113	111,477	151,177
Suzanne P.Nimocks	2019	105,417	11,592	200,009	317,018
Thierry Pilenko	2019	91,667	5,306	200,009	296,982
Keith O. Rattie	2019	120,000	16,810	200,009	336,819
	2018	120,000	15,695	200,006	335,701
Paul E. Rowsey, III	2019	112,747	20,092	200,009	332,848
	2018	210,000	22,417	275,018	507,435
Charles L. Szews	2019	97,455	18,209	200,009	315,673
J. Roderick Clark	2019	75,412	13,776	200,009	289,197
	2018	115,000	19,750	200,006	334,756
Roxanne J. Decyk	2019	2,747	2,721	—	5,468
	2018	100,000	17,431	200,006	317,437
C. Christopher Gaut	2019	75,000	7,222	200,009	282,231
	2018	100,000	7,542	200,006	307,548
Jack E. Golden	2019	2,747	2,098	—	4,845
	2018	100,000	3,998	200,006	304,004
Gerald W. Haddock	2019	2,747	3,234	—	5,981
	2018	100,000	19,155	200,006	319,161
Francis S. Kalman	2019	2,747	2,799	—	5,546
	2018	100,000	16,339	200,006	316,345
Phil D. Wedemeyer	2019	2,747	2,374	—	5,121
	2018	100,000	8,170	200,006	308,176

⁽¹⁾ Taxable benefits provided to our non-executive directors include dividends on non-vested restricted share awards, payments made by the company on the behalf of the directors for contributions to group health and welfare insurance and payments made by the company to reimburse directors for business expenses incurred in connection with the attendance of Board meetings in the UK, which are subject to UK income tax.

The payments made by the company to each director during 2019 and 2018 as reimbursement for business expenses incurred in connection with the attendance of Board meetings in the United Kingdom, which are subject to UK income tax are as follows:

Name	2019	2018
William E. Albrecht	\$ 5,241	\$ —
Fredrick Arnold	\$ —	\$ —
Mary E. Francis CBE	\$ 3,258	\$ 191
Georges J. Lambert	\$ 1,113	\$ —
Suzanne P. Nimocks	\$ 2,999	\$ —
Thierry Pilenko	\$ 5,306	\$ —
Keith O. Rattie	\$ 6,674	\$ 3,792
Paul E. Rowsey, III	\$ 8,871	\$ 9,043
Charles L. Szews	\$ 5,455	\$ —
J. Roderick Clark	\$ 5,946	\$ 7,847
Roxanne J. Decyk	\$ 1,332	\$ 5,528
C. Christopher Gaut	\$ 6,638	\$ 5,300
Jack E. Golden	\$ 1,545	\$ 1,892
Gerald W. Haddock	\$ 1,845	\$ 7,252
Francis S. Kalman	\$ 1,410	\$ 4,436
Phil D. Wedemeyer	\$ 1,911	\$ 6,544

(2) The non-executive director amounts disclosed in this column represent the aggregate grant date fair value of restricted share units granted during the respective year.

Time-vested restricted shares - Table D

The following table sets forth information regarding the number and amount of restricted share awards outstanding at the beginning and end of the year ended 31 December 2019 for each director serving on the Board during 2019:

	Date of Grant	End of Period Over Which Qualifying Conditions Must be Fulfilled for Each Award ⁽¹⁾	Restricted Shares/Units Outstanding at Beginning of FY (#)	Restricted Shares/Units Granted During the FY (#)	Restricted Shares/ Units Which Vested During the FY (#)	Market Price Per Share on Date of Grant (\$)	Market Price Per Share on Vesting of Award (\$)	Income Realised Upon Vesting (\$)	Restricted Shares/Units Outstanding at End of FY (#)
Thomas P. Burke	11/4/2019	(2)	(2)	—	575,743	—	15.88	N/A	N/A
Carl G. Trowell	3/3/2016	3/3/2019	(3)	19,061	—	19,061	43.72	16.88	321,750
	6/3/2017	6/3/2020	(3)	43,268	—	21,634	38.52	16.88	365,182
	5/3/2018	5/3/2021	(3)	133,833	—	44,611	18.68	17.36	774,447
	6/3/2019	N/A	(4)	—	148,104	N/A	N/A	N/A	—
William Albrecht	11/4/2019	(2)	(2)	—	12,686	—	15.88	N/A	N/A
	3/6/2019	3/6/2020	(8)	—	22,806	—	8.77	N/A	N/A
Frederick Arnold	4/12/2019	4/12/2020	(5)	—	23,437	—	4.43	N/A	N/A
Mary E. Francis CBE	1/6/2016	1/6/2019	(3)	1,727	—	1,727	38.60	8.37	14,455
	1/6/2017	1/6/2020	(3)	5,274	—	2,637	25.28	8.37	22,072
	1/6/2018	1/6/2021	(3)	7,599	—	2,533	26.32	8.37	21,201
	3/6/2019	3/6/2020	(5)	—	22,806	—	8.77	N/A	22,806
Georges J. Lambert	4/12/2019	4/12/2020	(5)	—	25,164	—	4.43	N/A	N/A
Suzanne P. Nimocks	11/4/2019	(2)	(2)	—	31,583	1,498	15.88	8.63	12,928
	3/6/2019	3/6/2020	(5)	—	22,806	—	8.77	N/A	22,806

	Date of Grant	End of Period Over Which Qualifying Conditions Must be Fulfilled for Each Award ⁽¹⁾	Restricted Shares/Units Outstanding at Beginning of FY (#)	Restricted Shares/Units Granted During the FY (#)	Restricted Shares/Units Which Vested During the FY (#)	Market Price Per Share on Date of Grant (\$)	Market Price Per Share on Vesting of Award (\$)	Income Realised Upon Vesting (\$)	Restricted Shares/Units Outstanding at End of FY (#)
Thierry Pilenko	11/4/2019	⁽²⁾	—	19,380	—	15.88	N/A	N/A	19,380
	3/6/2019	3/6/2020 ⁽⁸⁾	—	22,806	—	8.77	N/A	N/A	22,806
Keith O. Rattie	1/6/2016	1/6/2019 ⁽³⁾	1,727	—	1,727	38.60	8.37	14,455	—
	1/6/2017	1/6/2020 ⁽³⁾	5,274	—	2,637	25.28	8.37	22,072	2,637
	1/6/2018	1/6/2021 ⁽³⁾	7,599	—	2,533	26.32	8.37	21,201	5,066
	3/6/2019	3/6/2020 ⁽⁵⁾	—	22,806	—	8.77	N/A	N/A	22,806
Paul E. Rowsey, III	1/6/2016	1/6/2019 ⁽³⁾	2,375	—	2,375	38.60	8.37	19,879	—
	1/6/2017	1/6/2020 ⁽³⁾	7,252	—	3,626	25.28	8.37	30,350	3,626
	1/6/2018	1/6/2021 ⁽³⁾	10,449	—	3,483	26.32	8.37	29,153	6,966
	3/6/2019	3/6/2020 ⁽⁵⁾	—	22,806	—	8.77	N/A	N/A	22,806
Charles L. Szews	11/4/2019	⁽²⁾	—	7,574	1,498	15.88	8.63	12,928	6,076
	3/6/2019	3/6/2020 ⁽⁵⁾	—	22,806	—	8.77	N/A	N/A	22,806
J. Roderick Clark	1/6/2016	1/6/2019 ⁽³⁾	1,727	—	1,727	38.60	8.37	14,455	—
	1/6/2017	12/11/2019 ⁽⁶⁾	5,274	—	5,274	25.28	⁽⁷⁾	34,017	—
	1/6/2018	12/11/2019 ⁽⁶⁾	7,599	—	7,599	26.32	⁽⁷⁾	44,150	—
	3/6/2019	12/11/2019 ⁽⁶⁾	—	22,806	22,806	8.77	4.53	103,311	—
Roxanne J. Decyk	1/6/2016	11/4/2019 ⁽⁶⁾	1,727	—	1,727	38.60	16.37	28,271	—
	1/6/2017	11/4/2019 ⁽⁶⁾	5,274	—	5,274	25.28	16.37	86,335	—
	1/6/2018	11/4/2019 ⁽⁶⁾	7,599	—	7,599	26.32	16.37	124,396	—
C. Christopher Gaut	1/6/2016	1/6/2019 ⁽³⁾	1,727	—	1,727	38.60	8.37	14,455	—
	1/6/2017	12/11/2019 ⁽⁶⁾	5,274	—	5,274	25.28	⁽⁷⁾	34,017	—
	1/6/2018	12/11/2019 ⁽⁶⁾	7,599	—	7,599	26.32	⁽⁷⁾	44,150	—
	3/6/2019	12/11/2019 ⁽⁶⁾	—	22,806	22,806	8.77	4.53	103,311	—
Jack E. Golden	6/10/2017	11/4/2019 ⁽⁶⁾	2,250	—	2,250	22.72	16.37	36,833	—
	1/11/2017	11/4/2019 ⁽⁶⁾	3,966	—	3,966	21.92	16.37	64,923	—
	1/6/2018	11/4/2019 ⁽⁶⁾	7,599	—	7,599	26.32	16.37	124,396	—
Gerald W. Haddock	1/6/2016	11/4/2019 ⁽⁶⁾	1,727	—	1,727	38.60	16.37	28,271	—
	1/6/2017	11/4/2019 ⁽⁶⁾	5,274	—	5,274	25.28	16.37	86,335	—
	1/6/2018	11/4/2019 ⁽⁶⁾	7,599	—	7,599	26.32	16.37	124,396	—
Francis S. Kalman	1/6/2016	11/4/2019 ⁽⁶⁾	1,727	—	1,727	38.60	16.37	28,271	—
	1/6/2017	11/4/2019 ⁽⁶⁾	5,274	—	5,274	25.28	16.37	86,335	—
	1/6/2018	11/4/2019 ⁽⁶⁾	7,599	—	7,599	26.32	16.37	124,396	—
Phil D. Wedemeyer	1/11/2017	11/4/2019 ⁽⁶⁾	3,966	—	3,966	21.92	16.37	64,923	—
	1/6/2018	11/4/2019 ⁽⁶⁾	7,599	—	7,599	26.32	16.37	124,396	—

- ⁽¹⁾ The end of period date noted in the table above refers to the date on which all restricted share awards and units for the grant identified have vested.
- ⁽²⁾ Upon close of the Rowan Transaction, legacy Rowan shares were exchanged for Valaris shares. The shares were granted on the basis of original vesting schedules.
- ⁽³⁾ Restricted share units granted to non-executive directors between 2016 and 2019 vest (restrictions lapse) at a rate of 33% each year over a three-year period or upon retirement from the Board.
- ⁽⁴⁾ Under his 2019 employment agreement, Mr. Trowell agreed to forfeit all outstanding performance unit awards and the 2019 shares awards granted to him in exchange for a payment of \$5,000,000 upon the closing of the Rowan Transaction.
- ⁽⁵⁾ Restricted share units granted in the form of time-vested restricted shares that vest after one year.
- ⁽⁶⁾ Shares vested upon retirement from Board.

- (7) Mr. Clark's and Mr. Gaut's shares outstanding shares were accelerated this year due to the Rowan Transaction. As a result, 2,637 and 2,533 of the 2017 and 2018 share awards vested on 1 June 2019 at a market price of \$8.37 the remaining 2,637 and 5,066 shares vested on 11 November 2019 at a market price of \$4.53.
- (8) Restricted share units granted in the form of deferred restricted shares that vest after one year. The shares are considered exercised at the time the board member retires.

Other remuneration

Rowan pension plan

We assumed the Rowan Pension Plan in connection with the Rowan Transaction. The Rowan Pension Plan is a qualified defined benefit plan under the U.S. Internal Revenue Code in which Mr. Burke participates. The Rowan Pension Plan was fully frozen to additional pay credits effective as of 30 June 2018.

Benefits under the Rowan Pension Plan are determined based on a traditional formula and a cash balance formula. Mr. Burke (having been hired after 1 January 2008) is eligible for, and vested in, the cash balance formula. Mr. Burke did not accrue any benefits under the traditional formula.

The cash balance formula applies to eligible employees hired on or after 1 January 2008 and employees whose benefits under the traditional formula were frozen on 30 June 2009. Benefits under the cash balance formula are based on annual pay credits, which ceased effective 30 June 2018, and quarterly interest credits (based on the 10-year Treasury rate) to a cash balance account created on the participant's hire date. Annual pay credits of 5% of an employee's wages, excluding equity compensation, tax equalisation payments and foreign or other premium adjustments, were provided to all eligible employees prior to the plan freeze date. Normal retirement occurs upon termination on or after age 60. Benefits are not reduced if an employee terminates employment prior to age 60. The cash balance formula allows the employee to elect the form of benefit payment from a few annuity options or a single sum payment option that are all actuarially equivalent.

Rowan SERP

We also assumed a nonqualified pension plan, the Rowan SERP, in connection with the Rowan Transaction. The Rowan SERP is designed to replace benefits that would otherwise not be received due to limitations contained in the U.S. Internal Revenue Code that apply to qualified plans. The Rowan SERP was frozen to new entrants and additional cash balance pay credits in connection with the freeze of the Rowan Pension Plan.

Mr. Burke has a cash balance formula benefit under the Rowan SERP that is determined by calculating the cash balance formula benefit under the Rowan Pension Plan without regard to the qualified plan limits and then reducing it by the amount of the cash balance formula benefit under the Rowan Pension Plan. In addition, the cash balance benefit under the Rowan SERP includes a 5% pay credit on compensation over the qualified plan limit to make up for limitations under the Rowan 401(k) Savings Plan. Distribution of these benefits commences six months after termination and are paid in a single sum payment.

Pension benefits table

The table below shows the present value of accumulated defined benefit pension benefits for Mr. Burke at 31 December 2019. We have provided the present value of accumulated benefits at 31 December 2019 using a discount rate of 3.17% for the Rowan Pension Plan and 3.04% for the Rowan SERP.

Plan Name	Number of Years of Credited Service(#)	Present Value of Accumulated Benefit\$(⁽¹⁾)	Payments During Last Fiscal Year\$
Thomas P. Burke	Rowan Pension Plan	7	113,341
	Rowan SERP	9	1,216,993

⁽¹⁾ The pension liabilities are based upon actuarial computations that reflect our assumptions about future events, including long-term asset returns, interest rates, annual compensation increases, mortality rates and other factors. A discussion of the assumptions is set forth in note 27.

Potential post-employment payment table

The table below shows the benefits payable in the event of voluntary termination, involuntary termination or a change in control as if the termination date were 31 December 2019 under the Rowan Pension Plan and the Rowan SERP:

Plan Name	Age at December 31, 2019	Frozen Plan Benefit Monthly annuity - starting at age 60 (\$)	Frozen Plan Benefit Monthly Annuity - January 1, 2020 Commencement	Cash Balance Lump Sum - Age 60 Commencement	Cash Balance Lump Sum - January 1, 2020 Commencement
Thomas P. Burke	Rowan Pension Plan	52.27	—	N/A \$ 144,259	\$ 115,366
	Rowan SERP	52.27	—	N/A \$ 1,533,945	\$ 1,226,720

Agreements with Directors

There are no agreements or letters of appointment in place with our non-executive directors. All directors are subject to annual nomination by the Board and re-election by our shareholders.

Mr. Trowell's Employment Agreement

Concurrently with the execution of the transaction agreement with Rowan, Mr. Trowell entered into an employment agreement with ENSCO Services Limited (the "Trowell Employment Agreement"). The Trowell Employment Agreement provides that Mr. Trowell will serve as Executive Chairman for a term expiring on 11 October 2020. The Trowell Employment Agreement became effective upon the closing of the transaction and supersedes in its entirety Mr. Trowell's previous employment agreement. The unexpired term of the Trowell Employment Agreement as of 24 April 2020 is 5 months 17 days.

Mr. Burke's Employment Agreement

Concurrently with the execution of the transaction agreement with Rowan, Mr. Burke entered into an employment agreement with Rowan Companies, Inc., ENSCO Global Resources Limited and Valaris (solely for purposes of guaranteeing the payments and obligations under the employment agreement) (the "Burke Employment Agreement").

The Burke Employment Agreement has an initial term of two years and became effective upon the closing of the transaction. As such, the unexpired term of the Burke Employment Agreement is, as of 24 April 2020, approximately 1 year and 2 weeks. The term is automatically extended each year for one additional year unless Mr. Burke is provided written notice of non-renewal at least ninety days prior to the then-applicable term.

Waiver of Equity Award Acceleration. Mr. Burke's change in control agreement provides for single-trigger equity award acceleration upon a change in control (as described above). The Burke Employment Agreement modified the treatment of Mr. Burke's equity awards under his change in control agreement. Time-vesting awards held by Mr. Burke as of the closing date of the Rowan Transaction did not accelerate solely due to the closing. Performance-based awards held by Mr. Burke as of the Rowan Transaction closing were treated in accordance with the transaction agreement. Upon a termination without "Cause", resignation for "Good Reason" or due to Mr. Burke's death or disability, in each case that occurs during the three-year period after the closing (such period, the "Protection Period"), then (i) equity awards will fully vest and (ii) vested stock options and stock appreciation rights will be exercisable until the earlier of (A) the second anniversary after the termination or (B) the original maximum term of the stock option or stock appreciation right. Equity awards held by Mr. Burke will also fully accelerate upon the occurrence of a subsequent change in control. However, if a change in control occurs after the Protection Period, then there will be no single-trigger acceleration with regard to equity awards granted after the closing date if the award agreements for such awards provide for double-trigger vesting.

Cash Compensation. The Burke Employment Agreement provides for an annual base salary of \$950,000. Mr. Burke will also be eligible to participate in an annual short-term incentive bonus plan with a target opportunity of 110% of his annual base salary. On December 3, 2019, Mr. Burke requested a 10% reduction of his annual base salary, reducing it to \$855,000 per annum commencing effective as of 1 January 2020. This reduction had a corresponding effect on Mr. Burke's annual incentive opportunity, annual equity opportunity, and severance entitlements.

Cash Sign-On Bonus. In consideration of Mr. Burke's (i) waiver of single trigger vesting for certain equity awards subject to time-based vesting only as of the closing date, (ii) waiver of certain rights in connection with a change in control or a resignation

for “Good Reason,” (iii) waiver of certain severance payments upon a change in control under his existing change in control agreement and (iv) relocation from the United States to the UK and the associated cost of living and tax burden associated with such move, Mr. Burke will receive a one-time, lump-sum cash payment of \$3,750,000 as a sign-on bonus. In the event Mr. Burke’s employment terminates as a result of his resignation without Good Reason or a termination for Cause, in each case during the three-year period immediately following the date of the transaction agreement, Mr. Burke will be required to immediately re-pay the signing bonus, on a pro-rata basis, net of any taxes paid thereon.

Equity-Based Compensation. Mr. Burke will be eligible to receive equity awards under Valaris’s long-term incentive award plans and programmes. For the two years after the closing date, Mr. Burke will be eligible to receive equity awards from Valaris with a target annual award level of not less than 500% of his base salary on terms and conditions no less favourable than those applicable to executive officers of Valaris generally.

Benefits. Mr. Burke will be eligible to participate in the employee benefit plans of Valaris. This will include participation in Valaris’s expatriate assignment and tax equalisation policy as applied to Valaris expatriate employees in London generally, which will entitle Mr. Burke to the following benefits: (i) a cost of living allowance of \$25,000 per year; (ii) a housing allowance equal to \$160,000 annually; (iii) education reimbursement of up to \$45,000 per child per year; (iv) reimbursement for Mr. Burke’s and each of his eligible dependents for one home leave roundtrip airline ticket and ground transportation (airport transfer) per year; and (v) reimbursement for tax preparation services. In the event Mr. Burke’s principal place of employment is relocated, Mr. Burke will also receive a payment in the amount of \$20,000, along with such other relocation benefits provided under Valaris’s relocation policy.

Severance Payments and Benefits. Upon a termination of the Burke Employment Agreement without Cause or a resignation for Good Reason, Mr. Burke would be eligible to receive severance payments and benefits, subject to his execution and non-revocation of a release of claims. He would only be eligible to receive such payments and benefits under the Burke Employment Agreement if he is not eligible to receive benefits under his change in control agreement. Commencing on the third anniversary of the closing of the transaction, Mr. Burke would be eligible to receive the following payments and benefits: (i) an amount in cash equal to two times his base salary; (ii) an amount in cash equal to two times the “Average Bonus Amount” (i.e., the greater of: (A) the average of the combined annual bonus awards received by Mr. Burke pursuant to Valaris’s annual incentive plan in the three calendar years immediately before the date of termination (including the annual bonus awards received from Rowan) and (B) Mr. Burke’s target annual bonus for the year during which the termination of employment occurs); (iii) a pro-rated portion of the annual bonus award that Mr. Burke would have earned had he remained employed through the end of the year in which the date of termination occurs based upon actual performance for such year (and, to the extent there is any discretionary component thereof, with the discretionary aspects being determined at not less than the target level); (iv) continued coverage in the employer provided medical, dental and vision plans available to Mr. Burke and his eligible dependents immediately prior to the date of termination, to the extent such coverage is elected by Mr. Burke pursuant to COBRA, for a period of twenty four months following the date of termination; (v) if before, upon the commencement of or during the term of the Burke Employment Agreement, Mr. Burke was required to relocate his principal place of employment outside of the United States, reimbursement of the reasonable cost of return relocation-related expenses (not including make-whole payments for any loss incurred on the sale of Mr. Burke’s principal residence); and (vi) any of Mr. Burke’s unvested equity, equity-based or long-term incentive awards granted under any equity or long-term incentive plans of Valaris or Rowan will immediately become 100% vested in all of the rights and interests then held by Mr. Burke, provided, however, that unless a provision more favorable to the Executive is included in an applicable award agreement, all performance-based awards will remain subject to attaining the applicable performance goals and conditions. Until the third anniversary of the closing of the transaction, Mr. Burke will be eligible for severance under his change in control agreement.

Share ownership guidelines

Equity accumulation by our directors is encouraged, and we have specific share ownership guidelines, which are included in the Valaris Corporate Governance Policy. As respects non-executive directors, within five years of appointment to the Board, each such director should hold a number of vested and unvested shares of the company having a value of at least five times the director’s annual retainer. As respects named executive officers, guidelines specific to the position in question shall apply within five years of appointment to the position. Our executive director should hold a number of vested and unvested shares having a fair market value of at least six times his or her base salary. Each executive and non-executive director was in compliance with these guidelines at the end of 2019.

Directors' interest in shares - Table E

The interest of the current directors in office as of 31 December 2019 in shares and share incentives are shown in the table below.

Name	Unvested Restricted Shares/ Units held as of 31 Dec 2019	Unvested and Vested Deferred Restricted Shares/Units held as of 31 Dec 2019	Unrestricted Shares held as of 31 Dec 2019	Vested Unexercised Options & SARs held as of 31 Dec 2019	Unvested Unexercised Options & SARs held as of 31 Dec 2019	Unearned Performance Unit Awards held as of 31 Dec 2019	Total Awards held as of 31 Dec 2019
Executive Director							
Thomas P. Burke	575,743	—	222,576	72,057	244,025	—	1,114,401
Carl G. Trowell	110,856	—	256,538	—	—	—	367,394
Non-executive Directors							
William E. Albrecht	—	35,492	16,857	—	—	—	52,349
Fredrick Arnold	23,437	—	—	—	—	—	23,437
Mary E. Francis CBE	30,509	—	9,643	—	—	—	40,152
Georges J. Lambert	25,164	—	—	—	—	—	25,164
Suzanne P. Nimocks	22,806	30,085	19,120	—	—	—	72,011
Thierry Pilenko	—	42,186	687	—	—	—	42,873
Keith O. Rattie	30,509	—	15,515	—	—	—	46,024
Paul E. Rowsey, III	33,398	—	30,594	—	—	—	63,992
Charles L. Szews	22,806	6,076	18,295	—	—	—	47,177

Statement of change in pay of Chief Executive Officer compared with employees

The table below summarises the percentage change in salary, taxable benefits and annual incentives of the Chief Executive Officer and our employee population, as defined below, for the years ended 31 December 2019 and 2018.

Mr. Burke became our President and Chief Executive Officer on 11 April 2019 upon the closing of the Rowan Transaction. At this time, Mr. Trowell retired as Chief Executive Officer but remained employed by the company as an executive director to serve as Chairman of the Board of Directors. Therefore, total remuneration during 2019 reflects remuneration for Messrs. Burke and Trowell during the period they served as Chief Executive Officer, including prorated annual bonus payouts.

	Chief Executive Officer	Employees
	Percentage Change (2019 vs 2018)	Percentage Change (2019 vs 2018) ⁽¹⁾
Salary	13.4 %	2.1%
Taxable Benefits ⁽²⁾	(57.6)%	4.7%
Annual Incentives	11.6 %	2.7%

⁽¹⁾ We selected our Corporate salaried employee population for this comparison based upon the duties of these employees, the locations where they work and the structure of their remuneration.

⁽²⁾ Taxable benefits for Mr. Trowell and Mr. Burke consist of: dividends paid on restricted share awards; payments in lieu of participation in the Enscos Savings Plan and the SERP, equal to the amounts Valaris would have contributed to those plans; group term life insurance; and tax preparation fees. Taxable benefits for employees consist primarily of: dividends paid on restricted share awards and overseas allowances to the extent paid to any given employee.

Relative importance of spend on pay

The table below shows the overall spend on employee pay, dividend payments and capital expenditures for the years ended 31 December 2019 and 2018.

	2019	2018	Percentage Change
Employee Pay	\$ 760,100,000	\$ 564,500,000	35 %
Dividend Payments	\$ 4,500,000	\$ 17,900,000	(75)% ⁽²⁾
Capital Expenditures ⁽¹⁾	\$ 227,000,000	\$ 426,700,000	(47)%

- (1) Capital expenditures consist of expenditures on new rig construction, rig enhancement and minor upgrades and improvements, which are an essential part of our business.
- (2) Decrease in dividend payments as the Board of Directors determined that we will not pay a regular quarterly cash dividend starting in the second quarter of 2019.

UK Chief Executive Officer pay ratio

We used the single figure remuneration (Option A in the relevant regulations) to determine the employees whose remuneration packages sit at the lower, median and upper quartile positions, as of December 31, 2019, across the UK workforce as this in our view is the most transparent way to calculate and compare the remuneration of the comparator employees. We have calculated the annual remuneration relating to 2019 for the three identified employees on the same basis as the CEO's total remuneration for 2019 in the single figure table, to produce the ratios below:

Quartile Position	Employee Job Title	Employee Base Salary	Total Remuneration	CEO Pay Ratio
Lower	Floorhand	\$ 60,599	\$ 60,599	1-to-104
Median	Welder	\$ 76,243	\$ 76,243	1-to-83
Upper	Electrician	\$ 108,411	\$ 108,411	1-to-58

We believe that the median pay ratio is consistent with the pay, reward and progression policies for our UK employees. The base salary and total remuneration levels for our CEO and the representative employee for each quartile position are competitively positioned within the relevant markets and reflect the operation of our remuneration structures which are effective in appropriately incentivising staff.

2020 implementation statement (period from 1 January 2020 to 31 December 2020)

Non-Executive Director Remuneration

For 2020, our non-executive director compensation will consist entirely of a cash-based retainer paid quarterly. Non-executive directors are not expected to receive any equity compensation in 2020.

Base salary, benefits, employer matching and profit sharing programmes for executive directors

Base salary, benefits and employer matching and profit sharing programmes were implemented in line with the Current Remuneration Policy.

2020 ECIP and LTIP awards for executive directors

Given the ongoing impact of the COVID-19 crisis on the global market for oil and on the broader economy, the Compensation Committee has elected at the time of this report to keep the terms of ECIP and LTIP awards to be granted in respect of 2020 under review in order to allow it to respond to the developing situation (which may involve incentivizing directors by reference to bespoke performance metrics and targets under the ECIP and/or LTIP). Any awards granted in respect of 2020 will naturally be in line with the Remuneration Policy.

Given the disclosure of the Compensation Committee's current thinking as to the 2020 ECIP and LTIP awards in this report may give Valaris' competitors a market advantage, the Compensation Committee considers it in the best interests of shareholders not to disclose information relating to the ECIP and LTIP awards (in particular, relevant performance metrics and targets) at the current time on the grounds of commercial sensitivity. The Compensation Committee remains committed to an open and transparent dialogue with its shareholders and undertakes to disclose the relevant performance metrics in its first Directors' Remuneration Report following the point at which it decides this information is no longer commercially sensitive.

Shareholder voting on remuneration matters

The Board values shareholders' input on the design of our employee compensation programmes. The Board believes that our programmes are structured to deliver realised pay that is commensurate with performance and that we have a pay for performance approach to executive pay that holds management accountable for producing profitable growth. The Board also believes that we have adopted multiple compensation governance "best practices."

At our last annual general meeting of shareholders held on 20 May 2019, we received 288,306,461 votes in favour of our Directors' Remuneration Report, 5,146,156 votes in opposition and 1,874,459 abstentions, for total support of 98.2% of the votes cast on the proposal and total opposition of 1.8% of the votes cast on the proposal.

Please see "2020 implementation statement" above for a description of other compensation changes being implemented in 2020.

The Directors' Remuneration Report was approved by the Board of Directors on 24 April 2020 and was signed on its behalf by:

/s/ Thomas P. Burke

Thomas P. Burke

Director, Chief Executive Office and President

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report and Directors' Remuneration Report that complies with that law and those regulations.

Independent Auditor's Report to the Members of Valaris plc

1. Our opinion is unmodified

We have audited the financial statements of Valaris plc ("the Company") for the year ended 31 December 2019 which comprise the Consolidated Profit and Loss Account, Consolidated Other Comprehensive Income/(Loss), Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, and the related notes, including the accounting policies in notes 1 and 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group and parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and we are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Material uncertainty relating to going concern

We draw attention to note 1 to the financial statements which refers to the current uncertain economic environment and disclosures that under severe but plausible sensitivity downsides to the Group's forecast, it is possible that the Group's total debt to total capitalisation ratio calculated under U.S. GAAP could exceed 60%, in which case further borrowings under the credit facility would not be permitted, absent a waiver, and all outstanding borrowings could become immediately due and payable by action of lenders holding a majority of the commitments under the facility. Note 1 also refers to how under certain circumstances, after late December 2020, the Company's shares could be delisted from the New York Stock Exchange. If the Company's shares are delisted and not concurrently listed on Nasdaq, the holders of the Group's 3.00% exchangeable senior notes due 2024 would have the right to require the Group to repurchase the notes for their principal amount thereof of \$849.5 million plus accrued interest to the repurchase date. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The risk - Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company.

That judgement is based on an evaluation of the inherent risks to the Group's and parent Company's business model, including the impact of the current global coronavirus pandemic and the significant decline in oil prices, and how those risks might affect the Group's and parent Company's financial resources (including the Company's listing) and ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risk for our audit is whether or not those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.

Our response

Our procedures included:

- **Funding assessment:** We inspected the Group's cash flow forecast for the next 12 months and the Group's credit facility agreement, and evaluated the agreement terms relating to financial covenant compliance.
- **Key dependency assessment:** We recalculated the Group's forecast total debt to total capitalisation ratio financial covenant at each quarter during the going concern forecast period, to confirm the Group forecasts compliance with this ratio to enable the Group to draw upon its credit facility.

- **Sensitivity analysis:** We performed sensitivity analysis on the Group's cash flow forecasts, debt repayment requirements and rig impairment models to consider their impact on liquidity and financial covenant compliance during the going concern forecast period. Our sensitivity analysis included assuming severe but plausible reductions to the Group's forecast operating cash outflows and debt repayment requirements for the next 12 months and reasonably possible changes to the Group's total debt to total capitalisation ratio as a result of higher rig impairment charges.
- **Transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure by comparing the disclosure to the conclusions of our audit testing.

3. Other key audit matters: our assessment of risks of material misstatement

Other key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matters, in decreasing order of audit significance, were as follows:

a. Carrying value of drilling rigs and equipment (\$8,860.7 million, 2018: \$8,105.2 million) and assets in course of construction (\$398.3 million, 2018: \$775.2 million): Risk increased from 2018

The carrying value of drilling rigs and equipment and assets under construction is 90% (2018: 87%) of the Group's total assets.

Refer to page 61 (accounting policy); page 66 critical accounting policies and estimates; and page 83 (financial disclosures).

The risk – subjective estimate

The carrying value of drilling rigs and equipment and assets under construction is significant and determined by the levels of activity in the oil and gas industry which can change due to volatile oil and gas prices. Significant judgment is required to assess whether any impairment indicators have arisen at year end and whether any impairments recorded in prior years should be reversed. When an impairment indicator is identified or a prior period impairment may require reversal, significant estimation may be required in the assessment and calculation of an asset's recoverable amount.

The Group identified an indicator of impairment during the year for drilling rigs and equipment and assets in course of construction and, as a result of the impairment assessment of recoverable amount performed, significant impairments and impairment reversals have been recorded in the current year consolidated profit and loss account.

The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of drilling rigs and equipment and assets under construction has a high degree of estimation uncertainty with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

Our procedures included:

- **Control operation:** We tested the design, implementation and operating effectiveness of the Group's control over the preparation of qualitative quarterly assessments to identify indicators of impairment over the carrying value of tangible fixed assets.
- **Our sector experience:** We critically evaluated the completeness of the Group's assessments of indicators of impairment or impairment reversal. We used our experience of the sector in which the Group operates to seek to identify additional or contrary evidence, including inspecting externally and internally derived data in respect of current and forecast global rig activity.
- **Tests of detail:** For the assets where an impairment indicator was identified and an impairment test performed, we compared the key assumptions used in the calculation of the asset's recoverable amount, being estimated utilisation, day rates and operating costs against historical data and current financial results; we also compared estimated day rates to third party day rate forecast data. We performed sensitivity analysis on these assumptions and confirmed that the forecast period did not extend beyond the remaining useful life of the asset.

- **Our valuation expertise:** We challenged the assumptions used by the Group in the determination of the discount rates, including comparison with external data sources and by involving our own valuation specialist to assist us in assessing the discount rate assumptions applied.
- **Assessing transparency:** We assessed whether the Group's disclosures about the judgements relating to the identification of impairment indicators and the outcome of the impairment assessment fairly reflect the risks inherent in the carrying value of drilling rigs and equipment and assets under construction and the judgements and estimates applied in the measurement of the recoverable amount of those assets which have been impaired and those assets which have been subject to impairment reversals.

b. Fair value of the tangible fixed assets and investment in Saudi Aramco Rowan Offshore Drilling Company acquired through the acquisition of Rowan Companies plc: New risk in year

The business combination included the acquisition of \$2,964.0 million of tangible fixed assets, and a \$141.3 million Investment in Saudi Aramco Rowan Offshore Drilling Company ("ARO").

Refer to page 60 (accounting policy); page 71 critical accounting policies and estimates; and page 68 (financial disclosures).

The risk – subjective estimate

The Group is required to apply judgement and make estimates when determining the fair value of the tangible fixed assets and investment in Saudi Aramco Rowan Offshore Drilling Company ("ARO") acquired through the acquisition of Rowan Companies plc. The estimation uncertainty associated with the valuation of these acquired assets is significant due to the materiality of the assets and the inherent uncertainty involved in forecasting and discounting the cash flows used in their valuation.

The effect of these matters is that, as part of our risk assessment, we determined that the fair values used in the acquisition accounting relating to the tangible fixed assets and investment in ARO had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

Our procedures included:

- **Control operation:** We tested the design, implementation and operating effectiveness of the Group's controls over the valuation process including those over the development of the assumptions used to determine the fair values.
- **Test of detail:** We used our knowledge of the acquired business, and its industry, to assess key assumptions in the cash flow forecasts used to determine the fair value of the tangible fixed assets and investment in ARO recognised on the date of acquisition. We compared the key assumptions being estimated utilisation, day rates and operating costs against historical data, data from the Group's peers and industry reports.
- **Our valuation expertise:** We challenged the assumptions used by the Group in the determination of the discount rates, including comparison with external data sources and by involving our own valuation specialist to assist us in assessing the discount rate assumptions applied.
- **Assessing transparency:** We assessed whether the Group's disclosures in respect of the measurement of the relevant assets acquired fairly reflect the risks inherent in determining the fair values and the judgements and estimates applied in the measurement of those fair values.

c. Estimation of uncertain tax provisions (\$233.5 million, 2018: \$177.0 million): Risk increased from 2018

Provisions for liabilities principally comprise provisions relating to tax uncertainties, including uncertain tax positions arising as a result of the Rowan acquisition.

Refer to page 63 (accounting policy); page 68 critical accounting policies and estimates; and page 93 (financial disclosures).

The risk – subjective estimate

The Group operates in and is subject to the legislation of multiple tax jurisdictions, including those where the tax laws relating to offshore drilling are not well developed. Tax positions and treatments may be challenged at a later date. Provisions are held principally in respect of current tax deductions previously taken and ongoing tax audits.

This is an area which requires significant judgement. The amounts involved, including uncertain tax positions arising as a result of the Rowan acquisition, are potentially significant and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective.

The effect of these matters is that, as part of our risk assessment, we determined that the uncertain tax provision has a high degree of judgement and greater than our materiality for the financial statements as a whole. The financial statements (note 20) disclose the Group's estimate of possible changes in this provision in the next financial year.

Our response

Our procedures included:

- **Control operation:** We tested the design, implementation and operating effectiveness of the Group's review controls over the monitoring of uncertain tax positions on a quarterly basis.
- **Our tax expertise:** We used our own international and local tax specialists to assess the Group's tax positions, including tax positions acquired in the Rowan transaction. We inspected the Group's correspondence with the relevant tax authorities and read related external tax advice obtained by the Group. We analysed and challenged the assumptions used by the Group to determine tax provisions, based on our knowledge and experiences of the application of international and local legislation by the relevant authorities and courts.
- **Assessing transparency:** We assessed the adequacy and appropriateness of the disclosure in respect of tax and uncertain tax provisions and the judgements applied.

d. Recoverability of parent company's investment in subsidiaries (\$3,167.5 million 2018: \$4,606.3 million): Risk increased from 2018

Refer to page 61 (accounting policy); page 67 critical accounting policies and estimates; and page 85 (financial disclosures).

The risk - subjective estimate

The carrying amount of the parent company's investments in subsidiaries represents 43% (2018: 48%) of the company's total assets. Due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

In the current year the parent company's investment in one subsidiary was impaired by \$2,877.2 million. This impairment was the result of a net reduction in the recoverable amount of the underlying tangible fixed assets held within a subsidiary's sub-group. The estimated recoverable amount of this subsidiary is subjective due to the inherent uncertainty involving future cash flows.

The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of the investment, has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

Our procedures included:

- **Tests of detail:** We compared the carrying amount of 100% of the company's investments with the relevant subsidiaries' consolidated net assets, to identify whether the consolidated net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.
- **Comparing valuations:** For the one subsidiary where the carrying amount exceeded the consolidated net assets value, we compared the carrying amount of the investment to the expected value of the subsidiary based on discounted cash flows. We assessed the consistency of the cash flow assumptions used, with the cash flows used to determine the recoverable amount of the tangible fixed assets owned by the subsidiary. For the one subsidiary where the carrying amount exceeded the consolidated net assets value, we compared the carrying amount of the investment to the expected value of the subsidiary based on discounted cash flows. We assessed the consistency of the cash flow assumptions used, with the cash flows used to determine the recoverable amount of the tangible fixed assets owned by the subsidiary (see section 2b of this report). In respect of these cash flows, we compared the key assumptions used, being estimated asset utilisation, day rates and operating costs against historical data and current financial results; we also compared estimated day rates to third party day rate forecast data. We performed sensitivity analysis on these assumptions.
- **Our valuation expertise:** We challenged the assumptions used by the Group in the determination of the discount rates, including comparison with external data sources and by involving our own valuation specialist to assist us in assessing the discount rate assumptions applied.

- **Assessing transparency:** We assessed the adequacy of the parent company's disclosures in respect of the investment in subsidiaries.

4. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at \$45.0 million (2018: \$35.0 million), determined with reference to a benchmark of total assets (of which it represents 0.4% (2018: 0.3%)).

Materiality for the parent company financial statements as a whole was set at \$27.5 million (2018: \$30.0 million), by reference to component materiality. This is lower than the materiality we would otherwise have determined with reference to a benchmark of company net assets, of which it represents 1.0% (2018: 0.7%).

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding \$2.25 million (2018: \$1.7 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's two (2018: two) reporting components we subjected both (2018: both) to full scope audits for group purposes. These components accounted for the following percentages of the Group's results: 100% (2018: 100%) of Group revenue, 100% of Group loss before tax (2018: 100% loss before tax) and 100% (2018: 100%) of Group net assets. The work on one of the two components (2018: one of two) was performed by component auditors in the United States of America, the other, being the parent company, by the Group audit team in the United Kingdom.

The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the following component materialities, having regard to the mix of size and risk profile of the Group across the components:

- Valaris plc US component \$40.0 million (2018: \$31.0 million)
- Valaris plc company component \$27.5 million (2018: \$30.0 million)

The Group team visited one (2018: one) component location in the United States of America (2018: United States of America). Telephone conference meetings were also held with this component auditor. At this visit and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 44, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

/s/ David Derbyshire

David Derbyshire (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
37 Albyn Place
Aberdeen
AB10 1JB
24 April 2020

Consolidated Profit and Loss Account
for the year ended 31 December 2019

		2019	2018
	<i>Note</i>	\$ millions	\$ millions
Turnover	5	2,053.2	1,705.4
Cost of sales			
Contract drilling expense		(1,804.2)	(1,325.2)
Depreciation and amortisation		(406.2)	(419.1)
Impairment of tangible fixed assets and other assets	13	<u>(2,347.4)</u>	<u>(40.3)</u>
		(4,557.8)	(1,784.6)
Gross loss		(2,504.6)	(79.2)
General and administrative expenses		(173.6)	(102.7)
Other operating income/(expense), net	6	<u>181.5</u>	<u>4.8</u>
Group operating loss		(2,496.7)	(177.1)
Group share of operating loss in ARO venture	4	<u>(12.6)</u>	<u>-</u>
Total operating loss		(2,509.3)	(177.1)
Interest receivable and similar income	9	240.2	234.0
Interest payable and other similar expenses	10	<u>(458.7)</u>	<u>(297.2)</u>
Loss before taxation		(2,727.8)	(240.3)
Tax on loss	11	<u>(108.0)</u>	<u>(89.1)</u>
Loss for financial year		(2,835.8)	(329.4)
Loss for the financial year attributable to:			
Shareholders of the parent company		(2,841.6)	(332.5)
Non-controlling interests	23	<u>5.8</u>	<u>3.1</u>
Total loss for financial year		<u>(2,835.8)</u>	<u>(329.4)</u>
Loss per share			
Basic loss per share		(16.39)	(3.08)
Diluted loss per share		(16.39)	(3.08)

All of the results above are derived from continuing operations.

The accompanying notes form an integral part of these financial statements.

Consolidated Other Comprehensive Income/(Loss)
for the year ended 31 December 2019

	2019 \$ millions	2018 \$ millions
Loss for financial year	(2,835.8)	(329.4)
Other comprehensive (loss)/income		
Remeasurement of net defined benefit liability	(13.3)	-
Deferred tax on net defined benefit liability	2.8	-
Foreign exchange on translation of foreign operations	<u>(0.3)</u>	<u>(0.6)</u>
Other comprehensive loss for the year	<u>(10.8)</u>	<u>(0.6)</u>
Total other comprehensive(loss)/ income attributable to:		
Shareholders of the parent company	(2,852.4)	(333.1)
Non-controlling interests	<u>5.8</u>	<u>3.1</u>
	<u><u>(2,846.6)</u></u>	<u><u>(330.0)</u></u>

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet
at 31 December 2019

		2019	2018
	<i>Note</i>	\$ millions	\$ millions
Fixed assets			
Tangible fixed assets	13	9,330.7	8,938.8
Intangible assets		14.8	2.5
Negative goodwill	14	(782.3)	(117.5)
Investment in ARO	4	128.7	-
Notes receivable from ARO	4	<u>452.9</u>	<u>-</u>
		9,144.8	8,823.8
Current assets			
Stocks	16	340.1	268.1
Debtors (including \$116.9 million (2018: \$82.0 million) due after more than one year)	17	743.1	532.8
Investments	15	-	329.0
Cash and cash equivalents		<u>97.2</u>	<u>275.1</u>
		<u>1,180.4</u>	<u>1,405.0</u>
Creditors: amounts falling due within one year	18	<u>(794.8)</u>	<u>(515.9)</u>
Net current assets		<u>385.6</u>	<u>889.1</u>
Total assets less current liabilities		9,530.4	9,712.9
Creditors: amounts falling due after more than one year	19	(5,978.7)	(5,061.6)
Provisions for liabilities			
Pensions and similar obligations	27	(249.6)	-
Other provisions	20	<u>(350.0)</u>	<u>(277.6)</u>
		<u>(599.6)</u>	<u>(277.6)</u>
Net assets		<u>2,952.1</u>	<u>4,373.7</u>
Capital and reserves			
Called up share capital	22	82.5	46.2
Other reserves		<u>2,870.9</u>	<u>4,330.1</u>
		<u>2,953.4</u>	<u>4,376.3</u>
Non-controlling interests	23	<u>(1.3)</u>	<u>(2.6)</u>
Shareholders' funds		<u>2,952.1</u>	<u>4,373.7</u>

These financial statements were approved by the board of directors on 24 April 2020 and were signed on its behalf by:

/s/ Thomas P. Burke

Thomas P. Burke
Director, Chief Executive Officer and President

The accompanying notes form an integral part of these financial statements.

**Company Balance Sheet
at 31 December 2019**

	<i>Note</i>	2019 \$ millions	2018 \$ millions
Fixed assets			
Tangible fixed assets		1.7	-
Investments	15	3,167.5	4,606.3
		3,169.2	4,606.3
Current assets			
Debtors (including \$248.4 million (2018: \$2,585.0 million) due after more than one year)	17	4,251.9	4,454.1
Investments	15	-	329.0
Cash at bank and in hand		21.5	199.8
		4,273.4	4,982.9
Creditors: amounts falling due within one year	18	(877.7)	(145.2)
Net current assets		<u>3,395.7</u>	<u>4,837.7</u>
Total assets less current liabilities		6,564.9	9,444.0
Creditors: amounts falling due after more than one year	19	(3,696.7)	(5,132.2)
Net assets		<u>2,868.2</u>	<u>4,311.8</u>
Capital and reserves			
Called up share capital	22	82.5	46.2
Other reserves		2,785.7	4,265.6
Shareholders' funds		<u>2,868.2</u>	<u>4,311.8</u>

These financial statements were approved by the board of directors on 24 April 2020 and were signed on its behalf by:

/s/ Thomas P. Burke

Thomas P. Burke
*Director, Chief Executive Officer
and President*

Company registered number: 07023598
Company registered office: 110 Cannon Street, London, EC4N 6EU.

The accompanying notes form an integral part of these financial statements.

**Consolidated Cash Flow Statement
for the year ended 31 December 2019**

	2019 \$ millions	2018 \$ millions
Cash flows from operating activities		
Loss for financial year	(2,835.8)	(329.4)
Adjustments for:		
Impairment of tangible fixed assets and other assets	2,347.4	40.3
Depreciation and amortisation (see note 6)	389.4	378.9
Operating loss of ARO venture	12.6	-
Interest payable and other similar expenses	458.7	297.2
Interest receivable and similar income	(240.2)	(234.0)
Tax expense	108.0	89.1
Share-based compensation cost	37.3	41.6
Contributions to pension plans and other post-retirement benefits	(13.2)	-
Other, net	<u>(0.6)</u>	<u>(2.7)</u>
	263.6	281.0
Decrease in creditors	(315.9)	(34.4)
Decrease/(increase) in debtors	65.3	(16.3)
Decrease/(increase) in stocks	11.0	(8.4)
Decrease in provisions	<u>(11.4)</u>	<u>(4.8)</u>
	(251.0)	(63.9)
Taxation paid	107.6	(58.4)
Net cash inflow from operating activities	120.2	158.7
Cash flows from investing activities		
Rowan cash acquired net of acquisition expenses	913.9	-
Receipts from maturities of investments	474.0	1,030.0
Purchase of investments	(145.0)	(919.0)
Payments to acquire tangible fixed assets	(206.1)	(364.1)
Interest received	30.9	18.1
Receipts from sales of tangible fixed assets	<u>17.7</u>	<u>13.6</u>
Net cash inflow/(outflow) from investing activities	1,085.4	(221.4)
Cash flows from financing activities		
Proceeds from new loan	-	1,000.0
Borrowings on credit facility	215.0	-
Repayment of credit facility borrowings	(215.0)	-
Repayment of long-term borrowings	(928.1)	(771.2)
Debt solicitation fees and debt issuance costs	(9.5)	(17.0)
Interest paid	(430.9)	(295.2)
Cash dividends paid by parent company	(4.5)	(18.0)
Other	<u>(10.2)</u>	<u>(5.6)</u>
Net cash outflow from financing activities	(1,383.2)	(107.0)
Decrease in cash and cash equivalents	(177.6)	(169.7)
Cash and cash equivalents at beginning of year	275.1	445.4
Effect of exchange rate changes on cash	<u>(0.3)</u>	<u>(0.6)</u>
Cash and cash equivalents at year end	<u>97.2</u>	<u>275.1</u>

The accompanying notes form an integral part of these financial statements.

**Consolidated Statement of Changes in Equity
for the year ended 31 December 2019**

Year ended 31 December 2019

	Called up share capital \$ millions	Share premium account \$ millions	Merger reserve \$ millions	Own share reserve \$ millions	Other reserves \$ millions	Profit and loss reserve \$ millions	Total shareholders equity \$ millions	Non- controllin g interests \$ millions	Total equity \$ millions
At beginning of year	46.2	960.5	-	(72.2)	4,441.6	(999.8)	4,376.3	(2.6)	4,373.7
Total comprehensive loss for the year	-	-	-	-	-	(2,841.6)	(2,841.6)	5.8	(2,835.8)
Loss for the financial year	-	-	-	-	(0.3)	(10.5)	(10.8)	-	(10.8)
Other comprehensive loss	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(0.3)	(2,852.1)	(2,852.4)	5.8	(2,846.6)
Transactions with owners, recorded directly in equity									
Shares issued for Rowan acquisition	35.2	-	1,367.5	0.1	-	-	1,402.8	-	1,402.8
Equity issuance costs	-	-	(0.6)	-	-	-	(0.6)	-	(0.6)
Cash dividends paid	-	-	-	-	-	(4.5)	(4.5)	(4.5)	(9.0)
Shares issued under share based compensation plans, net	1.1	-	-	(0.7)	(1.3)	-	(0.9)	-	(0.9)
Repurchase of own shares	-	-	-	(5.2)	-	-	(5.2)	-	(5.2)
Share-based compensation cost	-	-	-	-	37.9	-	37.9	-	37.9
At end of year	<u>82.5</u>	<u>960.5</u>	<u>1,366.9</u>	<u>(78.0)</u>	<u>4,477.9</u>	<u>(3,856.4)</u>	<u>2,953.4</u>	<u>(1.3)</u>	<u>2,952.1</u>

Year ended 31 December 2018

	Called up share capital \$ millions	Share premium account \$ millions	Own share reserve \$ millions	Other reserves \$ millions	Profit and loss reserve \$ millions	Total shareholder equity \$ millions	Non- controlling interests \$ millions	Total equity \$ millions	
At beginning of year	44.8	960.5	(69.0)	4,412.2	(649.3)	4,699.2	(2.1)	4,697.1	
Total comprehensive loss for the year	-	-	-	-	(332.5)	(332.5)	3.1	(329.4)	
Loss for the financial year	-	-	-	-	(0.6)	-	(0.6)	-	
Other comprehensive loss	-	-	-	-	-	(0.6)	-	(0.6)	
Total comprehensive loss for the year	-	-	-	-	(0.6)	(332.5)	(333.1)	3.1	(330.0)
Transactions with owners, recorded directly in equity									
Cash dividends paid	-	-	-	-	(18.0)	(18.0)	(3.6)	(21.6)	
Shares issued under share based compensation plans, net	1.4	-	(1.3)	(0.6)	-	(0.5)	-	(0.5)	
Repurchase of own shares	-	-	(1.9)	-	-	(1.9)	-	(1.9)	
Share-based compensation cost	-	-	-	30.6	-	30.6	-	30.6	
At end of year	<u>46.2</u>	<u>960.5</u>	<u>(72.2)</u>	<u>4,441.6</u>	<u>(999.8)</u>	<u>4,376.3</u>	<u>(2.6)</u>	<u>4,373.7</u>	

The accompanying notes form an integral part of these financial statements.

**Company Statement of Changes in Equity
for the year ended 31 December 2019**

Year ended 31 December 2019	Called up share capital \$ millions	Share premium account \$ millions	Merger reserve \$ millions	Own share reserve \$ millions	Other reserves \$ millions	Profit and loss reserve \$ millions	Total equity \$ millions
At beginning of year	46.2	956.9	-	(69.6)	1,988.6	1,389.7	4,311.8
Total comprehensive loss for the year	-	-	-	-	-	(2,873.1)	(2,873.1)
Loss for the financial year	-	-	-	-	-	(2,873.1)	(2,873.1)
Total comprehensive loss for the year	-	-	-	-	-	(2,873.1)	(2,873.1)
Transactions with owners, recorded directly in equity							
Shares issued for Rowan acquisition	35.2	-	1,367.5	0.1	-	-	1,402.8
Equity issuance costs	-	-	(0.6)	-	-	-	(0.6)
Cash dividends paid	-	-	-	-	-	(4.5)	(4.5)
Shares issued under share based compensation plans, net	1.1	-	-	(0.7)	(1.3)	-	(0.9)
Repurchase of own shares	-	-	-	(5.2)	-	-	(5.2)
Share-based compensation cost	-	-	-	-	37.9	-	37.9
At end of year	<u>82.5</u>	<u>956.9</u>	<u>1,366.9</u>	<u>(75.4)</u>	<u>2,025.2</u>	<u>(1,487.9)</u>	<u>2,868.2</u>
Year ended 31 December 2018	Called up share capital \$ millions	Share premium account \$ millions	Own share reserve \$ millions	Other reserves \$ millions	Profit and loss reserve \$ millions	Total equity \$ millions	
At beginning of year	44.8	956.9	(66.4)	1,974.9	1,381.9	4,292.1	
Total comprehensive profit for the year	-	-	-	-	25.8	25.8	
Profit for the financial year	-	-	-	-	-	-	
Total comprehensive profit for the year	-	-	-	-	25.8	25.8	
Transactions with owners, recorded directly in equity							
Cash dividends paid	-	-	-	-	(18.0)	(18.0)	
Shares issued under share based compensation plans, net	1.4	-	(1.3)	(0.6)	-	(0.5)	
Repurchase of own shares	-	-	(1.9)	-	-	(1.9)	
Share-based compensation cost	-	-	-	14.3	-	14.3	
At end of year	<u>46.2</u>	<u>956.9</u>	<u>(69.6)</u>	<u>1,988.6</u>	<u>1,389.7</u>	<u>4,311.8</u>	

The accompanying notes form an integral part of these financial statements.

Notes

1 Significant accounting policies

Valaris plc ("we," "our" or the "company") and its subsidiaries (together, "the group") are incorporated, domiciled and registered in the UK. On 11 April 2019, we completed our combination with Rowan Companies Limited (formerly Rowan Companies plc ("Rowan")) and changed our name to Enscos Rowan plc. On 30 July 2019, we changed our name to Valaris plc.

These group and company financial statements were prepared in accordance with Financial Reporting Standard ("FRS") 102, the Financial Reporting Standard applicable in the UK.

Rowan transaction

On 7 October 2018, we entered into a transaction agreement (the "Transaction Agreement") with Rowan and on 11 April 2019 (the "Transaction Date"), we completed our combination with Rowan pursuant to the Transaction Agreement (the "Rowan Transaction").

As a result of the Rowan Transaction, Rowan shareholders received 2.75 Valaris Class A ordinary shares for each Rowan Class A ordinary share, representing a value of \$43.67 per Rowan share based on a closing price of \$15.88 per Valaris share on 10 April 2019, the last trading day before the Transaction Date. Total consideration delivered in the Rowan Transaction consisted of 88.3 million Valaris shares with an aggregate value of \$1.4 billion. All share and per share data included in this report have been retroactively adjusted to reflect the Reverse Stock Split (as defined herein).

Prior to the Rowan Transaction, Rowan and Saudi Aramco formed a 50/50 venture to own, manage and operate drilling rigs offshore Saudi Arabia ("Saudi Aramco Rowan Offshore Drilling Company" or "ARO"). ARO currently owns a fleet of seven jackup rigs, leases another nine jackup rigs from us and has plans to purchase up to 20 newbuild jackup rigs over an approximate 10 year period. In January 2020, ARO ordered the first two newbuild jackups scheduled for delivery in 2022. The rigs we lease to ARO are done so through bareboat charter agreements whereby substantially all operating costs are incurred by ARO. All nine jackup rigs leased to ARO are under three-year contracts with Saudi Aramco. All seven ARO-owned jackup rigs are under long-term contracts with Saudi Aramco.

The Rowan Transaction enhanced the market leadership of the combined company with a fleet of high-specification floaters and jackups and positions us well to meet evolving customer demand. Exclusive of two older jackup rigs marked for retirement, Rowan's offshore rig fleet at the Transaction Date consisted of four ultra-deepwater drillships and 19 jackup rigs.

Basis of preparation

The financial statements are prepared on the historical cost basis, except for the convertible senior notes, supplemental executive retirement plan assets and derivative financial instruments that are measured at fair value.

The functional currency of the company is the U.S. dollar. The U.S. dollar is the prevalent currency used within the oil and natural gas industry and the group has a significant level of U.S. dollar cash flows, assets and liabilities. The group and company financial statements are therefore presented in U.S. dollars. All amounts in the financial statements have been rounded to the nearest \$ million.

Under section 408 of the UK Companies Act 2006, the company is exempt from the requirement to present its own profit and loss account.

The company is included in the consolidated financial statements and considered to be a qualifying entity under FRS 102. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company cash flow statement with related notes is included;

- Key management personnel compensation has not been included a second time; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues.

The company has taken advantage of the exemption available under FRS 102 from disclosing transactions with its subsidiary undertakings where 100% of the voting rights are controlled within the group. The company has no transactions with related parties that are not 100% owned by the group. The company's subsidiaries have transactions with related parties that are not 100% owned within the group. Those transactions primarily relate to the provision of drilling rigs and their values are not disclosed due to their commercial sensitivity. Related party transactions between the group and ARO are disclosed in note 4.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are detailed in note 2.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the strategic report. Subsequent to the 31 December 2019 year end, the coronavirus global pandemic and the response thereto have negatively impacted the macro-economic environment and global economy. Global oil demand has fallen sharply at the same time global oil supply has increased as a result of certain oil producers competing for market share, leading to a supply glut. As a consequence, the price of brent crude oil has fallen from around \$60 per barrel at year-end 2019 to around \$20 per barrel as of mid-April. In response to dramatically reduced oil price expectations for the near term, our customers are reviewing, and in most cases lowering significantly, their capital expenditure plans in light of revised pricing expectations. We have received notices of termination on a number of our customer contracts and received notice of cancellations and/or deferrals of drilling programs by operators, and we expect to receive additional termination and/or deferral notices during the pendency of the current market environment. The full impact that the pandemic and the precipitous decline in oil prices will have on our results of operations, financial condition, liquidity and cash flows is uncertain due to numerous factors, including the duration and severity of the outbreak, the duration of the price decline, and the extent of disruptions to our operations. To date, there have been various impacts from the pandemic and drop in oil prices, including contract cancellations or the cancellation of drilling programs by operators, stacking rigs, inability to change crews due to travel restrictions, and workforce reductions. Our operations and business may be subject to further disruptions as a result of the spread of COVID-19 among our workforce, the extension or imposition of further public health measures affecting supply chain and logistics, and the impact of the pandemic on key customers, suppliers, and other counterparties.

As of 17 April 2020, the group had \$184.6 million in cash and \$1.26 billion undrawn capacity under its credit facility, which matures in September 2022, and no significant debt maturities until 2022 (other than \$124.8 million during 2020 and \$100.7 million during 2021). As of 31 March 2020, the group had capital commitments not exceeding \$350.7 million and contractual backlog of \$1.9 billion.

The directors have evaluated projected cash flow information which has been prepared for the twelve months from the date of approval of these financial statements to reflect the current economic environment and outlook. On the basis of this forecast cash flow information, and taking into account severe but plausible downsides, the directors consider that the group will continue to operate, with borrowing capacity, within the terms of its available credit facility. The severe but plausible downside cash flows modelled assume lower day rates and rig utilisation in the forecast period, impairment risk and some earlier rig retirement, offset by expenditure reduction from lower operating activity.

As set out in the strategic report, the group has engaged financial and legal advisors to assist in, among other things, analysing various alternatives to address the group's liquidity and capital structure. The group may seek to extend maturities and/or reduce the overall principal amount of our debt through exchange offers, other liability management, recapitalisation and/or restructuring transactions. As part of the evaluation of alternatives, the group is also engaged in discussions with its lenders and bondholders regarding the terms of a potential comprehensive restructuring of our indebtedness. The twelve month forecasts evaluated by the directors to assess going concern do not include and are not dependent upon such potential liquidity and capital structure alternatives.

These cash flow forecasts assume that the credit facility remains available throughout the forecast period. As described in note 19, the credit facility requires the group to maintain a total debt to total capitalisation financial covenant ratio calculated in accordance with U.S. GAAP that is less than or equal to 60%. The value of the group's total capitalisation under U.S. GAAP could reduce as a result of non-cash impairments of U.S. GAAP rig book values, triggered by an adverse economic environment.

In connection with the preparation of the group's financial statements to be included in the company's quarterly report on Form 10-Q for the quarter ended 31 March 2020, the group identified an indicator of impairment under U.S. GAAP in respect of the U.S. GAAP rig carrying values as at 31 March 2020 as a result of the coronavirus global pandemic and rapid and material decline in oil prices. As a result, a U.S. GAAP impairment test was undertaken for all rigs to reflect the uncertain economic outlook and updated long term forecasts. As at 31 March 2020, U.S. GAAP rig book values for certain rigs were impaired as a result of the lower near term and long term forecast cash flows. The reduction of group U.S. GAAP capitalisation as a result of this U.S. GAAP impairment charge, together with the directors' projected cash flow information for the twelve months from the date of approval of these financial statements, forecasts that the group will maintain, albeit with limited headroom, a total debt to total capitalisation ratio calculated in accordance with U.S. GAAP that is less than or equal to 60% through the next twelve months.

However, under a severe but plausible downside to the group's forecast, and in the context of the uncertain economic outlook described above, it is possible that further U.S. GAAP impairment charges, in addition to those recorded at 31 March 2020, could be recorded in the next twelve months on certain rigs if new impairment indicators are identified at quarter end reporting dates up to and including 31 March 2021 or if certain rigs are retired earlier than planned. Additional impairment charges would result in a further reduction in capitalisation under U.S. GAAP which, if of sufficient magnitude, could result in the total debt to total capitalisation ratio calculated under U.S. GAAP exceeding 60%, in which case further borrowings under the credit facility would not be permitted, absent a waiver, and all outstanding borrowings would become immediately due and payable by action of lenders holding a majority of the commitments under the facility. Any such acceleration would trigger a cross-acceleration event of default with respect to approximately \$2.1 billion of our outstanding senior notes. Furthermore, the agent under the credit facility has reserved the right to assert that a material adverse effect has occurred based on changes in the oil market and certain company-specific operating incidents, including the drop of the blowout preventer stack off the VALARIS DS-8. The directors do not believe that a material adverse effect has occurred, but there can be no assurance that the credit facility lenders will not assert a material adverse effect as a basis to deny further borrowing requests.

In addition, the group may not be able to regain compliance with the continued listing requirements of the New York Stock Exchange ("NYSE"). On April 15, 2020, we were notified by the NYSE that the average closing price of our Class A ordinary shares was below \$1.00 per share over a period of 30 consecutive trading days, which is the minimum average share price required to maintain listing on NYSE. The company has until late December 2020 to regain compliance. A delisting of the company's shares from the NYSE could negatively impact the company by, among other things, reducing the liquidity and market price of its shares, reducing the number of investors willing to hold or acquire its shares and limiting its ability to issue securities or obtain financing in the future. If the company's shares are delisted from the NYSE and not concurrently listed on Nasdaq, the holders of our 3.00% exchangeable senior notes due 2024 would have the right to require the group to repurchase the notes at a price equal to the principal amount thereof of \$849.5 million plus accrued interest to the repurchase date. Such an accelerated repurchase, if required by the holders, would be in excess of the group's forecast available credit facility during the twelve month forecast period and new financing facilities would be required, which are not currently in place and are not certain to be agreed.

Based on their forecasts, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis and have a reasonable expectation that the group's U.S. GAAP total debt to total capitalisation ratio will comply with the requirements of the credit facility during the next twelve months and that a material adverse effect has not occurred, and that the group will regain compliance with the listing requirements of the NYSE within the NYSE's cure period. However, the above circumstances represent a material uncertainty that may cast significant doubt on the group's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings made up to 31 December 2019. A subsidiary is an entity that is controlled by the company. The purchase method of accounting has been adopted for business combinations. Under this method, the results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities.

An associate is an entity in which we have the ability to exercise significant influence, but where we do not control operating and financial policies. Significant influence generally exists if we have an ownership interest representing between 20% and 50% of the voting stock of the investee. We account for our interest in ARO using the equity method of accounting and only recognise our portion of equity in earnings in our consolidated financial statements.

Investment in subsidiary undertakings

In the company's financial statements, investment in subsidiary undertakings is stated at costs less amounts written-off. The carrying amounts of the company's investment in subsidiary undertakings are reviewed at each reporting date to determine whether there are any events or changes in circumstances that may indicate that the carrying value may not be recoverable. If any such indication exists, then the investment's recoverable amount is estimated. The recoverable amount of an investment is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of the investment exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Foreign currency remeasurement

The functional currency of a substantial portion of the group's companies is the U.S. dollar. As is customary in the oil and natural gas industry, a majority of the group's turnover is denominated in U.S. dollars; however, a portion of the turnover and expenses incurred by its non-U.S. subsidiaries are denominated in currencies other than the U.S. dollar. Non-monetary balances are held at historical exchange rates. Monetary balances are translated at the year end exchange rates with any gains or losses taken to interest receivable and similar income or interest payable and other similar expenses. Transactions are shown in the profit and loss account at the average exchange rate during the month that the transaction occurred. Transaction gains and losses, including gains and losses on the settlement of certain derivative instruments, are included in interest receivable and similar income and interest payable and other similar expenses in the group's consolidated profit and loss account.

Cash and cash equivalents

Cash, for the purpose of the cash flow statement, consists of cash in hand, deposits repayable on demand and investments with a maturity of less than three months that are repayable on demand without penalty.

Tangible fixed assets and depreciation

All directly attributable costs incurred in connection with the acquisition, construction, enhancement and improvement of tangible fixed assets are capitalised, including allocation of interest incurred during periods that the group's drilling rigs are under construction or undergoing major enhancements and improvements. Costs incurred to place an asset into service are capitalised, including costs related to the initial mobilisation of a newbuild drilling rig that are not reimbursed by the customer. Repair and maintenance costs are charged to contract drilling expense in the period in which they occur. Upon sale or retirement of tangible fixed assets, the related cost and accumulated depreciation are removed from the balance sheet, and the resulting gain or loss is included in net profit or loss on disposal of tangible fixed assets.

The group's tangible fixed assets are depreciated on the straight-line method, after allowing for salvage values, over their estimated useful economic lives. Drilling rigs and related equipment are depreciated over estimated economic useful lives ranging up to 35 years. Buildings and improvements are depreciated over estimated economic useful lives ranging up to 30 years. Other equipment, including computer and communications hardware and software costs, is depreciated over estimated economic useful lives ranging up to 6 years. Depreciable lives and residual values are reviewed if there is an indication of a significant change during the year in the asset's future economic benefit consumption pattern.

Negative goodwill

The group recognises negative goodwill at the acquisition date as the fair value of the consideration (and directly attributable transaction costs) less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

Negative goodwill arising from an acquisition is capitalised, classified within assets on the balance sheet and amortised on a straight-line basis over its estimated useful economic life. The estimated useful economic life of the group's negative goodwill is 23 years for Rowan and 30 years for Atwood, which represents the weighted-average period that the non-monetary assets arising on the

acquisition are amortised. Negative goodwill is stated at cost less any accumulated amortisation and adjustment for impairment or disposal of the related non-monetary assets. Negative goodwill amortisation is included in depreciation and amortisation in the profit and loss account.

Impairment of tangible fixed assets

The group evaluates the carrying value of its fixed assets for impairment when events or changes in circumstances indicate that a potential impairment exists. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of fixed assets is the greater of their fair value less costs to sell and value in use. An impairment loss is recognised whenever the carrying value of an asset exceeds its recoverable amount. In assessing value in use, the asset's expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Turnover and contract drilling expenses

Substantially all of the group's drilling contracts ("contracts") are performed on a day rate basis, and the terms of such contracts are typically for a specific period of time or the period of time required to complete a specific task, such as drill a well. Contract turnover and expenses are recognised on a per day basis as the work is performed. Day rate turnover is typically earned, and contract drilling expense is typically incurred, on a uniform basis over the terms of the group's contracts.

In connection with some contracts, the group receives lump-sum fees or similar compensation for the mobilisation of equipment and personnel prior to the commencement of drilling services or the demobilisation of equipment and personnel upon contract completion. Fees received for the mobilisation or demobilisation of equipment and personnel are included in turnover. The costs incurred in connection with the mobilisation and demobilisation of equipment and personnel are included in contract drilling expense.

Mobilisation fees received and costs incurred are deferred and recognised on a straight-line basis over the period that the related drilling services are performed. Demobilisation fees expected to be received upon contract completion are estimated at contract inception and recognised on a straight-line basis over the contract term. In some cases, demobilisation fees may be contingent upon the occurrence or non-occurrence of a future event. In such cases, this may result in adjustments upon changes of estimate during the contract term. Costs associated with the mobilisation of equipment and personnel to more promising market areas without contracts are expensed as incurred.

In connection with some contracts, the group receives up-front lump-sum fees or similar compensation for capital improvements to its drilling rigs. Such compensation is deferred and recognised as turnover over the period that the related drilling services are performed. The cost of such capital improvements is capitalised and depreciated over the economic useful life of the asset.

The group must obtain certifications from various regulatory bodies in order to operate its drilling rigs and must maintain such certifications through periodic inspections and surveys. The costs incurred in connection with maintaining such certifications, including inspections, tests, surveys and drydock, as well as remedial structural work and other compliance costs, are deferred and amortised over the corresponding certification periods.

Interest receivable and similar income/interest payable and other similar expenses

Interest receivable and similar income include interest receivable on funds invested, gain on extinguishment of debt, fair value change on convertible debt, net derivative instrument gains and net foreign exchange gains that are recognised in the profit and loss account.

Interest payable and other similar expenses include interest payable, fair value change on convertible debt, debt extinguishment costs, net derivative instrument losses and net foreign exchange losses that are recognised in the profit and loss account. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset as incurred.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Taxation

We conduct operations and earn income in numerous countries. Current income taxes are recognised for the amount of taxes payable or refundable based on the laws and income tax rates in the taxing jurisdictions in which operations are conducted and profit is earned.

The charge for taxation is based on taxable profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax assets and liabilities are recognised for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of our assets and liabilities using the enacted tax rates in effect at year end. Deferred tax assets are recorded when it is more-likely-than-not that the benefit from the deferred tax asset will be realised. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. We do not offset deferred tax assets and deferred tax liabilities attributable to different tax paying jurisdictions.

We operate in certain jurisdictions where tax laws relating to the offshore drilling industry are not well developed and change frequently. Furthermore, we may enter into transactions with affiliates or employ other tax planning strategies that generally are subject to complex tax regulations. As a result of the foregoing, the tax liabilities and assets we recognise in our financial statements may differ from the tax positions taken, or expected to be taken, in our tax returns. Our tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the best estimate of the most likely outcome. Interest and penalties relating to income taxes are included in current income tax expense in our consolidated profit and loss account.

Our drilling rigs frequently move from one taxing jurisdiction to another based on where they are contracted to perform drilling services. The movement of drilling rigs among taxing jurisdictions may involve a transfer of drilling rig ownership among our subsidiaries through an intercompany rig sale. The pre-tax profit resulting from an intercompany rig sale is eliminated from our consolidated financial statements, and the carrying value of a rig sold in an intercompany transaction remains at historical net depreciated cost prior to the transaction. Our consolidated financial statements do not reflect the asset disposition transaction of the selling subsidiary or the asset acquisition transaction of the acquiring subsidiary. The income tax effects resulting from intercompany rig sales are recognised in tax on profit or loss in the year in which the sale occurs.

In some instances, we may determine that certain temporary differences will not result in a taxable or deductible amount in future years, as it is more-likely-than-not we will commence operations and depart from a given taxing jurisdiction without such temporary differences being recovered or settled. Under these circumstances, no future tax consequences are expected and no deferred taxes are recognised in connection with such operations. We evaluate these determinations on a periodic basis and, in the event our expectations relative to future tax consequences change, the applicable deferred taxes are recognised or derecognised.

Dividend income received by Valaris plc from its subsidiaries is exempt from UK taxation. We do not provide deferred taxes on the undistributed earnings of certain subsidiaries because our policy and intention is to reinvest such earnings indefinitely. Should we make a distribution from these subsidiaries in the form of dividends or otherwise, we may be subject to additional income taxes.

Share based compensation

We sponsor share based compensation plans that provide equity compensation to our key employees, officers and non-employee directors. Our Long-Term Incentive Plan (the "2018 LTIP") allows our Board of Directors to authorise share grants to be settled in cash or shares. Compensation expense for share awards to be settled in shares is measured at fair value on the date of grant and recognised on a straight-line basis over the requisite service period (usually the vesting period). Compensation expense for share awards to be settled in cash is remeasured each quarter with a cumulative adjustment to compensation cost during the period based on changes in our share price. Any adjustments to the compensation cost recognised in our consolidated profit and loss account for awards that are forfeited are recognised in the period in which the forfeitures occur.

The fair value of equity share based compensation grants by the company to employees of group subsidiaries is recorded as an increase to the company's investment in subsidiaries.

Employee benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The group's net obligation in respect of our defined benefit pension and other post-retirement plans, retiree life and medical supplemental plan benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. A valuation is performed annually by a qualified actuary using the projected unit credit method. The entity determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability/(asset) taking account of changes arising as a result of contributions and benefit payments. For the discount rate, we base our assumptions on the average yield for Aa-rated corporate bonds.

Changes in the net defined benefit liability arising from employee service rendered during the period and net interest on net defined benefit liability period are recognised in profit or loss. Remeasurement of the net defined benefit liability is recognised in other comprehensive income in the period in which it occurs.

Classification of financial instruments issued

Financial instruments issued are treated as equity only to the extent the following two conditions are achieved:

- no contractual obligations to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable; and
- where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent the above is not met, the proceeds of issue are classified as a financial liability.

Trade and other debtors/creditors

Trade and other debtors/creditors are recognised initially at the transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest bearing note receivables and borrowings classified as basic financial instruments

Interest bearing note receivables and borrowings classified as basic financial instruments are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Issuance costs are capitalised and amortised to interest receivable and similar items and interest payable and other similar expenses over the term of the instrument.

Financial instruments not considered to be basic financial instruments ("other financial instruments")

Other financial instruments not meeting the definition of basic financial instruments (including interest bearing borrowings which contain a conversion feature and derivative financial instruments) are recognised initially at fair value. Subsequent to initial recognition, other financial instruments are measured at fair value with changes recognised in profit or loss. Issuance costs are expensed in the profit and loss account in the year of issuance. The group uses derivative financial instruments to manage its exposure to foreign currency exchange rate risk.

Provisions for litigation and other items

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Stocks

Stocks are stated at the lower of weighted-average cost or net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Dividends on shares presented within equity

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the group. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Own shares

Transactions of the company sponsored stock compensation trust are treated as being those of the company and are therefore reflected in the company and group financial statements. In particular, the trust's purchases and sales of shares in the company are debited and credited directly to own share reserve. The trust acquires the shares required to settle the awards from the company at the nominal value of the shares.

Other reserves

Other reserves primarily consists of the \$3.0 billion of distributable reserves arising from the 2014 capital reorganisation.

Non-controlling interests

Local third parties hold an interest in certain of the group's subsidiaries. These interests are presented as non-controlling interests within the consolidated balance sheet, profit and loss account and cash flow statement.

Earnings/(loss) per share

The group presents basic and diluted earnings/(loss) per share data for its ordinary shares. Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders of the company by the weighted-average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings/(loss) per share is determined by adjusting the profit/(loss) attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held and for the effects of all potentially dilutive ordinary shares, consisting of share options and performance awards granted to employees.

2 Critical accounting policies, judgements and estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United Kingdom requires us to make estimates, judgments and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Our significant accounting policies are included in note 1. These policies, along with our underlying judgments and assumptions made in their application, have a significant impact on our consolidated financial statements. We identify our critical accounting policies as those that are the most pervasive and important to the portrayal of our financial position and operating results and that require the most difficult, subjective and/or complex judgments regarding estimates

in matters that are inherently uncertain. Our critical accounting policies are those related to property and equipment, impairment of long-lived assets, income taxes and pensions.

Judgements and estimates in respect of the Rowan Transaction and the ARO venture are disclosed in note 3 and 4 respectively.

Tangible fixed assets

As of 31 December 2019, the carrying value of our tangible fixed assets totalled \$9.3 billion, which represented 90% of total assets. This carrying value reflects the application of our tangible fixed assets accounting policies, which incorporate our estimates, judgments and assumptions relative to the capitalised costs, useful lives and salvage values of our rigs.

We develop and apply tangible fixed assets accounting policies that are designed to appropriately and consistently capitalise those costs incurred to enhance, improve and extend the useful lives of our assets and expense those costs incurred to repair or maintain the existing condition or useful lives of our assets. The development and application of such policies requires estimates, judgments and assumptions relative to the nature of, and benefits from, expenditures on our assets. We establish tangible fixed assets accounting policies that are designed to depreciate our assets over their estimated useful lives. The judgments and assumptions used in determining the useful lives of our tangible fixed assets reflect both historical experience and expectations regarding future operations, utilisation and performance of our assets. The use of different estimates, judgments and assumptions in the establishment of our tangible fixed assets accounting policies, especially those involving the useful lives of our rigs, would likely result in materially different asset carrying values and operating results.

The useful lives of our drilling rigs are inherently difficult to estimate due to a variety of factors, including technological advances that impact the methods or cost of oil and natural gas exploration and development, changes in market or economic conditions and changes in laws or regulations affecting the drilling industry. We evaluate the remaining useful lives of our rigs on a periodic basis, considering operating condition, functional capability and market and economic factors.

Impairment and impairment reversal of tangible fixed assets

We recorded a pre-tax, non-cash impairment loss of \$2.7 billion and an impairment reversal of \$0.4 billion related to our fleet during 2019 (2018: impairment loss of \$40.3 million). See note 13 for additional information on our drilling rigs and equipment impairment.

We evaluate the carrying value of our tangible fixed assets, primarily our drilling rigs, when events or changes in circumstances indicate that the carrying value of such rigs may not be recoverable. Generally, extended periods of idle time and/or inability to contract rigs at economical rates are an indication that a rig may be impaired. Changes to previous assumptions relating to rig activity may also result in an impairment reversal. Impairment and impairment reversal situations may arise with respect to specific individual rigs, groups of rigs, such as a specific type of drilling rig, or rigs in a certain geographic location.

For tangible fixed assets used in our operations, recoverability generally is determined by comparing the carrying value of an asset to the expected discounted future cash flows of the asset. If the carrying value of an asset is not recoverable, the amount of impairment loss is measured as the difference between the carrying value of the asset and its estimated recoverable amount. The determination of expected discounted cash flow amounts requires significant estimates, judgments and assumptions, including utilisation levels, day rates, expense levels and capital requirements, as well as cash flows generated upon disposition, for each of our drilling rigs. Due to the inherent uncertainties associated with these estimates, we perform sensitivity analysis on key assumptions as part of our recoverability test.

Our judgments and assumptions about future cash flows to be generated by our drilling rigs are highly subjective and based on consideration of the following:

- global macro-economic and political environment;
- historical utilisation, day rate and operating expense trends by asset class;
- regulatory requirements such as surveys, inspections and recertification of our rigs;
- remaining useful lives of our rigs;
- expectations on the use and eventual disposition of our rigs;
- weighted-average cost of capital;

- oil price projections;
- sanctioned and unsanctioned offshore project data;
- offshore economic project break-even data;
- global rig supply and construction orders;
- global rig fleet capabilities and relative rankings; and
- expectations of global rig fleet attrition.

We collect and analyse the above information to develop a range of estimated utilisation levels, day rates, expense levels and capital requirements, as well as estimated cash flows generated upon disposition. The most subjective assumptions that impact our impairment analyses include projections of future oil prices and timing of global rig fleet attrition, which, in large part, impact our estimates on timing and magnitude of recovery from the current industry downturn. However, there are numerous judgments and assumptions unique to the projected future cash flows of each rig that individually, and in the aggregate, can significantly impact the recoverability of its carrying value.

The highly cyclical nature of our industry cannot be reasonably predicted with a high level of accuracy and, therefore, differences between our historical judgments and assumptions and actual results will occur. We reassess our judgments and assumptions in the period in which significant differences are observed and may conclude that a triggering event has occurred and perform a recoverability test. We recognised impairment charges in recent periods upon observation of significant unexpected changes in our business climate and estimated useful lives of certain assets.

There are numerous factors underlying the highly cyclical nature of our industry that are reasonably likely to impact our judgments and assumptions including, but not limited to, the following:

- changes in global economic conditions;
- production levels of the Organization of Petroleum Exporting Countries ("OPEC");
- production levels of non-OPEC countries;
- advances in exploration and development technology;
- offshore and onshore project break-even economics;
- development and exploitation of alternative fuels;
- natural disasters or other operational hazards;
- changes in relevant law and governmental regulations;
- political instability and/or escalation of military actions in the areas we operate;
- changes in the timing and rate of global newbuild rig construction; and
- changes in the timing and rate of global rig fleet attrition.

There is a wide range of interrelated changes in our judgments and assumptions that could reasonably occur as a result of unexpected developments in the aforementioned factors, which could result in materially different carrying values for an individual rig, group of rigs or our entire rig fleet, materially impacting our operating results.

Investment in subsidiary undertakings

As at 31 December 2019, the carrying value of the company's investments in subsidiaries totalled \$3.2 billion, which represents 43% of the company's total assets. As set out in note 15, we recorded pre-tax, non-cash losses on impairment of \$2.9 billion in the year ended 31 December 2019.

We evaluate the carrying value of our investments in subsidiaries when events or changes in circumstances indicate that the carrying value of such investments may not be recoverable. Generally, impairments of our drilling rigs, which represent a substantial proportion of the value attributed to each subsidiary, are an indication that the investment in the subsidiary may be impaired. The recoverable amount of an investment is generally determined by comparing the carrying value of the investment to the expected discounted future cash flows of the investment. The determination of expected discounted cash flows requires significant estimates, judgements and assumptions and is directly linked to the judgements and assumptions about future cash flows generated by the drilling rigs owned within each investment subgroup. See the "Impairment of tangible fixed assets" section above for information on these judgements and estimates.

Income taxes

We conduct operations and earn income in numerous countries and are subject to the laws of numerous tax jurisdictions. As of 31 December 2019, our consolidated balance sheet included a \$99.0 million net deferred income tax liability, a \$61.2 million liability for income taxes currently payable and a \$233.5 million liability for unrecognised tax benefits, inclusive of interest and penalties. The carrying values of deferred income tax assets and liabilities reflect the application of our income tax accounting policies and are based on estimates, judgments and assumptions regarding future operating results and levels of taxable income. Carryforwards and tax credits are assessed for realisation as a reduction of future taxable income by using a more-likely-than-not determination. We do not offset deferred tax assets and deferred tax liabilities attributable to different tax paying jurisdictions.

We do not provide deferred taxes on the undistributed earnings of certain subsidiaries because our policy and intention is to reinvest such earnings indefinitely. Should we make a distribution from these subsidiaries in the form of dividends or otherwise, we may be subject to additional income taxes.

The carrying values of liabilities for income taxes currently payable and unrecognised tax benefits are based on our interpretation of applicable tax laws and incorporate estimates, judgments and assumptions regarding the use of tax planning strategies in various taxing jurisdictions. The use of different estimates, judgments and assumptions in connection with accounting for income taxes, especially those involving the deployment of tax planning strategies, may result in materially different carrying values of income tax assets and liabilities and operating results.

We operate in several jurisdictions where tax laws relating to the offshore drilling industry are not well developed. In jurisdictions where available statutory law and regulations are incomplete or underdeveloped, we obtain professional guidance and consider existing industry practices before utilising tax planning strategies and meeting our tax obligations.

Tax returns are routinely subject to audit in most jurisdictions and tax liabilities occasionally are finalised through a negotiation process. In some jurisdictions, income tax payments may be required before a final income tax obligation is determined in order to avoid significant penalties and/or interest. While we historically have not experienced significant adjustments to previously recognised tax assets and liabilities as a result of finalising tax returns, there can be no assurance that significant adjustments will not arise in the future. In addition, there are several factors that could cause the future level of uncertainty relating to our tax liabilities to increase, including the following:

- During recent years, the number of tax jurisdictions in which we conduct operations has increased, and we currently anticipate that this trend will continue;
- In order to utilise tax planning strategies and conduct operations efficiently, our subsidiaries frequently enter into transactions with affiliates that are generally subject to complex tax regulations and are frequently reviewed and challenged by tax authorities;
- We may conduct future operations in certain tax jurisdictions where tax laws are not well developed, and it may be difficult to secure adequate professional guidance; and
- Tax laws, regulations, agreements, treaties and the administrative practices and precedents of tax authorities change frequently, requiring us to modify existing tax strategies to conform to such changes.

Employee benefits

Our pension and other post-retirement benefit liabilities and costs are based upon actuarial computations that reflect our assumptions about future events, including interest rates for discounting, annual compensation increases, mortality rates and other factors. Further disclosure of year end defined benefit pension obligation measurement assumptions are disclosed in note 27.

3 Rowan Transaction

On 7 October 2018, we entered into a transaction agreement (the "Transaction Agreement") with Rowan. On 11 April 2019 (the "Transaction Date"), we completed our combination with Rowan pursuant to the Transaction Agreement (the "Rowan Transaction"). Rowan's financial results are included in our consolidating results beginning on the Transaction Date.

The Rowan Transaction enhanced the market leadership of the combined company with a fleet of high-specification floaters and jackups and positions us well to meet evolving customer demand. The increased scale and diversification of the combined company provides us advantages to better serve our customers.

Consideration

As a result of the Rowan Transaction, Rowan shareholders received 2.75 Valaris Class A Ordinary shares for each share of Rowan Class A ordinary share, representing a value of \$43.67 per Rowan share based on a closing price of \$15.88 per Valaris share on 10 April 2019, the last trading day before the Transaction Date. Total consideration delivered in the Rowan Transaction consisted of 88.3 million Valaris shares with an aggregate value of \$1.4 billion, inclusive of \$2.6 million for the estimated fair value of replacement employee equity awards. Upon closing of the Rowan Transaction, we effected a consolidation (being a reverse stock split under English law) where every four existing Class A ordinary shares, each with a nominal value of \$0.10, were consolidated into one Class A ordinary share, each with a nominal value of \$0.40 (the "Reverse Stock Split"). All share and per share data included in this report have been retroactively adjusted to reflect the Reverse Stock Split.

Assets and liabilities acquired

Valaris is considered to be the acquirer for accounting purposes. As a result, Rowan's assets and liabilities acquired in the Rowan Transaction were recorded at their estimated fair values as of the Transaction Date under the acquisition method of accounting. When the fair value of the net assets acquired exceeds the consideration transferred in an acquisition, the difference is recorded as negative goodwill and amortised over its useful life. With the exception of certain legal and tax exposures as well as the fair value of materials and supplies, we have substantially completed our fair value assessments of assets acquired and liabilities assumed. While certain adjustments may be recorded during the remainder of the measurement period, we do not expect them to be material.

The provisional amounts recorded for assets and liabilities acquired are based on preliminary estimates of their fair values as of the Transaction Date and are as follows:

	Book values \$ millions	Fair value adjustments \$ millions	Recognised values on acquisition \$ millions
Assets:			
Cash and cash equivalents	931.9	-	931.9
Trade debtors ⁽²⁾	208.3	(4.8)	203.5
Other current assets	24.3	74.9	99.2
Long-term notes receivable from ARO	454.5	-	454.5
Investment in ARO	47.4	93.9	141.3
Tangible fixed assets	3,183.6	(219.6)	2,964.0
Other assets	125.6	(82.6)	43.0
Liabilities:			
Trade creditors and accruals	226.3	46.8	273.1
Current portion of long-term debt	201.3	1.9	203.2
Long-term debt	2,309.7	(398.8)	1,910.9
Other liabilities	318.8	2.0	320.8
Net identifiable assets and liabilities	1,919.5	209.9	2,129.4
Total costs of business combination:			
Equity instruments issued			(1,402.8)
Costs directly attributable to the business combination			(18.0)
Total consideration			(1,420.8)
Negative goodwill on acquisition			<u>708.6</u>

⁽¹⁾ The fair value adjustments reflect changes in the estimated fair values of certain assets and liabilities, primarily related to long-lived assets and deferred income taxes.

⁽²⁾ Gross contractual amounts receivable totalled \$208.3 million as of the Transaction Date.

Negative goodwill

The estimated fair values assigned to assets acquired net of liabilities assumed exceeded the consideration transferred, resulting in negative goodwill primarily driven by the decline in our share price from \$33.92 to \$15.88 between the last trading day prior to the announcement of the Rowan Transaction and the Transaction Date. The negative goodwill was included in our consolidated balance sheet for the year ended 31 December 2019 and amortised on a straight-line basis over its estimated useful economic life of 23 years. The basis for the useful economic life of the negative goodwill is disclosed in note 1.

Merger-related costs

Merger-related costs consisted of various advisory, legal, accounting, valuation and other professional or consulting fees totalling \$18.0 million for the year ended 31 December 2019. These costs are included in negative goodwill in our consolidated balance sheet.

Materials and supplies (included within other assets)

We recorded materials and supplies at an estimated fair value of \$83.0 million. Materials and supplies consist of consumable parts and supplies maintained on drilling rigs and in shore-based warehouse locations for use in operations and are generally comprised of items of low per unit cost and high reorder frequency. We estimated the fair value of Rowan's materials and supplies primarily using a market approach.

Equity method investment in ARO

The equity method investment in ARO was recorded at its estimated fair value as of the Transaction Date. See Note 4 for additional information on ARO. We estimated the fair value of the equity investment primarily by applying an income approach, using projected discounted cash flows of the underlying assets, a risk-adjusted discount rate and an estimated effective income tax rate.

Tangible fixed assets

Tangible fixed assets acquired in connection with the Rowan Transaction consisted primarily of drilling rigs and related equipment, including four drillships and 19 jackup rigs (exclusive of two jackups marked for retirement). We recorded tangible fixed assets acquired at its estimated fair value of \$3.0 billion. We estimated the fair value of the rigs and equipment by applying an income approach, using projected discounted cash flows, a risk-adjusted discount rate and an estimated effective income tax rate. The estimated remaining useful lives for Rowan's drilling rigs, ranged from 16 to 35 years based on original estimated useful lives of 30 to 35 years.

Intangible assets and liabilities

We recorded intangible assets and liabilities of \$16.2 million and \$2.1 million, respectively, representing the estimated fair value of Rowan's firm contracts in place at the Transaction Date with favourable or unfavourable contract terms compared to then-market day rates for comparable drilling rigs. The various factors considered in the determination of these fair values were (1) the contracted day rate for each contract, (2) the remaining term of each contract, (3) the rig class and (4) the market conditions for each respective rig class at the Transaction Date. The intangible assets and liabilities were calculated based on the present value of the difference in cash flows over the remaining contract term as compared to a hypothetical contract with the same remaining term at an estimated then-current market day rate using a risk-adjusted discount rate and an estimated effective income tax rate.

Amortisation of the intangible assets and liabilities resulted in a net reduction in operating turnover of \$3.6 million for the year ended 31 December 2019. The remaining balance of intangible assets and liabilities of \$11.9 million and \$1.4 million, respectively, was included in intangible assets and other liabilities, respectively, on our consolidated balance sheet of 31 December 2019. These balances will be amortised to operating turnover over the respective remaining contract terms on a straight-line basis. As of 31 December 2019, the remaining terms of the underlying contracts is approximately 2 years. Amortisation of these intangibles is expected to result in a reduction to turnover of \$5.1 million and \$5.4 million in 2020 and 2021, respectively.

Employee benefits

The book value of plan assets and benefit obligations for the pension and other-post retirement benefit plans assumed as of 11 April 2019 were measured at fair value in accordance with IAS 19. We used a measurement date of 11 April 2019 for determining net periodic benefit costs.

Long-term debt

We recorded Rowan's long-term debt at its estimated fair value as of the Transaction Date, which was based on quoted market prices as of 10 April 2019.

Deferred taxes

The Rowan Transaction was executed through the acquisition of Rowan's outstanding ordinary shares and, therefore, the historical tax bases of the acquired assets and liabilities, net operating losses and other tax attributes of Rowan, were acquired as of the Transaction Date. However, adjustments were recorded to recognise deferred tax assets and liabilities for the tax effects of differences between acquisition date fair values and tax bases of assets acquired and liabilities assumed. Additionally, the interaction of our and Rowan's tax attributes that impacted the deferred taxes of the combined entity were also recognised as part of acquisition accounting. As of the Transaction Date, a decrease of \$99.0 million to Rowan's historical net deferred tax assets was recorded, resulting in recognition of a deferred tax asset of \$3.2m.

Deferred tax assets and liabilities recognised in connection with the Rowan Transaction were measured at rates enacted as of the Transaction Date. Tax rate changes, or any deferred tax adjustments for new tax legislation, following the Transaction Date will be reflected in our operating results in the period in which the change in tax laws or rate is enacted.

Uncertain tax positions

Uncertain tax positions assumed in a business combination are measured as the best estimate of the most likely amount expected to be paid or recovered to settle the asset or liability. As of the Transaction Date, Rowan had previously recognised net liabilities for uncertain tax positions totalling \$50.4 million. As a result of our continued review and analysis of facts and circumstances that existed at the Transaction Date as well as evidence and correspondence from tax authorities through to March 2020, we recognised additional liabilities of \$15.0 million as a fair value adjustment.

Turnover and earnings of Rowan

Our consolidated statement of operations for the year ending 31 December 2019 included turnover of \$448.0 million and net losses of \$122.7 million attributable to Rowan operations.

4 Equity Method Investment in ARO

Background

During 2016, Rowan and Saudi Aramco entered into an agreement to create a 50/50 venture (the "Shareholders' Agreement") to own, manage and operate offshore drilling rigs in Saudi Arabia. The new entity, ARO, was formed in May 2017 with each of Rowan and Saudi Aramco contributing \$25.0 million to be used for working capital needs.

In October 2017, Rowan sold rigs Bob Keller, J.P. Bussell and Gilbert Rowe to ARO and Saudi Aramco sold SAR 201 and related assets to ARO in each case for cash. Upon completion of the rig sales, ARO was deemed to have commenced operations. Saudi Aramco subsequently sold another rig, SAR 202, to ARO in December 2017 for cash and in October 2018, Rowan sold two additional jackup rigs, the Scooter Yeargain and the Hank Boswell, to ARO for cash. As a result of these rig sales, ARO-owned seven jackup rigs as of the Transaction Date.

During 2017 and 2018, Rowan contributed cash to ARO in exchange for 10-year shareholder notes receivable at a stated interest rate of LIBOR plus two percent. As of 31 December 2019, the carrying amount of the long-term notes receivable from ARO was \$452.9 million. The Shareholders' Agreement prohibits the sale or transfer of the shareholder note to a third party, except in certain limited circumstances.

Rigs purchased by ARO will receive contracts from Saudi Aramco for an aggregate 15 years, renewed and re-priced every three years, provided that the rigs meet the technical and operational requirements of Saudi Aramco. Each of the seven rigs owned by ARO is currently operating under its initial three-year contract.

Additionally, prior to the Rowan Transaction, Rowan entered into agreements with ARO to lease nine rigs to ARO (the "Lease Agreements"). The rigs are leased to ARO through bareboat charter arrangements whereby substantially all operating costs are incurred by ARO. As of 31 December 2019, all nine of the rigs were operating under three-year drilling contracts with Saudi Aramco.

Valaris and Saudi Aramco have agreed to take all steps necessary to ensure that ARO purchases 20 newbuild jackup rigs ratably over an approximate 10-year period. In January 2020, ARO ordered the first two newbuild jackups, each with a price of \$176.0 million, for delivery scheduled in 2022. The partners intend for the newbuild jackup rigs to be financed out of available cash from ARO's operations and/or funds available from third-party debt financing. In the event ARO has insufficient cash from operations or is unable to obtain third-party financing, each partner may periodically be required to make additional capital contributions to ARO, up to a maximum aggregate contribution of \$1.25 billion from each partner to fund the newbuild program. Each partner's commitment shall be reduced by the actual cost of each newbuild rig, on a proportionate basis. The partners agreed that Saudi Aramco, as a customer, will provide drilling contracts to ARO in connection with the acquisition of the newbuild rigs. The initial contracts provided by Saudi Aramco for each of the newbuild rigs will be for an eight-year term. The day rate for the initial contracts for each newbuild rig will be determined using a pricing mechanism that targets a six-year payback period for construction costs on an EBITDA basis. The initial eight-year contracts will be followed by a minimum of another eight years of term, re-priced in three-year intervals based on a market pricing mechanism.

Upon establishment of ARO, Rowan also entered into (1) an agreement to provide certain back-office services for a period of time until ARO develops its own infrastructure (the "Transition Services Agreement"), and (2) an agreement to provide certain Rowan employees through secondment arrangements to assist with various onshore and offshore services for the benefit of ARO (the "Secondment Agreement"). These agreements remain in place subsequent to the Rowan Transaction. Pursuant to these agreements, we or our seconded employees provide various services to ARO, and in return, ARO provides remuneration for those services. From time to time, we may also sell equipment or supplies to ARO.

The group's fixed asset investment in ARO is as follows:

	Interests in associated undertakings \$ millions
Cost	
Acquired in year	141.3
At end of year	<u>141.3</u>
Share of post-acquisition reserves	
Retained losses	(12.6)
At end of year	<u>(12.6)</u>
Net book value	
At 31 December 2019	<u>128.7</u>
Loans receivable	
At 31 December 2019	<u>452.9</u>

Summarised financial information

The operating turnover of ARO presented below reflect turnover earned under drilling contracts with Saudi Aramco for the seven ARO-owned jackup rigs and the rigs leased from us that operated from the Transaction Date through 31 December 2019. The contract drilling expenses, depreciation and general and administrative expenses presented below are also for the period from the Transaction Date through 31 December 2019. Contract drilling expense is inclusive of the bareboat charter fees for the rigs leased from us. Cost incurred under the Secondment Agreement are included in contract drilling expense and general and administrative, depending on the function to which the seconded employee's service relates. Substantially all costs incurred under the Transition Services Agreement are included in general and administrative. See additional discussion below regarding these related-party transactions.

Summarised financial information for ARO (100%) is as follows:

	April 11, 2019 – 31 December 2019 \$ millions
Turnover	410.5
Operating expenses	
Contract drilling (exclusive of depreciation)	(280.2)
Depreciation	(40.3)
General and administrative	<u>(27.1)</u>
Operating income	62.9
Other operating expense, net	(28.6)
Tax expense	<u>(9.7)</u>
Profit for year	<u><u>24.6</u></u>

31 December 2019
\$ millions

Fixed assets	874.8
Current assets	407.2
Creditors: amounts falling due within one year	(183.2)
Creditors: amounts falling due after more than one year	<u>(1,015.5)</u>
Net assets	<u><u>83.3</u></u>

Equity in earnings of ARO

We account for our interest in ARO using the equity method of accounting and only recognise our portion of ARO's net income, adjusted for basis differences as discussed below, which is included in equity in earnings of ARO in our consolidated profit and loss account. ARO is an associate investment as we do not have control and therefore do not consolidate ARO. Judgments regarding our level of influence over ARO included considering key factors such as: each partner's ownership interest, representation on the board of managers of ARO and ability to direct activities that most significantly impact ARO's economic performance, including the ability to influence policy-making decisions.

As a result of the Rowan Transaction, we recorded our equity method investment in ARO at its estimated fair value on the Transaction Date. Additionally, we computed the difference between the fair value of ARO's net assets and the carrying value of those net assets in ARO's US GAAP financial statements ("basis differences"). The basis differences primarily relate to ARO's long-lived assets and the recognition of intangible assets associated with certain of ARO's drilling contracts that were determined to have favourable terms as of the Transaction Date. The basis differences are amortised over the remaining life of the assets or liabilities to which they relate and are recognised as an adjustment to the equity in earnings of ARO in our consolidated statements of operations. The amortisation of those basis differences are combined with our 50% interest in ARO's net income.

A reconciliation of those components is presented below:

11 April 2019 –
31 December 2019
\$ millions

50% interest in ARO net income	12.3
Amortisation of basis differences	(24.9)
Equity in earnings of ARO	<u><u>(12.6)</u></u>

Related-party transactions

Turnover recognised by us related to the Lease Agreements, Transition Services Agreement and Secondment Agreement is as follows:

	Year Ended 31 December 2019	\$ millions
Lease revenue	58.2	
Secondment revenue	49.9	
Transition services revenue	17.3	
Total revenue from ARO ⁽¹⁾	<u>125.4</u>	

⁽¹⁾ All of the turnover presented above is included in our Other segment in our segment disclosures. See note 5 for additional information.

Amounts receivable from ARO related to the above items totalled \$21.8 million as of 31 December 2019. Accounts payable to ARO totalled \$0.7 million as of 31 December 2019.

We also have an agreement between us and ARO, pursuant to which ARO will reimburse us for certain capital expenditures related to the shipyard upgrade projects for VALARIS JU-147 and VALARIS JU-148. As of 31 December 2019, \$14.2 million related to reimbursement of these expenditures was outstanding.

During 2017 and 2018, Rowan contributed cash to ARO in exchange for 10-year shareholder notes receivable at a stated interest rate of LIBOR plus two percent. Interest is recognised as interest income in our consolidated statement of operations and totalled \$16.8 million for the period from the Transaction Date through 31 December 2019, respectively. As of 31 December 2019, we had no interest receivable from ARO.

The following table summarises the maturity schedule of our notes receivable from ARO as of 31 December 2019:

	Principal Amount	\$ millions
Maturity Date		
October 2027	275.2	
October 2028	<u>177.7</u>	
	<u>452.9</u>	

5 Segmental information

Prior to the Rowan Transaction, our business consisted of three operating segments: (1) Floaters, which included our drillships and semisubmersible rigs, (2) Jackups, and (3) Other, which consisted of management services on rigs owned by third-parties. Floaters and Jackups were also reportable segments. Our reportable segments, provide one service, contract drilling.

As a result of the Rowan Transaction, we concluded that we would maintain the aforementioned segment structure while adding ARO as a reportable segment for the new combined company. We also concluded that the activities associated with our arrangements with ARO, consisting of our Transition Services Agreement, Rig Lease Agreements and Secondment Agreement, do not constitute reportable segments and are therefore included within Other in the following segment disclosures. Substantially all of the expenses incurred associated with our Transition Services Agreement are included in general and administrative under "Reconciling Items" in the table set forth below.

General and administrative expense and depreciation expense incurred by our corporate office are not allocated to our operating segments for purposes of measuring segment operating income/(loss) and are included in "Reconciling Items." We measure segment

assets as tangible fixed assets. Tangible fixed assets not allocated to the group's operating segments were also included in "Reconciling Items." The full operating results included below for ARO (representing only results of ARO from the Transaction Date) are not included within our consolidated results and thus deducted under "Reconciling Items" and replaced with our equity in earnings of ARO. See note 4 for additional information on ARO and related arrangements.

The tables below set out information for each of the operating segments.

Year ended 31 December 2019	Floater\$ millions	Jackups \$ millions	ARO \$ millions	Other \$ millions	Reconciling Items \$ millions	Group Total \$ millions
Turnover						
Turnover to third parties	1,014.4	834.6	410.5	204.2	(410.5)	2,053.2
Operating expenses						
Contract drilling expense	900.4	788.9	280.2	118.5	(283.8)	1,804.2
Depreciation and amortisation	245.1	186.2	40.3	-	(65.4)	406.2
Impairment of tangible fixed assets	2,279.2	68.2	-	-	-	2,347.4
General and administrative expenses	-	-	27.1	-	146.5	173.6
Group share of operating loss in ARO venture	-	-	-	-	12.6	12.6
Other operating income, net	(181.5)	-	-	-	-	(181.5)
Operating loss	<u><u>(2,228.8)</u></u>	<u><u>(208.7)</u></u>	<u><u>62.9</u></u>	<u><u>85.7</u></u>	<u><u>(220.4)</u></u>	<u><u>(2,509.3)</u></u>
Tangible fixed assets	<u><u>5,228.3</u></u>	<u><u>3,404.2</u></u>	<u><u>650.7</u></u>	<u><u>701.1</u></u>	<u><u>(653.6)</u></u>	<u><u>9,330.7</u></u>
Capital expenditures	<u><u>30.9</u></u>	<u><u>164.2</u></u>	<u><u>27.5</u></u>	<u><u>-</u></u>	<u><u>(16.5)</u></u>	<u><u>206.1</u></u>
Year ended 31 December 2018	Floater\$ millions	Jackups \$ millions	Other \$ millions	Reconciling Items \$ millions	Group Total \$ millions	
Turnover						
Turnover to third parties	1,013.5	630.9	61.0	-	1,705.4	
Operating expenses						
Contract drilling expense	743.2	526.5	55.5	-	1,325.2	
Depreciation and amortisation	277.4	132.0	-	9.7	419.1	
Impairment of tangible fixed assets	-	40.3	-	-	40.3	
General and administrative expenses	-	-	-	102.7	102.7	
Other operating income, net	(4.8)	-	-	-	(4.8)	
Operating loss	<u><u>(2.3)</u></u>	<u><u>(67.9)</u></u>	<u><u>5.5</u></u>	<u><u>(112.4)</u></u>	<u><u>(177.1)</u></u>	
Tangible fixed assets	<u><u>6,852.7</u></u>	<u><u>2,049.6</u></u>	<u><u>-</u></u>	<u><u>36.5</u></u>	<u><u>8,938.8</u></u>	
Capital expenditures	<u><u>73.4</u></u>	<u><u>287.4</u></u>	<u><u>-</u></u>	<u><u>3.3</u></u>	<u><u>364.1</u></u>	

Information about turnover

Turnover by customer for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
Total ⁽¹⁾	16%	15%
BP ⁽²⁾	9%	7%
Saudi Aramco ⁽³⁾	7%	11%
Petrobras ⁽⁴⁾	4%	8%
Other	<u>64%</u>	<u>59%</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

⁽¹⁾ For the year ended December 31, 2019, 93% of turnover provided by Total was attributable to the Floater segment and the remainder was attributable to the Jackup segment. During the year 2018, all Total turnover was attributable to the Floater segment.

⁽²⁾ For the year ended December 31, 2019, 16%, 43% and 41% of BP turnover was attributable to our Floater, Other and Jackup segments, respectively.

For the year ended December 31, 2018, 27%, 53% and 20% of BP turnover was attributable to our Floater, Other and Jackup segments, respectively.

⁽³⁾ For the years ended December 31, 2019 and 2018, all Saudi Aramco turnover was attributable to the Jackup segment.

⁽⁴⁾ For the years ended December 31, 2019 and 2018, all Petrobras revenues were attributable to the Floater segment.

Information about geographic areas

For purposes of our geographic disclosure, we attribute turnover to the geographic location where such turnover was earned. Consolidated turnover by region for the years ended 31 December 2019 and 2018 was as follows:

	2019 \$ millions	2018 \$ millions
Saudi Arabia ⁽¹⁾	313.4	182.2
U.S. Gulf of Mexico ⁽²⁾	301.0	214.7
Angola ⁽³⁾	284.0	285.7
United Kingdom ⁽⁴⁾	213.1	192.6
Australia ⁽⁵⁾	204.2	283.9
Brazil ⁽⁶⁾	117.8	139.6
Egypt ⁽⁷⁾	40.4	31.2
Other	<u>579.3</u>	<u>375.5</u>
	<u><u>2,053.2</u></u>	<u><u>1,705.4</u></u>

⁽¹⁾ For the year ended 31 December 2019, 65% and 35% of turnover was attributable to our Jackup and Other segments, respectively. For the year ended 31 December 2018, all turnover earned was attributable to our Jackup segment.

⁽²⁾ For the years ended 31 December 2019 and 2018, 46% and 30% of turnover earned in the U.S. Gulf of Mexico, respectively, was attributable to our Floaters segment, 28% and 42% of turnover was attributable to our Jackup segment, respectively, and the remaining turnover was attributable to our Other segment, respectively.

- (3) For the years ended 31 December 2019 and 2018, 87% and 86% of turnover earned in Angola, respectively, was attributable to our Floaters segment with the remaining turnover attributable to our Jackup segment.
- (4) For the years ended 31 December 2019 and 2018, all turnover earned in the United Kingdom was attributable to our Jackup segment.
- (5) For the years ended 31 December 2019 and 2018, 90% and 92% of turnover earned in Australia, respectively, was attributable to our Floaters segment with the remaining turnover attributable to our Jackup segment.
- (6) For the years ended 31 December 2019 and 2018, all turnover earned in Brazil was attributable to our Floaters segment.
- (7) For the years ended 31 December 2019 and 2018, all turnover earned in Egypt was attributable to our Floaters segment.

For purposes of our tangible fixed assets geographic area disclosure, we attribute assets to the geographic location of the drilling rig as of the end of the applicable year. For new construction projects, assets are attributed to the location of future operation if known or to the location of construction if the ultimate location of operation is undetermined.

Information by country for those countries that account for more than 10% of our drilling rigs and equipment as well as the United Kingdom, our country of domicile, was as follows:

	2019 \$ millions	2018 \$ millions
Spain	1,787.5	1,458.8
United States	1,592.2	1,207.1
Saudi Arabia	1,100.6	-
United Kingdom	816.7	788.9
Nigeria	310.2	871.5
Singapore	-	23.9
Other countries	<u>3,723.5</u>	<u>4,588.6</u>
	<u>9,330.7</u>	<u>8,938.8</u>

6 Notes to the profit and loss account

Group

	2019 \$ millions	2018 \$ millions
Loss before taxation is stated after the following:		
Impairment of tangible fixed assets and other assets	2,347.4	40.3
Depreciation	450.0	423.2
Net settlement from legal disputes (note 24)	179.7	-
Operating lease rentals – offices and equipment	45.9	40.1
Amortisation of negative goodwill	(43.8)	(4.1)
Amortisation of other intangibles and other assets	(16.8)	(40.2)
Net profit on disposal of drilling rigs and equipment	(1.8)	(4.8)

	2019 \$ millions	2018 \$ millions
Auditors' remuneration		
Audit of these financial statements	0.1	0.1
Amounts receivable by associates of the auditors in respect of:		
Audit of Valaris plc financial statements for other regulatory purposes	2.9	2.2
Audit of financial statements of subsidiaries pursuant to legislation	0.4	0.3
Other services relating to taxation	1.1	0.9

7 Remuneration of directors

Remuneration of directors

	2019 \$ millions	2018 \$ millions
Directors' emoluments	11.6	3.4
Amounts receivable under long-term incentive schemes	3.7	6.2
Company pension contributions	0.2	-
	<u>15.5</u>	<u>9.6</u>

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was \$6.5 million (2018: \$6.2 million). During the year, the highest paid director received shares under a long-term incentive scheme.

	2019	2018
The number of directors who exercised share options was:	-	-
The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was:	18	11
The number of directors participated in defined benefit schemes was:	1	-
The directors benefited from qualifying third party indemnity provisions.		

8 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2019	Number of employees 2018
Offshore-based	4,062	3,321
Shore-based	1,062	1,189
	<u>5,124</u>	<u>4,510</u>

The aggregate payroll costs of these persons were as follows:

	2019 \$ millions	2018 \$ millions
Wages and salaries	680.8	492.0
Share based payments	37.3	41.6
Social security costs	23.3	16.5
Savings plan contributions	18.7	14.4
	<u>760.1</u>	<u>564.5</u>

The parent company had no employees during the year ended 31 December 2019 (2018: nil).

Key management personnel compensation in total was \$34.9 million for the year ended 31 December 2019 (2018: \$24.1 million).

9 Interest receivable and similar income

Group	2019 \$ millions	2018 \$ millions
Gain on extinguishment of debt	193.8	-
Net fair value changes on derivatives	18.3	-
Interest receivable from ARO	16.8	-
Interest receivable on cash and investments	11.3	14.5
Fair value change on convertible debt (note 19)	-	219.5
	<u>240.2</u>	<u>234.0</u>

10 Interest payable and other similar expenses

Group	2019 \$ millions	2018 \$ millions
Senior notes, debentures and bonds	414.9	314.2
Less finance costs capitalised	(20.9)	(62.6)
Fair value change on convertible debt (note 19)	37.7	-
Net foreign currency exchange losses	16.7	16.4
Net interest expense on net defined benefit liabilities	5.8	-
Loss on extinguishment of debt	-	19.1
Net fair value changes on derivatives	-	9.4
Other expenses	4.5	0.7
	<u>458.7</u>	<u>297.2</u>

Finance costs have been capitalised into tangible fixed assets at a rate of 6.9% (2018: 6.8%).

11 Taxation

	2019 \$ millions	2018 \$ millions
Analysis of charge in year		
UK corporation tax		
Current tax at the standard rate of 19.0% (2018: 19.0%)	0.8	-
Adjustments in respect of prior years	-	0.7
	<u>0.8</u>	<u>0.7</u>
Foreign tax		
Current tax for the year	106.4	74.5
Adjustments in respect of prior years	(2.7)	(42.2)
	<u>103.7</u>	<u>32.3</u>
Total current tax	<u>104.5</u>	<u>33.0</u>
Deferred tax		
Origination/reversal of timing differences	8.5	38.4
Adjustments in respect of prior years	(5.0)	17.7
Total deferred tax	<u>3.5</u>	<u>56.1</u>
Tax on loss	<u>108.0</u>	<u>89.1</u>

Factors affecting the tax charge for the current period

The tax charge for the year differs from the standard rate of corporation tax in the UK. The differences are explained below.

	2019 \$ millions	2018 \$ millions
Tax reconciliation		
Loss before taxation	<u>(2,727.8)</u>	<u>(240.3)</u>
Tax at the standard UK rate of 19.0% (2018: 19.0%)	<u>(518.3)</u>	<u>(45.7)</u>
Effects of:		
Impairment of tangible fixed assets and other assets	446.0	7.7
Higher tax rates on non-UK earnings	126.3	62.1
Deferred tax asset not recognised	92.6	91.1
Debt buyback and debt swap	(31.1)	8.9
U.S. Tax Reform	13.8	(11.7)
Negative goodwill	(8.3)	(0.8)
Net expense in connection with resolutions of tax issues and adjustments relating to prior years	(7.7)	(23.8)
Restructuring transactions	(5.1)	(9.1)
Other	(0.2)	10.4
Tax on loss	<u>108.0</u>	<u>89.1</u>

12 Dividends

The aggregate amount of dividends consists of:

	2019 \$ millions	2018 \$ millions
Dividends paid in the year	<u>4.5</u>	<u>18.0</u>

The quarterly dividends approved by the directors and paid by the company from 1 January 2019 to 31 December 2019 were:

Payment Date	Per Class A Ordinary Share \$ per share	Total Dividends Paid \$ millions
22 March 2019	0.01	<u>4.5</u> <u>4.5</u>

The quarterly dividends approved by the directors and paid by the company from 1 January 2018 to 31 December 2018 were:

Payment Date	Per Class A Ordinary Share \$ per share	Total Dividends Paid \$ millions
16 March 2018	0.01	4.5
15 June 2018	0.01	4.5
21 September 2018	0.01	4.5
14 December 2018	0.01	<u>4.5</u> <u>18.0</u>

13 Tangible fixed assets

Group	Drilling rigs and equipment \$ millions	Assets in course of construction \$ millions	Other \$ millions	Total \$ millions
Cost				
At beginning of year	17,341.7	775.2	191.4	18,308.3
Rowan assets acquired	2,866.7	77.7	19.6	2,964.0
Additions	-	228.3	-	228.3
Transfers	591.1	(610.5)	19.4	-
Disposals	(990.0)	-	(24.2)	(1,014.2)
At end of year	<u>19,809.5</u>	<u>470.7</u>	<u>206.2</u>	<u>20,486.4</u>
Depreciation				
At beginning of year	9,236.5	-	133.0	9,369.5
Charge for year	424.4	-	25.6	450.0
Impairment	2,266.3	72.4	-	2,338.7
Disposals	(978.4)	-	(24.1)	(1,002.5)
At end of year	<u>10,948.8</u>	<u>72.4</u>	<u>134.5</u>	<u>11,155.7</u>
Net book value				
At 31 December 2019	<u>8,860.7</u>	<u>398.3</u>	<u>71.7</u>	<u>9,330.7</u>
At 31 December 2018	<u>8,105.2</u>	<u>775.2</u>	<u>58.4</u>	<u>8,938.8</u>

Included in additions to the cost of tangible fixed assets is \$20.9 million (2018: \$62.6 million) in respect of capitalised finance costs.

During 2019, we recorded a pre-tax, non-cash loss on impairment of \$2.7 billion and an impairment reversal of \$364.1 million related to our fleet. Together with the Rowan Transaction, and as a result of the evaluation of the strategy of the combined fleet, at 30 June 2019 we determined that an impairment triggering event occurred resulting in the performance of a fleet-wide recoverability test. We determined that the estimated discounted cash flows over the remaining useful life of certain rigs were not sufficient to recover the rig's carrying value and concluded the rig was impaired. We, also, determined that for certain rigs there were indicators that impairments taken in prior years had reduced and/or reversed, and that the estimated discounted cash flows over the remaining useful life of the rig was sufficient to reverse impairments in prior years.

The net impairment charge is included in impairment of tangible fixed assets and other assets within cost of sales. We measured the fair value of these rigs by applying an income approach, using projected discounted cash flows and pre-tax discount rates of 14.4% for floaters and 13.8 % for jackups.

Subsequent to the 31 December 2019 year end, due to the coronavirus global pandemic and the response thereto which have negatively impacted the macro-economic environment and global economy, our overall business outlook and our expectations regarding the marketability of certain of our drilling rigs has deteriorated further. An impairment triggering event was identified as at 31 March 2020 and we expect material impairment charges will be recorded in the year ending 31 December 2020.

14 Negative goodwill

	Negative goodwill \$ millions
Cost	
At beginning of year	122.6
Additions	<u>708.6</u>
At end of year	<u><u>831.2</u></u>
Amortisation	
At beginning of year	5.1
Credit for year	<u>43.8</u>
At end of year	<u><u>48.9</u></u>
Net book value	
At 31 December 2019	<u><u>782.3</u></u>
At 31 December 2018	<u><u>117.5</u></u>

The increase in negative goodwill during the year ended 31 December 2019 was due to the transaction with Rowan. See note 3.

15 Investments

Group

Information on the group's subsidiary undertakings is included in note 30.

Short-term deposits consist of cash deposited with a financial institution for a specified period of time, which bears interest.

	Short-term deposits \$ millions
Cost	
At beginning of year	329.0
Additions	<u>145.0</u>
Repaid at maturity	<u>(474.0)</u>
At end of year	<u><u>-</u></u>

Company

Short-term deposits consist of cash deposited with a financial institution for a specified period of time, which bears interest.

	Short-term deposits \$ millions
Cost	
At beginning of year	329.0
Additions	<u>145.0</u>
Repaid at maturity	<u>(474.0)</u>
At end of year	<u><u>-</u></u>

The company's investment in subsidiaries is as follows:

	\$ millions
Cost	
At beginning of year	7,730.3
Additions	<u>1,438.4</u>
At end of year	<u><u>9,168.7</u></u>
Provision	
At beginning of year	3,124.0
Charge for year	<u>2,877.2</u>
At end of year	<u><u>6,001.2</u></u>
Net book value	
At 31 December 2019	<u><u>3,167.5</u></u>
At 31 December 2018	<u><u>4,606.3</u></u>

The impairment of investment in subsidiaries, included in charge for the year, was the result of a net reduction in the recoverable amount of the underlying tangible fixed assets held by a subsidiary (see note 13). The \$2.9 billion (2018: \$nil) provision recorded was calculated using forecasted cash flows and discount rates which are consistent with those described in notes 2 and 13 for drilling rigs.

16 Stocks

Group stocks totalled \$340.1 million at 31 December 2019 (2018: \$268.1 million) and primarily are comprised of consumable supplies required to operate drilling rigs and equipment. An inventory charge of \$32.4 million was recognised during the year ended 31 December 2019 (2018: \$19.1 million).

17 Debtors

Group

	2019 \$ millions	2018 \$ millions
Amounts falling due within one year		
Trade debtors	484.7	344.7
Prepaid taxes	36.2	35.0
Amounts receivable from ARO	36.0	-
Deferred mobilisation costs	23.3	23.5
Prepaid expenses	13.5	15.2
Deferred tax assets	1.4	13.3
Other financial assets	6.3	0.9
Other debtors	<u>24.8</u>	<u>18.2</u>
	<u>626.2</u>	<u>450.8</u>
Amounts falling due in more than one year		
Tax receivables	36.3	-
SERP assets	26.0	27.2
Deferred tax assets	25.2	16.2
Deferred mobilisation costs	7.1	21.5
Other debtors	<u>22.3</u>	<u>17.1</u>
	<u>116.9</u>	<u>82.0</u>
	<u><u>743.1</u></u>	<u><u>532.8</u></u>

A bad debt reserve reversal of \$2.1 million was recognised during the year ended 31 December 2019 (2018: charge of \$0.4 million).

Company

	2019 \$ millions	2018 \$ millions
Amounts falling due within one year		
Revolving note receivable from a group company	3,177.6	1,792.8
Notes receivable from group company	780.3	-
Receivable from group companies	44.8	68.4
Other assets	<u>0.8</u>	<u>7.9</u>
	<u>4,003.5</u>	<u>1,869.1</u>
Amounts falling due in more than one year		
Receivable from group companies	165.3	163.0
Notes receivable from group companies	70.8	2,413.9
Other assets	<u>12.3</u>	<u>8.1</u>
	<u>248.4</u>	<u>2,585.0</u>
Total debtors	<u><u>4,251.9</u></u>	<u><u>4,454.1</u></u>

During 2015, the company entered into a revolving loan agreement with a group company. The maximum borrowing capacity under the agreement is \$3.5 billion. Interest is paid quarterly in arrears at LIBOR plus 1.75%. The borrowings under the agreement are due on demand, but no later than 14 December 2020.

During 2018, the company entered into a loan agreement with a group company for \$70.7 million. The borrowings under the agreement are due on 30 September 2027. Interest is paid annually at the rate of 2.5%.

During 2017, the company entered into a loan agreement with a group company for \$1,025.0 million. The borrowings under the agreement were due on 6 October 2022. Interest was paid annually at the rate of 7.0%. The debt was repaid in 2019.

During 2016, the company entered into three notes receivable from a group company for \$500.0 million with an interest rate of 8.5% due on 24 June 2023, \$300.0 million with an interest rate of 8.9% due on 24 June 2024 and \$468.4 million with an interest rate of 9.5% due on 24 June 2025. Interest is paid semi-annually on the notes. The \$468.4 million note due on 24 June 2025 was repaid in 2018. \$266.8 million of the \$300.0 million note due on 24 June 2024 was repaid in 2018. The notes were repaid in full during 2019.

During 2017 and 2018, the company purchased a group company's debt on the open market. The borrowings are due on 1 January 2020. Interest is paid semi-annually at a rate of 6.875%. The amount outstanding net of premiums/discounts at 31 December 2019 was \$780.3 million (2018: \$784.9 million).

18 Creditors: amounts falling due within one year

Group

	2019 \$ millions	2018 \$ millions
Trade creditors	287.5	210.5
Current maturities of interest bearing debt	124.8	-
Personnel costs	122.5	69.9
Interest payable to debt holders	115.2	100.6
Corporation tax	61.2	36.9
Deferred turnover	30.0	57.0
Amounts payable to ARO venture	0.7	-
Other financial liabilities	0.9	10.9
Other creditors and accruals	<u>52.0</u>	<u>30.1</u>
	<u>794.8</u>	<u>515.9</u>

Company

	2019 \$ millions	2018 \$ millions
Notes payable to group company	751.8	-
Interest payable to debt holders	66.5	76.5
Amounts owed to group companies	16.0	49.3
Interest payable to group companies	10.6	10.5
Other Creditors	<u>32.8</u>	<u>8.9</u>
	<u>877.7</u>	<u>145.2</u>

During 2010, the company issued a \$751.8 million promissory note due 19 December 2020 to a group company. Interest on the note is payable semi-annually at a fixed rate of 4.75%.

19 Creditors: amounts falling due after more than one year

Group

	2019 \$ millions	2018 \$ millions
Interest bearing debt	5,831.9	4,913.3
Contract intangibles	52.1	53.5
Supplemental executive retirement plan liabilities	26.7	28.1
Deferred turnover	9.7	20.5
Deferred rent	-	11.7
Other creditors	58.3	34.5
	<u>5,978.7</u>	<u>5,061.6</u>

Interest bearing debt is repayable as follows:

Group	2019 \$ millions	2018 \$ millions
Interest bearing debt falling due within five years	2,620.9	236.4
Interest bearing debt falling due after five years	3,907.2	4,924.6
	<u>6,528.1</u>	<u>5,161.0</u>
Adjustments to recognise 2024 Convertible Notes at fair value, deferred financing costs and unamortised discounts and premiums, net included in interest bearing debt	(571.4)	(247.7)
	<u>5,956.7</u>	<u>4,913.3</u>

Interest bearing debt consists of the instruments discussed below. The carrying value of our long-term debt as of 31 December 2019 and 2018 consisted of the following:

	2019 \$ millions	2018 \$ millions
6.875% Senior notes due 2020	124.8	127.5
4.70% Senior notes due 2021	113.2	112.7
4.875% Senior notes due 2022 ⁽²⁾	599.2	-
3.00% Convertible senior notes due 2024	607.4	569.7
4.50% Senior notes due 2024 ⁽¹⁾	302.0	619.8
4.75% Senior notes due 2024 ⁽²⁾	276.5	-
8.00% Senior notes due 2024 ⁽¹⁾	295.7	337.0
5.20% Senior notes due 2025 ⁽¹⁾	331.7	664.4
7.375% Senior notes due 2025 ⁽²⁾	329.2	-
7.75% Senior notes due 2026	987.1	985.0
7.20% Debentures due 2027 ⁽¹⁾	111.7	149.3
7.875% Senior notes due 2040	373.3	375.0
5.4% Senior notes due 2042 ⁽²⁾	262.8	-
5.75% Senior notes due 2044	973.3	972.9
5.85% Senior notes due 2044 ⁽²⁾	268.8	-
Total long-term debt	<u>5,956.7</u>	<u>4,913.3</u>

- (1) The decline in the carrying value of our 4.50% and 8.00% senior notes due 2024, 5.20% senior notes due 2025 and 7.20% debentures due 2027 resulted from repurchases made pursuant to the tender offer discussed below.
- (2) These senior notes were acquired in the Rowan Transaction.

2024 convertible notes

In December 2016, Ensco Jersey Finance Limited, a wholly-owned subsidiary of Valaris plc, issued \$849.5 million aggregate principal amount of unsecured 2024 Convertible Notes in a private offering. The 2024 Convertible Notes are fully and unconditionally guaranteed, on a senior, unsecured basis, by Valaris plc and are exchangeable into cash, our Class A ordinary shares or a combination thereof, at our election. Interest on the 2024 Convertible Notes is payable semi-annually on 31 January and 31 July of each year. The 2024 Convertible Notes will mature on 31 January 2024, unless exchanged, redeemed or repurchased in accordance with their terms prior to such date. Holders may exchange their 2024 Convertible Notes at their option any time prior to 31 July 2023 only under certain circumstances set forth in the indenture governing the 2024 Convertible Notes. On or after 31 July 2023, holders may exchange their 2024 Convertible Notes at any time. The exchange rate is 17.8336 shares per \$1,000 principal amount of notes, representing an exchange price of \$56.08 per share, and is subject to adjustment upon certain events. The 2024 Convertible Notes may not be redeemed by us except in the event of certain tax law changes.

Upon conversion of the 2024 Convertible Notes, holders will receive cash, our Class A ordinary shares or a combination thereof, at our election. Our intent is to settle the principal amount of the 2024 Convertible Notes in cash upon conversion. If the conversion value exceeds the principal amount (i.e., our share price exceeds the exchange price on the date of conversion), we expect to deliver shares equal to our conversion obligation in excess of the principal amount. During each respective reporting period that our average share price exceeds the exchange price, an assumed number of shares required to settle the conversion obligation in excess of the principal amount will be included in the denominator for our computation of diluted EPS using the treasury stock method.

As a result of the conversion feature described above, the 2024 Convertible Notes are measured at fair value with changes in fair value recognised in the profit and loss account. During 2019, a fair value gain of \$37.7 million was recognised in interest receivable and other similar items (2018: fair value gain \$219.5 million). The fair value of the convertible senior notes at 31 December 2019 was \$607.4 million (2018: \$569.7 million).

The indenture governing the 2024 Convertible Notes contains customary events of default, including failure to pay principal or interest on such notes when due, among others. The indenture also contains certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

Senior notes

As a result of the Rowan Transaction, we acquired the following debt issued by Rowan Companies, Inc. ("RCI") and guaranteed by Rowan: (1) \$201.4 million in aggregate principal amount of 7.875% unsecured senior notes, which was repaid at maturity in August 2019, (2) \$620.8 million in aggregate principal amount of 4.875% unsecured senior notes due 2022 (the "Rowan 2022 Notes"), (3) \$398.1 million in aggregate principal amount of 4.75% unsecured senior notes due 2024 (the "Rowan 2024 Notes"), (4) \$500.0 million in aggregate principal amount of 7.375% unsecured senior notes due 2025 (the "Rowan 2025 Notes"), (5) \$400.0 million in aggregate principal amount of 5.4% unsecured senior notes due 2042 (the "Rowan 2042 Notes") and (6) \$400.0 million in aggregate principal amount of 5.85% unsecured senior notes due 2044 (the "Rowan 2044 Notes" and collectively, the "Rowan Notes"). Upon closing of the Rowan Transaction, we terminated Rowan's outstanding credit facilities. On 3 February 2020, Rowan and RCI transferred substantially all their assets on a consolidated basis to Valaris plc, Valaris plc became the obligor on the notes and Rowan and RCI were relieved of their obligations under the notes and the related indenture.

On 26 January 2018, we issued \$1.0 billion aggregate principal amount of unsecured 7.75% senior notes due 2026 (the "2026 Notes") at par, net of \$16.5 million of debt issuance costs. Interest on the 2026 Notes is payable semi-annually on 1 February and 1 August of each year.

During 2017, we exchanged \$332.0 million aggregate principal amount of unsecured 8.00% senior notes due 2024 (the "8 % 2024 Notes") for certain amounts of our outstanding senior notes due 2019, 2020 and 2021. Interest on the 8% 2024 Notes is payable semi-annually on 31 January and 31 July of each year.

During 2015, we issued \$700.0 million aggregate principal amount of unsecured 5.20% senior notes due 2025 (the "2025 Notes") at a discount of \$2.6 million and \$400.0 million aggregate principal amount of unsecured 5.75% senior notes due 2044 (the "New 2044 Notes") at a discount of \$18.7 million in a public offering. Interest on the 2025 Notes is payable semi-annually on 15 March and 15 September of each year. Interest on the New 2044 Notes is payable semi-annually on 1 April and 1 October of each year.

During 2014, we issued \$625.0 million aggregate principal amount of unsecured 4.50% senior notes due 2024 (the "2024 Notes") at a discount of \$0.9 million and \$625.0 million aggregate principal amount of unsecured 5.75% senior notes due 2044 (the "Existing 2044 Notes" and together with the New 2044 Notes, the "2044 Notes") at a discount of \$2.8 million. Interest on the 2024 Notes and the Existing 2044 Notes is payable semi-annually on 1 April and 1 October of each year. The Existing 2044 Notes and the New 2044 Notes are treated as a single series of debt securities under the indenture governing the notes.

During 2011, we issued \$1.5 billion aggregate principal amount of unsecured 4.70% senior notes due 2021 (the "2021 Notes") at a discount of \$29.6 million in a public offering. Interest on the 2021 Notes is payable semi-annually on 15 March and 15 September of each year.

Upon consummation of the Pride International LLC ("Pride") acquisition during 2011, we assumed outstanding debt comprised of \$900.0 million aggregate principal amount of unsecured 6.875% senior notes due 2020, \$500.0 million aggregate principal amount of unsecured 8.5% senior notes due 2019 and \$300.0 million aggregate principal amount of unsecured 7.875% senior notes due 2040 (collectively, the "Acquired Notes" and together with the Rowan Notes, 2021 Notes, 8% 2024 Notes, 2024 Notes, 2025 Notes, 2026 Notes and 2044 Notes, the "Senior Notes"). Valaris plc has fully and unconditionally guaranteed the performance of all Pride obligations with respect to the Acquired Notes.

We may redeem the Senior Notes in whole at any time, or in part from time to time, prior to maturity. If we elect to redeem the Rowan 2022 Notes, Rowan 2024 Notes, 8% 2024 Notes, 2024 Notes, 2025 Notes, Rowan 2025 Notes and 2026 Notes before the date that is three months prior to the maturity date or the Rowan 2042 Notes, Rowan 2044 Notes and 2044 Notes before the date that is six months prior to the maturity date, we will pay an amount equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest and a "make-whole" premium. If we elect to redeem these notes on or after the aforementioned dates, we will pay an amount equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest but we are not required to pay a "make-whole" premium.

We may redeem each series of the 2021 Notes and the Acquired Notes, in whole or in part, at any time at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium.

The indentures governing the Senior Notes contain customary events of default, including failure to pay principal or interest on such notes when due, among others. The indentures governing the Senior Notes also contain certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

Debentures due 2027

During 1997, Enso International Incorporated issued \$150.0 million of unsecured 7.20% Debentures due 2027 (the "Debentures"). Interest on the Debentures is payable semi-annually on 15 May and 15 November of each year. We may redeem the Debentures, in whole or in part, at any time prior to maturity, at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium. During 2009, Valaris plc entered into a supplemental indenture to unconditionally guarantee the principal and interest payments on the Debentures.

The Debentures and the indenture pursuant to which the Debentures were issued also contain customary events of default, including failure to pay principal or interest on the Debentures when due, among others. The indenture also contains certain restrictions, including, among others, restrictions on our ability and the ability of our subsidiaries to create or incur secured indebtedness, enter into certain sale/leaseback transactions and enter into certain merger or consolidation transactions.

Tender offers and open market repurchases

On 25 June 2019, we commenced cash tender offers for certain series of senior notes issued by us, Enso International Incorporated and RCI, our wholly-owned subsidiaries. The tender offers expired on 23 July 2019, and we repurchased \$951.8 million of our outstanding senior notes for an aggregate purchase price of \$724.1 million. As a result of the transaction, we recognised a pre-tax

gain from debt extinguishment of \$193.8 million, net of discounts, premiums and debt issuance costs in interest receivable and other similar income.

Concurrent with the issuance of the 2026 Notes in January 2018, we launched cash tender offers for up to \$985.0 million aggregate principal amount of certain series of senior notes issued by us and Pride, our wholly-owned subsidiary, and as a result we repurchased \$595.4 million of our senior notes. Subsequently, we issued a redemption notice for the remaining principal amount of the \$55.0 million principal amount of the 8.50% senior notes due 2019 and repurchased \$71.4 million principal amount of our senior notes due 2020. As a result of these transactions, we recognised a pre-tax loss from debt extinguishment of \$19.1 million, net of discounts, premiums, debt issuance costs and commissions in interest payable and other similar expense.

Our tender offers and open market repurchases during the two-year period ended 31 December 2019 were as follows:

Year ended 31 December 2019

	Aggregate Principal Amount	Aggregate Repurchase Price ⁽¹⁾
	\$ millions	\$ millions
4.50% Senior notes due 2024	320	240
4.75% Senior notes due 2024	79.5	61.2
8.00% Senior notes due 2024	39.7	33.8
5.20% Senior notes due 2025	335.5	250.0
7.375% Senior notes due 2025	139.2	109.2
7.20% Debentures due 2027	37.9	29.9
Total	<u>951.8</u>	<u>724.1</u>

Year ended 31 December 2018

	Aggregate Principal Amount	Aggregate Repurchase Price ⁽¹⁾
	\$ millions	\$ millions
8.50% Senior notes due 2019	237.6	256.8
6.875% Senior notes due 2020	328.0	354.7
4.70% Senior notes due 2021	156.2	159.7
Total	<u>721.8</u>	<u>771.2</u>

⁽¹⁾ Excludes accrued interest paid to holders of the repurchased senior notes.

Revolving credit facility

Effective upon closing of the Rowan Transaction, we amended our credit facility to, among other changes, increase the borrowing capacity. Previously, our credit facility had a borrowing capacity of \$2.0 billion through September 2019 that declined to \$1.3 billion through September 2020 and \$1.2 billion through September 2022. Subsequent to the amendment, our borrowing capacity is \$1.6 billion through September 2022. The credit agreement governing the Credit Facility includes an accordion feature allowing us to increase the future commitments up to an aggregate amount not to exceed \$250.0 million.

Advances under the credit facility bear interest at Base Rate or LIBOR plus an applicable margin rate, depending on our credit ratings. We are required to pay a quarterly commitment fee on the undrawn portion of the \$1.6 billion commitment, which is also based on our credit ratings.

On 6 December 2019, Moody's downgraded our corporate family rating from B3 to Caa1 and our senior unsecured notes from Caa1 to Caa2. Previously, in September 2019, Standard & Poor's downgraded our senior unsecured bonds from B to B- and our issuer rating from B- to CCC+. The applicable margin rates are 3.25% per annum for Base Rate advances and 4.25% per annum for LIBOR advances. The quarterly commitment fee is 0.75% per annum on the undrawn portion of the \$1.6 billion commitment.

The credit facility requires us to maintain a total debt to total capitalisation ratio calculated in accordance with U.S. GAAP that is less than or equal to 60% and to provide guarantees from certain of our rig-owning subsidiaries sufficient to meet certain guarantee coverage ratios. The credit facility also contains customary restrictive covenants, including, among others, prohibitions on creating, incurring or assuming certain debt and liens (subject to customary exceptions, including a permitted lien basket that permits us to raise secured debt up to the lesser of \$1.0 billion or 10% of consolidated tangible net worth (as defined in the credit facility)); entering into certain merger arrangements; selling, leasing, transferring or otherwise disposing of all or substantially all of our assets; making a material change in the nature of the business; paying or distributing dividends on our ordinary shares (subject to certain exceptions, including the ability to pay a quarterly dividend of \$0.01 per share); borrowings, if after giving effect to any such borrowings and the application of the proceeds thereof, the aggregate amount of available cash (as defined in the credit facility) would exceed \$200 million; and entering into certain transactions with affiliates.

The credit facility also includes a covenant restricting our ability to repay indebtedness maturing after September 2022, which is the final maturity date of our credit facility. This covenant is subject to certain exceptions that permit us to manage our balance sheet, including the ability to make repayments of indebtedness (i) of acquired companies within 90 days of the completion of the acquisition or (ii) if, after giving effect to such repayments, available cash is greater than \$250.0 million and there are no amounts outstanding under the credit facility. The July 2019 tender offers discussed above were in compliance with these covenants.

As of 31 December 2019, we were in compliance in all material respects with our covenants under the credit facility. We expect to remain in compliance with our credit facility covenants during 2020. We had no amounts outstanding under the credit facility as of 31 December 2019 and 2018. As of 17 April 2020, we had \$184.6 million in cash and \$328.9 million of borrowings outstanding under the credit facility.

Our access to credit and capital markets depends on the credit ratings assigned to our debt. As a result of rating actions by credit rating agencies, we no longer maintain an investment-grade status. Our current credit ratings, and any additional actual or anticipated downgrades in our credit ratings, could limit our available options when accessing credit and capital markets, or when restructuring or refinancing our debt. In addition, future financings or refinancings are likely to involve higher borrowing costs and require more restrictive terms and covenants, which may further restrict our operations.

Company	2019 \$ millions	2018 \$ millions
Interest bearing debt	3,001.4	3,689.7
Notes payables to group companies	695.3	1,413.1
Option element of convertible bond	-	29.4
	<hr/> <u>3,696.7</u>	<hr/> <u>5,132.2</u>

Company

	2019 \$ millions	2018 \$ millions
Interest bearing debt falling due within five years	709.2	-
Interest bearing debt falling due after five years	<u>2,334.2</u>	<u>3,738.6</u>
	3,043.4	3,738.6
Less: deferred financing costs and unamortised discounts included in interest bearing debt	<u>(42.0)</u>	<u>(48.9)</u>
Total interest bearing debt	<u>3,001.4</u>	<u>3,689.7</u>

The company is a party to the convertible senior notes, senior notes and revolving credit agreements disclosed above.

In December 2016, Ensono Jersey Finance Limited, a subsidiary of the company, issued \$849.5 million convertible senior notes, due 31 January 2024. The convertible senior notes can be settled in the company's shares, cash or a combination of both at the group's discretion. The company is obligated to settle the option element of the convertible senior notes upon conversion by the bondholders. Fair value of the option element is estimated on the basis of quoted market prices.

In December 2016, the company issued a \$849.5 million promissory note due on 31 January 2024 to Ensono Jersey Finance Limited. Interest is paid semi-annually at a rate of 3.0%.

Notes payable to a group company are repayable as follows:

	2019 \$ millions	2018 \$ millions
Notes payable to a group company due within five years	849.5	751.8
Note payable to a group company due after five years	<u>-</u>	<u>849.5</u>
	849.5	1,601.3
Less: deferred financing costs and unamortised discounts included in notes payable to group companies	<u>(154.2)</u>	<u>(188.2)</u>
Total interest bearing debt	<u>695.3</u>	<u>1,413.1</u>

20 Provisions for liabilities

Group

	Provision				
	Deferred taxation	for tax uncertainties	Employee provision	Other	Total
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
At beginning of year	88.0	177.0	12.6	-	277.6
(Credit)/charge to profit and loss	(2.6)	6.2	2.0	5.6	11.2
Acquired in the year	13.6	60.3	0.7	-	74.6
Utilised during year	-	(10.0)	(3.4)	-	(13.4)
At end of year	<u>99.0</u>	<u>233.5</u>	<u>11.9</u>	<u>5.6</u>	<u>350.0</u>

Deferred taxation

The elements of deferred taxation are as follows:

	Deferred tax asset 2019 \$ millions	Deferred tax liability 2019 \$ millions	Total 2019 \$ millions	Deferred tax asset 2018 \$ millions	Deferred tax liability 2018 \$ millions	Total 2018 \$ millions
Accelerated capital allowances on tangible fixed assets	-	205.5	205.5	-	96.7	96.7
Premium on long-term debt	-	49.5	49.5	(6.4)	-	(6.4)
Foreign tax credits	(43.8)	-	(43.8)	(18.9)	-	(18.9)
Net operating loss carryforwards	(104.8)	-	(104.8)	(12.2)	-	(12.2)
Deferred turnover	-	2.4	2.4	(10.1)	-	(10.1)
Employee benefits, including share based compensation	(74.0)	-	(74.0)	(8.3)	-	(8.3)
U.S. tax on foreign income	-	36.6	36.6	-	31.5	31.5
Other timing differences	-	1.0	1.0	(13.8)	-	(13.8)
Total deferred tax (assets)/liabilities	(222.6)	295.0	72.4	(69.7)	128.2	58.5
Net of deferred tax (assets)			(26.6)			(29.5)
Net deferred tax liabilities			99.0			88.0

As of 31 December 2019, the group had recognised and unrecognised deferred tax assets of \$142.9 million (2018: \$123.6 million) for U.S. foreign tax credits ("FTCs"), \$1.5 billion (2018: \$148.4 million) related to \$6.4 billion (2018: \$784.2 million) of net operating loss ("NOL") carryforwards and \$41.5 million (2018: \$40.2 million) for U.S. interest limitation carry forwards, which can be used to reduce our income taxes payable in future years. The FTCs expire between 2022 and 2029. NOL carryforwards, which were generated in various jurisdictions worldwide, include \$5.6 billion (2018: \$449.8 million) that do not expire and \$773.0 million (2018: \$334.4 million) that will expire, if not utilised, between 2020 and 2037. U.S. interest limitation carryforwards do not expire. NOL carryforwards at 31 December 2019 include \$1.3 billion acquired in the Rowan Transaction, substantially all of which pertains to NOL carryforwards in Luxembourg. Due to the uncertainty of utilisation, the group has not recognised \$1.5 billion of the above FTC, NOL carryforwards and U.S. interest limitation carryforwards.

During 2019, the group completed certain restructuring transactions that generated substantial U.S. capital gains and losses. As of 31 December 2019, we had an unrecognised deferred tax asset of \$998.0 million associated with the net capital loss arising from these transactions. Based on our current assessment, this deferred tax asset is subject to full provision because future utilisation is not considered probable.

Provision for tax uncertainties

The group's tax positions are evaluated for recognition using a more-likely-than-not threshold. A provision is recognised for those tax positions where the likelihood of payment is probable. We are unable to specify with certainty the future periods in which we may be obligated to settle such amounts.

Several of the group's rigs are owned by subsidiaries in Switzerland that are subject to a special finance taxation regime under Swiss income tax rules. Swiss federal and cantonal governments have enacted tax legislation ("Swiss tax reform") effective 1 January 2020. Under Swiss tax reform, the finance taxation regime has been abolished but the group's Swiss subsidiaries will remain subject to the finance taxation regime through 31 December 2021 and transition to deriving income tax based on net income beginning 1 January 2022. There are various uncertainties relating to the application of Swiss tax reform to finance taxation regime taxpayers, the most prominent of which is the determination of the Swiss tax basis of property and equipment. After considering these uncertainties and all information currently available, the group has concluded the tax basis of the property and equipment of its Swiss subsidiaries will more likely than not approximate its U.S. GAAP basis and, accordingly, we have not recognised deferred taxes. As the Swiss tax authorities further clarify the application of Swiss tax reform to finance taxation regime taxpayers, the group may recognise deferred tax adjustments and they may have a material effect on our consolidated financial statements.

During 2019, the Australian tax authorities issued aggregate tax assessments totalling approximately A\$101.0 million (approximately \$70.9 million converted at current period-end exchange rates) plus interest related to the examination of certain of the group's tax returns for the years 2011 through 2016. The group has recorded a \$15.0 million liability for these assessments as of 31 December 2019. The group believes that its tax returns are materially correct as filed and is vigorously contesting these assessments. Although the outcome of such assessments and related administrative proceedings cannot be predicated with certainty, the group does not expect these matters to have a material adverse effect on our financial position, operating results and cash flows.

Absent the commencement of examinations by tax authorities, statutes of limitations applicable to certain of our tax positions will lapse during 2020. Therefore, it is reasonably possible that unrecognised tax benefits will decline during the next 12 months by \$800,000, inclusive of \$550,000 of accrued interest and penalties, all of which would impact the consolidated effective income tax rate if recognised.

See note 2 and 3 for further information on provision for tax uncertainties.

Employee provision

We are involved in employee lawsuits and claims arising in the ordinary course of business. The outcome of such lawsuits and claims cannot be predicted with certainty, and the amount of the liability that could arise with respect to such lawsuits and claims has been recognised; nevertheless, there can be no assurances as to the ultimate outcome.

Other

Other relates to two onerous leases.

21 Financial instruments

The amounts for the group's principal financial assets and financial liabilities carried at amortised cost are as follows:

	2019 \$ millions	2018 \$ millions
Cash and cash equivalents	97.2	275.1
Investment in time deposits	-	329.0
Trade debtors	484.7	344.7
Amounts receivable from ARO	36.0	-
Note receivable from ARO	452.9	-
Interest bearing debt	5,349.3	4,343.6
Trade creditors	287.5	210.5
Amounts payable to ARO	0.7	-
Other creditors		
Personnel costs	122.5	69.9
Interest payable to debt holders	115.2	100.6

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2019 \$ millions	2018 \$ millions
Interest bearing debt	607.4	569.7
SERP assets	26.0	27.2
Unrealised gain/(loss) on foreign currency forward contracts, net	5.4	(10.7)

The fair value of the supplemental executive retirement plans (collectively the "SERP") assets was based on quoted market prices. The SERP is a non-qualified plan where eligible employees may defer a portion of their compensation for use after retirement. The SERP was frozen to the entry of new participants in November 2019 and to future compensation deferrals as of 1 January 2020. Assets held in the SERP consist of marketable securities and are measured at fair value based on quoted market prices. SERP assets are held on behalf of employees and are not available for use by the group.

The fair value of the interest bearing debt was based on the quoted market price.

The fair value measurements of our derivatives were based on market prices that are generally observable for similar assets or liabilities at commonly quoted intervals.

We utilise cash flow hedges to hedge forecasted foreign currency denominated transactions, primarily to reduce our exposure to foreign currency exchange rate risk on future expected contract drilling expenses and capital expenditures denominated in various foreign currencies. We predominantly structure our drilling contracts in U.S. dollars, which significantly reduces the portion of our cash flows and assets denominated in foreign currencies. As of 31 December 2019, we had cash flow hedges outstanding to exchange an aggregate \$199.1 million for various foreign currencies (2018: \$187.8). We do not designate such derivatives as hedging instruments.

We have net assets and liabilities denominated in numerous foreign currencies and use various strategies to manage our exposure to changes in foreign currency exchange rates. We occasionally enter into derivatives that hedge the fair value of recognised foreign currency denominated assets or liabilities, thereby reducing exposure to earnings fluctuations caused by changes in foreign currency exchange rates. We do not designate such derivatives as hedging instruments. In these situations, a natural hedging relationship generally exists whereby changes in the fair value of the derivatives offset changes in the carrying value of the underlying hedged items. As of 31 December 2019, we held such derivatives to exchange an aggregate \$47.1 million for various foreign currencies (2018: \$175.7).

	Borrowings due within one year \$ millions	Borrowings due after one year \$ millions	Subtotal \$ millions	Cash and cash equivalents \$ millions	Net debt \$ millions
At beginning of year	-	(4,913.3)	(4,913.3)	275.1	(4,638.2)
Cash flows	201.4	726.7	928.1	(1,109.5)	(181.4)
Rowan acquisition changes	(203.2)	(1,910.9)	(2,114.1)	931.9	(1,182.2)
Other non-cash changes	(123.0)	303.3	180.3	-	180.3
Recognition of changes in market value and foreign exchange	-	(37.7)	(37.7)	(0.3)	(38.0)
At end of year	<u>(124.8)</u>	<u>(5,831.9)</u>	<u>(5,956.7)</u>	<u>97.2</u>	<u>(5,859.5)</u>

22 Called up share capital

		2019 \$ millions	2018 \$ millions
Allotted, called up and fully paid			
205.9 million (2018: 115.2 million) Class A ordinary shares of U.S. \$.40 each		82.4	46.1
50,000 (2018: 50,000) Class B ordinary shares of £1 each		0.1	0.1
		<u>82.5</u>	<u>46.2</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

In connection with the Rowan Transaction on 11 April 2019, we issued 88.3 million Class A ordinary shares with an aggregate value of \$1.4 billion. See note 3 for additional information.

On 11 April 2019, we completed our combination with Rowan and effected the Reverse Stock Split. All share and per-share amounts in these consolidated financial statements have been retrospectively adjusted to reflect the Reverse Stock Split.

As a UK company governed in part by the UK Companies Act 2006, we cannot issue new shares (other than in limited circumstances) without being authorised by our shareholders. At our 2019 annual general meeting, our shareholders authorised the allotment of 67.6 million Class A ordinary shares (or 135.3 million Class A ordinary shares in connection with an offer by way of a rights issue or other similar issue), subject to the completion of the Rowan Transaction.

Under English law, we are only able to declare dividends and return funds to our shareholders out of the accumulated distributable reserves on our statutory balance sheet. The declaration and amount of future dividends is at the discretion of our Board of Directors and will depend on our profitability, liquidity, financial condition, market outlook, reinvestment opportunities, capital requirements and other factors and restrictions our Board of Directors deems relevant. There can be no assurance that we will pay a dividend in the future.

Our shareholders approved a share repurchase program at our annual shareholder meeting held in May 2018. Subject to certain provisions under English law, including the requirement of Valaris plc to have sufficient distributable reserves, we may repurchase shares up to a maximum of \$500.0 million in the aggregate from one or more financial intermediaries under the program, but in no case more than 16.3 million shares. The program terminates in May 2023. As of 31 December 2019, there had been no share repurchases under this program.

23 Non-controlling interests

Group	2019 \$ millions	2018 \$ millions
At beginning of year	(2.6)	(2.1)
Loss for year attributable to non-controlling interests	5.8	3.1
Distributions to non-controlling interests	(4.5)	(3.6)
At end of year	<u>(1.3)</u>	<u>(2.6)</u>

24 Contingent liabilities

DSA dispute

On 4 January 2016, Petrobras sent a notice to us declaring the drilling services agreement with Petrobras (the "DSA") for VALARIS DS-5, a drillship ordered from Samsung Heavy Industries, a shipyard in South Korea ("SHI"), void effective immediately, reserving its rights and stating its intention to seek any restitution to which it may be entitled. The previously disclosed arbitral hearing on liability related to the matter was held in March 2018. Prior to the arbitration tribunal issuing its decision, we and Petrobras agreed in August 2018 to a settlement of all claims relating to the DSA. No payments were made by either party in connection with the settlement agreement. The parties agreed to normalise business relations and the settlement agreement provides for our participation in current and future Petrobras tenders on the same basis as all other companies invited to these tenders. No losses were recognised during 2018 with respect to this settlement as all disputed receivables with Petrobras related to the DSA were fully reserved in 2015.

In April 2016, we initiated separate arbitration proceedings in the UK against SHI for the losses incurred in connection with the foregoing Petrobras arbitration and certain other losses relating to the DSA. In January 2018, the arbitration tribunal for the SHI matter issued an award on liability fully in our favour. The January 2018 arbitration award provides that SHI is liable to us for \$10.0 million or damages that we can prove. We submitted our claim for damages to the tribunal, and the arbitral hearing on damages owed to us by SHI took place during the first quarter of 2019.

In May 2019, the arbitration tribunal for the SHI matter awarded us \$180.0 million in damages. Further, we are entitled to claim interest on this award and costs incurred in connection with this matter. In June 2019, we and SHI filed separate applications with the English High Court to seek leave to appeal the damages awarded.

In December 2019, the English High Court denied the parties' applications for leave to appeal the tribunal's \$180.0 million damages award. Following this decision, the parties reached an agreement and SHI paid us \$200.0 million in cash. Collection of this payment resulted in the recognition of a gain of the same amount, which is included in other operating income/(expense), net for the year ended 31 December 2019. This payment, along with the previously disclosed settlement and normalisation of our business relationship with Petrobras, concludes our dispute surrounding VALARIS DS-5.

Indonesian well-control event

In July 2019, a well being drilled offshore Indonesia by one of our jackup rigs experienced a well-control event requiring the cessation of drilling activities. The operator could seek to terminate the contract under certain circumstances. If this drilling contract were to be terminated for cause, it would result in an approximate \$8.5 million decrease in our backlog as of 31 December 2019.

Indonesian authorities have initiated a preliminary investigation into the event and have contacted the customer, us and other parties involved in drilling the well for additional information. We are cooperating with the Indonesian authorities. We cannot predict the scope or ultimate outcome of this preliminary investigation or whether the Indonesian authorities will open a full investigation into our involvement in this matter. If the Indonesian authorities determine that we violated local laws in connection with this matter, we could be subject to penalties including environmental or other liabilities, which may have a material adverse impact on us.

Middle East dispute

On 30 July 2019, we received notice that a local partner of legacy Ensto plc in the Middle East filed a lawsuit in the UK against the company alleging it induced the breach of a non-compete provision in an agreement between the local partner and a subsidiary of the company. The lawsuit included a claim for an unspecified amount of damages in excess of £100.0 million and other relief. The company reached an agreement to settle this matter and to acquire the local partner's interest in the subsidiary for an aggregate amount of \$27.5 million. Of this amount, we concluded that \$20.3 million was attributable to the settlement of the dispute and was recognised as a loss included in other operating income/(expense), net for the year ended 31 December 2019. The remaining amount is attributable to the acquisition of the local partner's interest in the subsidiary and will be recorded to equity in 2020.

ARO funding obligations

Valaris and Saudi Aramco have agreed to take all steps necessary to ensure that ARO purchases at least 20 newbuild jackup rigs ratably over an approximate 10-year period. In January 2020, ARO ordered the first two newbuild jackups for delivery scheduled in 2022. The partners intend for the newbuild jackup rigs to be financed out of available cash from ARO's operations and/or funds available from third-party debt financing. In the event ARO has insufficient cash from operations or is unable to obtain third-party financing, each partner may periodically be required to make additional capital contributions to ARO, up to a maximum aggregate contribution of \$1.25 billion from each partner to fund the newbuild program. Each partner's commitment shall be reduced by the actual cost of each newbuild rig, on a proportionate basis. The partners agreed that Saudi Aramco, as a customer, will provide drilling contracts to ARO in connection with the acquisition of the newbuild rigs. The initial contracts for each newbuild rig will be determined using a pricing mechanism that targets a six-year payback period for construction costs on an EBITDA basis. The initial eight-year contracts will be followed by a minimum of another eight years of term, re-priced in three-year intervals based on a market pricing mechanism.

Other matters

In addition to the foregoing, we are named defendants or parties in certain other lawsuits, claims or proceedings incidental to our business and are involved from time to time as parties to governmental investigations or proceedings, including matters related to taxation, arising in the ordinary course of business. Although the outcome of such lawsuits or other proceedings cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, we do not expect these matters to have a material adverse effect on our financial position, operating results and cash flows.

25 Commitments

Capital commitments at the end of the financial year, for which no provision has been made, related to the group's newbuild rig construction and rig enhancement projects are as follows:

Group

	2019 \$ millions	2018 \$ millions
Contractual commitments	<u>248.9</u>	<u>257.9</u>

The actual timing of these expenditures may vary based on the completion of various construction milestones, which are, to a large extent, beyond the group's control.

Annual commitments under non-cancellable operating leases at the end of the financial year are as follows:

Group

	2019 Offices and equipment \$ millions	2018 Offices and equipment \$ millions
Operating lease obligations which occur:		
Within one year	25.4	32.3
In the second to fifth years inclusive	49.8	48.7
Over five years	<u>17.2</u>	<u>15.2</u>
	<u>92.4</u>	<u>96.2</u>

Company

	2019 Office and equipment \$ millions	2018 Office and equipment \$ millions
Operating lease obligations which occur:		
Within one year	0.3	1.0
In the second to fifth years inclusive	<u>1.2</u>	<u>0.7</u>
	<u>1.5</u>	<u>1.7</u>

26 Employee compensation schemes

Share based payments

In May 2018, our shareholders approved the 2018 Long-Term Incentive Plan (the "2018 LTIP") effective 1 January 2018, to provide for the issuance of non-vested share awards, share option awards and performance awards (collectively "awards"). The 2018 LTIP is similar to and replaces the company's previously adopted 2012 Long-Term Incentive Plan (the "2012 LTIP"). No further awards will be granted under the 2012 LTIP. Under the 2018 LTIP, 14.8 million shares were reserved for issuance as awards to officers, non-employee directors and key employees who are in a position to contribute materially to our growth, development and long-term success. As of 31 December 2019, there were 2.5 million shares available for issuance as awards under the 2018 LTIP. Awards may be satisfied by newly issued shares, including shares held by a subsidiary or affiliated entity, or by delivery of shares held in an affiliated employee benefit trust at the company's discretion.

In connection with the Rowan Transaction, we assumed the Amended and Restated 2013 Rowan Companies plc Incentive Plan (the "Rowan LTIP") and the non-vested share unit awards, options and share appreciation rights outstanding thereunder. As of 31

December 2019, there were 2.3 million shares remaining available for future issuance as awards under the Rowan LTIP which may be granted to employees and other service providers who were not employed or engaged with Valaris prior to the Rowan Transaction.

In connection with the Atwood Merger, we assumed Atwood's Amended and Restated 2007 Long-Term Incentive Plan (the "Atwood LTIP", and together with the 2018 LTIP and the Rowan LTIP, the "LTIP Plans") and the options outstanding thereunder. As of 31 December 2019, there were 100,000 shares remaining available for future issuance as awards under the Atwood LTIP, which may be granted to employees and other service providers who were not employed or engaged with Valaris prior to the Atwood Merger.

Non-vested share awards, cash-settled awards and non-employee director deferred awards

Grants of share awards and share units (collectively "share awards") and share units to be settled in cash ("cash-settled awards"), generally vest at rates of 20% or 33% per year, as determined by a committee of the Board of Directors at the time of grant. Additionally, non-employee directors may annually elect to receive deferred share awards. Deferred share awards vest at the earlier of the first anniversary of the grant date or the next annual meeting of shareholders following the grant but are not settled until the director terminates service from the Board. Deferred share awards are settled in cash, shares or a combination thereof at the discretion of the Compensation Committee.

During 2019, no cash-settled awards were granted while 4.5 million share unit awards were granted to our employees and non-employee directors pursuant to the LTIP Plans. Our non-vested share awards have voting and dividend rights effective on the date of grant, and our non-vested share units have dividend rights effective on the date of grant. Compensation expense for share awards is measured at fair value on the date of grant and recognised on a straight-line basis over the requisite service period (usually the vesting period). Compensation expense for cash-settled awards is remeasured each quarter with a cumulative adjustment to compensation cost during the period based on changes in our share price. Our compensation cost is reduced for forfeited awards in the period in which the forfeitures occur.

Grants of share awards

Group	2019	2018
Share Awards		
Number of share awards granted (thousands)	4,460	1,575
Weighted-average grant-date fair value of share awards granted (dollars per share)	\$11.50	\$1.54

Cash-settled Awards

Number of share awards granted (thousands)	-	29
Weighted-average grant-date fair value of share awards granted (dollars per share)	-	\$1.33

Share award related compensation cost recognised during 2019 was \$37.3 million (2018: \$41.6 million).

Share appreciation rights

Share Appreciation Rights ("SARs") granted to employees generally become exercisable in 33% increments over a three-year period and, to the extent not exercised, expire on the tenth anniversary of the date of grant. The exercise price of SARs granted under the Rowan LTIP equals the excess of the market value of the underlying shares on the date of exercise over the market value of the shares on date of grant multiplied by the number of shares covered by the SAR. The company intends to share-settle any exercises of SARs and has therefore accounted for SARs as equity awards. As of 31 December 2019, SARs granted to purchase 530,923 shares with a weighted-average exercise price of \$50.70 were outstanding under the Rowan LTIP. No SARs have been granted since 2010 under the Rowan LTIP, and there was no unrecognised compensation cost related to SARs as of 31 December 2019.

Share option awards

Share option awards ("options") granted to employees generally become exercisable in 25% increments over a four-year period or 33% increments over a three-year period or 100% after a four-year period and, to the extent not exercised, expire on either the seventh or tenth anniversary of the date of grant. The exercise price of options granted under the 2018 LTIP equals the market value of the underlying shares on the date of grant. As of 31 December 2019, options granted to purchase 375,701 (2018: 691,852) shares with a weighted-average exercise price of \$52.77 (2018: \$25.46) were outstanding under the company LTIPs. Excluding options assumed under the Atwood LTIP, no options have been granted since 2011, and there was no unrecognised compensation cost related to options as of 31 December 2019.

Performance awards

Under the company LTIPs, performance awards may be issued to our senior executive officers. The 2019 performance awards are subject to achievement of specified performance goals based on both relative and absolute total shareholder return ("TSR"), while the 2017 and 2018 performance awards are subject to achievement of specified performance goals based on relative TSR and relative return on capital employed ("ROCE") as compared to a specified peer group. The performance goals are determined by a committee or subcommittee of the Board of Directors. Awards are payable in either Valaris shares or cash upon attainment of relative TSR and ROCE performance goals. Performance awards granted since 2017 are payable in cash.

Performance awards generally vest at the end of a three-year measurement period based on attainment of performance goals. Our performance awards granted during 2017, 2018 and 2019 are classified as liability awards, all with compensation expense recognised over the requisite service period. The estimated probable outcome of attainment of the specified performance goals is based primarily on relative performance over the requisite performance period. Any subsequent changes in this estimate are recognised as a cumulative adjustment to compensation cost in the period in which the change in estimate occurs.

The aggregate grant-date fair value of performance awards granted during 2019 and 2018 totalled \$6.7 million. The aggregate fair value of performance awards vested during 2019 and 2018 totalled \$2.2 million and \$0.7 million, respectively.

During the years ended 31 December 2019 and 2018, we recognised \$3.2 million and \$8.2 million of compensation expense for performance awards, respectively. As of 31 December 2019, there was \$0.8 million of total unrecognised compensation cost related to unvested performance awards, which is expected to be recognised over a weighted-average period of 1.1 years.

Savings plans

We have savings plans, which cover eligible employees as defined within each plan. We generally make matching cash contributions to the plans. The legacy Enscos plans match 100% of the amount contributed by the employee up to a maximum of 5% of eligible salary, where the legacy Rowan plans also provide up to a 5% match of eligible salary; however, depending on the plan and the tier, the match percentage could vary. Matching contributions totaled \$18.7 million and \$14.4 million for the years ended 31 December 2019 and 2018, respectively. Any additional discretionary contributions made into the plans require approval of the Board of Directors and are generally paid in cash. As of 1 January 2019, the plans were modified such that all previous, current and future employer contributions become 100% vested. We have 1.0 million shares reserved for issuance as matching contributions under the Enscos Savings Plan.

27 Employee benefits

Prior to the Rowan Transaction, Rowan established various defined-benefit pension plans and a post-retirement health and life insurance plan that provide benefits upon retirement for certain full-time employees. The defined-benefit pension plans include: (1) the Rowan Pension Plan; (2) Restoration Plan of Rowan Companies, Inc. (the "Rowan SERP"); (3) the Norway Onshore Plan; and (4) the Norway Offshore Plan. The Retiree Life & Medical Supplemental Plan of Rowan Companies, Inc. (the "Retiree Medical Plan") provides post-retirement health and life insurance benefits. On 27 November 2017, Rowan purchased annuities to cover post-65 retiree medical benefits for current retirees as of the purchase date. The annuity purchase settled post-65 medical benefits (i.e., Health Reimbursement Account, or "HRA", amounts) for affected participants, with the insurer taking responsibility for all benefit payments on and after 1 January 2019.

As a result of the Rowan Transaction, we assumed these plans and obligations, which were remeasured as of the Transaction Date. Each of the plans has a benefit obligation that exceeds the fair value of plan assets. As of the Transaction Date, the net projected

benefit obligations totalled \$239.3 million. The net benefit obligations are included in provisions in our consolidated balance sheet, respectively. The most significant of the assumed plans is the Rowan Pension Plan, which had a net projected benefit obligation of \$202.1 million. Prior to the Transaction Date, Rowan amended the Rowan Pension Plan to freeze the plan as to any future benefit accruals. As a result, eligible employees no longer receive pay credits in the pension plan and newly hired employees are not eligible to participate in the pension plan.

The information disclosed below is in respect of the whole of the plans of the group:

	2019		
	Pension benefits \$ millions	Other benefits \$ millions	Total \$ millions
Net pension liability			
Defined benefit obligation	(832.4)	(16.1)	(848.5)
Plan assets	598.9	-	598.9
	<u>(233.5)</u>	<u>(16.1)</u>	<u>(249.6)</u>
Movements in present value of benefit obligation	2019		
	Pension \$ millions	Other \$ millions	Total \$ millions
Acquired in year	(800.1)	(15.9)	(816.0)
Interest expense	(20.9)	(0.4)	(21.3)
Current service cost	(1.5)	-	(1.5)
Re-measurement: actuarial losses	(44.3)	(0.2)	(44.5)
Benefits paid	34.1	0.4	34.5
Foreign currency adjustments	0.3	-	0.3
At end of year	<u>(832.4)</u>	<u>(16.1)</u>	<u>(848.5)</u>
Movements in fair value of plan assets			
Acquired in year	576.8	-	576.8
Interest income	15.5	-	15.5
Re-measurement: return on plan assets excluding interest income	31.2	-	31.2
Administrative expenses paid from plan assets	(3.1)	-	(3.1)
Employer contributions	12.8	-	12.8
Benefits paid	(34.1)	-	(34.1)
Foreign currency adjustments	(0.2)	-	(0.2)
At end of year	<u>598.9</u>	<u>-</u>	<u>598.9</u>
Expense recognised in the profit and loss account:	11 April 2019 – 31 December 2019 \$ millions		
Current service cost ⁽¹⁾		1.5	
Net interest on defined benefit liability		<u>5.8</u>	
Total expense recognised in profit or loss		<u>7.3</u>	

⁽¹⁾ Included in contract drilling and general and administrative expense

The total amount recognised in the statement of other comprehensive income in respect of actuarial gains and losses is a loss of \$13.3 million.

The pension plans' investment objectives for fund assets are: to achieve over the life of the plans a return equal to the plans' expected investment return or the inflation rate plus 3%, whichever is greater, to invest assets in a manner such that contributions are minimised and future assets are available to fund liabilities, to maintain liquidity sufficient to pay benefits when due, and to diversify among asset classes so that assets earn a reasonable return with an acceptable level of risk. The plans employ several active managers with proven long-term records in their specific investment discipline.

Target allocations among asset categories and the fair value of each category of plan assets are set. The plans will reallocate assets in accordance with the allocation targets, after giving consideration to the expected level of cash required to pay current benefits and plan expenses. The fair value of the plan assets and the return on those assets were as follows:

	2019 \$ millions
Equities:	
U.S. large cap	148.9
U.S. small cap	41.1
International all cap	152.4
International small cap	34.7
Real estate equities	54.9
Cash and equivalents	6.5
Aggregate	76.7
Core plus	77.6
Group annuity contracts	6.1
Total	<u>598.9</u>
Actual return on plan assets	<u>46.7</u>

Assets in the U.S. equities category include investments in common and preferred stocks (and equivalents such as American Depository Receipts and convertible bonds) and may be held through separate accounts, commingled funds or an institutional mutual fund. Assets in the international equities category include investments in a broad range of international equity securities, including both developed and emerging markets, and may be held through a commingled or institutional mutual fund. The real estate category includes investments in pooled and commingled funds whose objectives are diversified equity investments in income-producing properties. Each real estate fund is intended to provide broad exposure to the real estate market by property type, geographic location and size and may invest internationally. Securities in both the aggregate and core plus fixed income categories include U.S. government, corporate, mortgage-backed and asset-backed securities and Yankee bonds, and both categories target an average credit rating of "A" or better at all times. Individual securities in the aggregate fixed income category must be investment grade or above at the time of purchase, whereas securities in the core plus category may have a rating of "B" or above. Additionally, the core plus category may invest in non-U.S. securities. Assets in the aggregate and core plus fixed income categories are held primarily through a commingled fund and an institutional mutual fund, respectively. Group annuity contracts are invested in a combination of equity, real estate, bond and other investments in connection with a pension plan in Norway.

The following is a description of the valuation methodologies used for the pension plan assets as of 31 December 2019:

- Fair values of all U.S. equity securities, the international all cap equity securities and aggregate fixed income securities were held in commingled funds which were valued daily based on a net asset value;
- Fair value of international small cap equity securities were held in a limited partnership fund which was valued monthly based on a net asset value;
- The real estate equities were held in two accounts (a commingled fund and a limited partnership). The assets in the commingled fund were valued monthly based on a net asset value and the assets in the limited partnership were valued quarterly based on a net asset value;
- Cash and equivalents were valued at cost, which approximates fair value; and
- Fair value of mutual fund investments in core plus fixed income securities were based on quoted market prices which represent the net asset value of shares held.

Principal actuarial assumptions in respect of the defined benefit obligation at the year end were as follows:

	2019	
	Pension benefits	Other benefits
Weighted-average assumptions:		
Discount rate	3.16%	3.06%
Rate of compensation increase	-%	-%
Inflation assumption	2.50%	-%

A full actuarial valuation was carried out on 31 December 2019 by a qualified independent actuary.

In valuing the liabilities of the pension funds at 31 December 2019, mortality assumptions have been made as indicated below.

The assumptions related to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Current pensioner aged 65: 20.1 years (male), 22.0 years (female); and
- Future retiree upon reaching 65: 21.4 years (male), 23.2 years (female).

If the life expectancy had been changed to assume all members of the funds lived for one year longer, the value of the reported liabilities at 31 December 2019 would have increased by \$23.1 million.

Other key assumptions at 31 December 2019, included a weighted average discount rate of 3.16% to determine pension benefit obligations. The assumed discount rate is based upon the average yield for Moody's Aa-rated corporate bonds. A one-percentage-point decrease in the assumed discount rate would increase our recorded pension and other postretirement benefit liabilities by approximately \$108.8 million.

We currently expect to contribute approximately \$35.7 million to our pension plans in 2020 and to directly pay other post-retirement benefits of approximately \$1.5 million.

28 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share was based on the earnings/(loss) attributable to ordinary shareholders divided by the weighted-average number of ordinary shares outstanding of 173.4 million (2018: 108.5 million).

The calculation of diluted earnings/(loss) per share was based on the earnings/(loss) attributable to ordinary shareholders divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares of 173.4 million (2018: 108.5 million).

The following table is a reconciliation of the loss for the financial year attributable to Valaris shares used in our basic and diluted earnings/(loss) per share computations for years ended 31 December 2019 and 2018:

	2019 \$ millions	2018 \$ millions
Loss for financial year	(2,841.6)	(332.5)
Profit from the financial year allocated to non-vested share awards	0.1	0.5
Loss for the financial year attributable to Valaris shares	<u>(2,841.7)</u>	<u>(333.0)</u>

The following table is a reconciliation of the weighted-average shares used in our basic and diluted earnings/(loss) per share computations for years ended 31 December 2019 and 2018:

	2019 millions	2018 millions
Weighted-average shares - basic	173.4	108.5
Potentially dilutive shares	-	-
Weighted-average shares - diluted	<u>173.4</u>	<u>108.5</u>

Antidilutive share options totalling 0.3 million and 1.5 million for the years ended 31 December 2019 and 2018, respectively, were excluded from the computation of diluted EPS.

During 2016, we issued our 3.00% exchangeable senior notes due 2024 (the "2024 Convertible Notes"). See note 19 for additional information on this issuance. We have the option to settle the notes in cash, shares or a combination thereof for the aggregate amount due upon conversion. Our intent is to settle the principal amount of the 2024 Convertible Notes in cash upon conversion. If the conversion value exceeds the principal amount (i.e. our share price exceeds the exchange price on the date of conversion), we expect to deliver shares equal to the remainder of our conversion obligation in excess of the principal amount.

During each respective reporting period that our average share price exceeds the exchange price, an assumed number of shares required to settle the conversion obligation in excess of the principal amount will be included in our denominator for the computation of diluted EPS using the treasury stock method. Our average share price did not exceed the exchange price during the years ended 31 December 2019 and 2018.

29 Post balance sheet events

Coronavirus global pandemic

Subsequent to the 31 December 2019 year end, the coronavirus global pandemic and the response thereto have negatively impacted the macro-economic environment and global economy. Global oil demand has fallen sharply at the same time global oil supply has increased as a result of certain oil producers competing for market share, leading to a supply glut. As a consequence, the price of brent crude oil has fallen from around \$60 per barrel at year-end 2019 to around \$20 per barrel as of mid-April. In response to dramatically reduced oil price expectations for the near term, our customers are reviewing, and in most cases lowering significantly, their capital expenditure plans in light of revised pricing expectations. The full impact that the pandemic and the precipitous decline in oil prices will have on our results of operations, financial condition, liquidity and cash flows is uncertain due to numerous factors, including the duration and severity of the outbreak, the duration of the price decline, and the extent of disruptions to our operations. To date, there have been various impacts from the pandemic and drop in oil prices, including contract cancellations or the cancellation of drilling programs by operators, stacking rigs, inability to change crews due to travel restrictions, and workforce reductions. Our operations and business may be subject to further disruptions as a result of the spread of COVID-19 among our workforce, the extension or imposition of further public health measures affecting supply chain and logistics, and the impact of the pandemic on key customers, suppliers, and other counterparties. Rig asset carrying values under FRS 102 will be subject to material impairment charges in the financial year ending 31 December 2020.

Listing notification

On 15 April 2020, the company was notified by the New York Stock Exchange ("NYSE") that the average closing price of the company's Class A ordinary shares was below \$1.00 per share over a period of 30 consecutive trading days, which is the minimum average share price required to maintain listing on NYSE. The company has until late December 2020 to regain compliance.

VALARIS DS-8 non-drilling incident

On 7 March 2020, the VALARIS DS-8 experienced a non-drilling incident while operating offshore Angola resulting in the blowout preventer ("BOP") stack being disconnected from the riser while the rig was moving between well locations. No injuries, environmental pollution or third-party damage resulted from the BOP stack being disconnected. The company is investigating the cause of the incident. The rig had been contracted to operate through November 2020 at an operating rate of approximately \$620,000 per day. The company received a termination notice for the drilling contract from the operator. The drilling contract

represented approximately \$150.0 million of the company's contracted revenue backlog of \$2.5 billion as of 31 December 2019. The company has loss of hire insurance for \$602,500 per day after the expiration of a 45-day deductible waiting period through the end of the contract. The company will seek to recover losses incurred in accordance with the terms of such insurance policy, which would largely offset the lost backlog noted above. There can be no assurance as to the timing and amount of insurance proceeds paid to the company.

Company reorganisation transaction

The following transactions were completed and resulted in the company becoming the obligor of the Rowan third party senior notes.

On 31 January 2020, the company acquired Rowan Companies Inc. in exchange for an intercompany note payable of \$1,450.0 million with a term of ten years and an interest rate of 7.5%. Later that day, the company acquired substantially all of the assets of Rowan Companies Inc., and assumed its third party senior notes, in exchange for two intercompany notes. The notes in the amounts of \$1,570.0 million and \$220.0 million have terms of ten years and an interest rate of 7.5%. The company then sold an investment it received from the aforementioned transaction to a related party in exchange of an intercompany note receivable in the amount of \$86.0 million with a term of ten years and an interest rate of 7.5%.

On 31 January 2020, the company acquired Rowan No. 1 Limited for an intercompany note payable of \$1,137.0 million with a term of ten years and an interest rate of 7.5%.

On 3 February 2020, Rowan No. 1 Limited assumed \$5,222.0 million of notes payable due to the company, which were acquired in the Rowan Companies Inc. transaction above. The company then forgave the notes payable due from Rowan No. 1 Limited.

On 3 February 2020, Rowan Companies Inc. forgave the \$1,570.0 million note due from the company, which was issued in the Rowan Companies Inc. transaction above.

30 Group's subsidiary undertakings

The group's subsidiary undertakings, which are all consolidated, are as follows:

	Country of Incorporation and Address	Percentage of Voting Securities	Owned by the Group
Alpha Achiever Company*	Cayman Islands (1)	100%	
Alpha Admiral Company*	Cayman Islands (1)	100%	
Alpha Archer Company*	Cayman Islands (1)	100%	
Alpha Aurora Company*	Cayman Islands (1)	100%	
Alpha Falcon Company*	Cayman Islands (1)	100%	
Alpha Falcon Drilling Company*	Cayman Islands (1)	100%	
Alpha International Drilling Company S.à r.l.*	Luxembourg (2)	100%	
Alpha Leasing Drilling Limited*	Mauritius (3)	100%	
Alpha Mako Company*	Cayman Islands (1)	100%	
Alpha Manta Company*	Cayman Islands (1)	100%	
Alpha Offshore Drilling (S) Pte. Ltd.*	Singapore (4)	100%	
Alpha Offshore Drilling Services Company (Cayman Islands)*	Cayman Islands (26)	100%	
Alpha Offshore Drilling Services Company (Ghana) Limited*	Ghana (5)	100%	
Alpha Offshore Drilling Services Company LDA	Angola (68)	100%	
Alpha Offshore International Leasing Limited*	United Kingdom (6)	100%	
Alpha Orca Company*	Cayman Islands (1)	100%	
Alpha Osprey Company*	Cayman Islands (1)	100%	

Alpha South Pacific Holding Company*	Cayman Islands (1)	100%
Atlantic Maritime Services LLC	United States (50)	100%
Atwood Advantage S.à r.l.*	Luxembourg (8)	100%
Atwood Australian Waters Drilling Pty Ltd*	Australia (7)	100%
Atwood Beacon S.à r.l.*	Luxembourg (8)	100%
Atwood Deep Seas, Ltd.*	United States (9)	100%
Atwood Drilling LLC*	United States (9)	100%
Atwood Hunter LLC*	United States (9)	100%
Atwood Malta Holding Company Limited*	Malta (10)	100%
Atwood Oceanics (M) Sdn. Bhd.*	Malaysia (11)	100%
Atwood Oceanics Australia Pty. Limited*	Australia (7)	100%
Atwood Oceanics Drilling Mexico, S. de R.L. de C.V.*	Mexico (12)	100%
Atwood Oceanics Global Limited*	Cayman Islands (1)	100%
Atwood Oceanics International Limited*	Cayman Islands (1)	100%
Atwood Oceanics Leasing Limited*	Malaysia (13)	100%
Atwood Oceanics LLC*	United States (9)	100%
Atwood Oceanics Malta Limited*	Malta (10)	100%
Atwood Oceanics Management LLC*	United States (9)	100%
Atwood Oceanics Pacific Limited*	Cayman Islands (1)	100%
Atwood Oceanics Services Mexico, S. de R.L. de C.V.*	Mexico (12)	100%
Atwood Offshore (Gibraltar) Advantage Limited*	Gibraltar (14)	100%
Atwood Offshore (Gibraltar) Beacon Limited*	Gibraltar (14)	100%
Atwood Offshore (Gibraltar) Limited*	Gibraltar (14)	100%
Atwood Offshore Drilling Limited*	Hong Kong (15)	100%
Atwood Offshore Labor Company*	Cayman Islands (1)	100%
Atwood Offshore Worldwide Limited*	Cayman Islands (1)	100%
Aurora Offshore Services GmbH*	Germany (17)	100%
British American Offshore Limited	United Kingdom (53)	100%
C.A. Foravep, Forasol Venezolana de Perforaciones	Venezuela (30)	100%
Clearways Offshore Drilling Sdn. Bhd.*	Malaysia (11)	49%
Drillquest International Offshore Drilling Services Company*	Cayman Islands (1)	100%
Drillquest Offshore Company*	Cayman Islands (1)	100%
Durand Maritime S.A.S.	France (20)	100%
ENSCO (Barbados) Limited	Cayman Islands (1)	100%
ENSCO (Bermuda) Limited	Bermuda (21)	100%
Enscos (Myanmar) Limited	Myanmar (22)	100%
Enscos (Thailand) Limited	Thailand (23)	100%
ENSCO Arabia Co. Ltd.	Saudi Arabia (24)	50%
ENSCO Asia Company LLC	United States (9)	100%
ENSCO Asia Pacific Pte. Limited	Singapore (25)	100%
ENSCO Associates Company	Cayman Islands (26)	100%
ENSCO Australia Pty. Limited	Australia (27)	100%
ENSCO Capital Limited	Cayman Islands (1)	100%
ENSCO Corporate Resources LLC	United States (28)	100%
ENSCO de Venezuela, S.R.L.	Venezuela (29)	100%
Enscos Deepwater Drilling Limited	United Kingdom (37)	100%
Enscos Deepwater USA LLC	United States (28)	100%
ENSCO Development Limited	Cayman Islands (1)	100%
Enscos do Brasil Petróleo e Gás Ltda.	Brazil (31)	100%
ENSCO Drilling (Caribbean), Inc.	Cayman Islands (26)	100%

ENSCO Drilling Company (Nigeria) Ltd.	Nigeria (32)	100%
ENSCO Drilling Company LLC	United States (28)	100%
Enscor Drilling I Ltd.	Cayman Islands (26)	100%
ENSCO Drilling Mexico LLC	United States (28)	100%
Enscor Drilling Transnational Services Limited	Ghana (33)	90%
Enscor Endeavors Limited	Cayman Islands (1)	100%
Enscor France S.A.S.	France (20)	100%
ENSCO Gerudi (M) Sdn. Bhd.	Malaysia (34)	49%
ENSCO Global GmbH	Switzerland (35)	100%
Enscor Global II Ltd.	Cayman Islands (1)	100%
ENSCO Global Investments LP	United Kingdom (37)	100%
Enscor Global IV Ltd.	British Virgin Islands (36)	100%
ENSCO Global Limited	Cayman Islands (1)	100%
ENSCO Global Resources Limited	United Kingdom (37)	100%
Enscor Holdco Limited	United Kingdom (37)	100%
ENSCO Holding Company	United States (28)	100%
Enscor Holdings I Ltd.	Cayman Islands (26)	100%
Enscor Holdings II Ltd.	United States (28)	100%
Enscor Holdings III LLC	United States (28)	100%
ENSCO Holland B.V.	Netherlands (18)	100%
ENSCO Incorporated	United States (9)	100%
Enscor Intercontinental GmbH	Switzerland (35)	100%
ENSCO International Incorporated	United States (28)	100%
Enscor International Ltd.	British Virgin Islands (36)	100%
Enscor International Management GP LLC	United States (28)	100%
Enscor International Management LP LLC	United States (28)	100%
ENSCO Investments LLC	United States (38)	100%
Enscor Jersey Finance Limited	Jersey (39)	100%
ENSCO Labuan Limited	Malaysia (40)	100%
Enscor Limited	United Kingdom (37)	100%
ENSCO Limited	Cayman Islands (1)	100%
Enscor Management Corp.	British Virgin Islands (36)	100%
ENSCO Maritime Limited	Bermuda (21)	100%
Enscor Mexico Services S. de R.L.	Mexico (69)	100%
Enscor North America LLC	United States (28)	100%
Enscor Ocean 1 Company	Cayman Islands (1)	88%
Enscor Ocean 2 Company	Cayman Islands (26)	100%
ENSCO Oceanics Company LLC	United States (28)	100%
ENSCO Oceanics International Company	Cayman Islands (41)	100%
ENSCO Offshore Company	United States (28)	100%
ENSCO Offshore International Company	Cayman Islands (41)	100%
ENSCO Offshore International Holdings Limited	Cayman Islands (1)	100%
ENSCO Offshore International Inc.	Republic of the Marshall Islands (49)	100%
Enscor Offshore International LLC	United States (28)	100%
Enscor Offshore Petróleo e Gás Ltda.	Brazil (31)	100%
Enscor Offshore Services LLC	United States (28)	100%
ENSCO Offshore U.K. Limited	United Kingdom (37)	100%
ENSCO Overseas Limited	Cayman Islands (1)	100%
ENSCO Services Limited	United Kingdom (37)	100%
ENSCO Services LLC	United States (28)	100%

Enesco South Pacific LLC	United States (28)	100%
Enesco Transcontinental I LLC	United States (38)	100%
Enesco Transcontinental I LP	United Kingdom (37)	100%
Enesco Transcontinental II LLC	United States (38)	100%
Enesco Transcontinental II LP	United Kingdom (37)	100%
Enesco Transnational I Ltd.	Cayman Islands (26)	100%
Enesco Transnational II Ltd.	Cayman Islands (26)	100%
Enesco Transnational III Ltd.	Cayman Islands (26)	100%
Enesco Transnational Limited	Cayman Islands (1)	100%
ENSCO U.K. Limited	United Kingdom (37)	100%
Enesco UK Drilling Limited	United Kingdom (37)	100%
ENSCO United Incorporated	United States (28)	100%
Enesco Universal Holdings I Ltd.	Cayman Islands (1)	100%
Enesco Universal Holdings II Ltd.	Cayman Islands (1)	100%
ENSCO Universal Limited	United Kingdom (37)	100%
Enesco Vistas Limited	Cayman Islands (1)	100%
ENSCO Worldwide GmbH	Switzerland (35)	100%
Enesco Worldwide Holdings Ltd.	Cayman Islands (26)	100%
EnescoRowan Ghana Drilling Limited	Ghana (70)	100%
Foradel SDN B.H.D.	Malaysia (42)	100%
Forasub B.V.	Netherlands (18)	100%
Forinter Limited	Jersey (43)	100%
Great White Shark Limited	Gibraltar (57)	100%
Green Turtle Limited	Gibraltar (57)	100%
Inter-Drill Ltd.	Bahamas (47)	100%
International Technical Services LLC	United States (28)	100%
Manatee Limited	Malta (65)	100%
Manta Ray Limited	Malta (65)	100%
Marine Blue Limited	Gibraltar (57)	100%
Ocean Deep Drilling ESV Nigeria Limited	Nigeria (44)	49%
Offshore Drilling Services LLC	United States (28)	100%
P.T. ENSCO Sarida Offshore	Indonesia (45)	49%
Pacific Offshore Labor Company*	Cayman Islands (1)	100%
Petroleum International Pte. Ltd.	Singapore (46)	100%
Pride Arabia Co. Ltd.	Saudi Arabia (24)	100%
Pride Foramer S.A.S.	France (20)	100%
Pride Forasol Drilling Nigeria Ltd.	Nigeria (32)	100%
Pride Forasol S.A.S.	France (20)	100%
Pride Global II Ltd.	British Virgin Islands (36)	100%
Pride Global Offshore Nigeria Limited	Nigeria (32)	100%
Pride International LLC	United States (28)	100%
Pride International Management Company LP	United States (28)	100%
PT Alpha Offshore Drilling*	Indonesia (48)	100%
PT Pentawood Offshore Drilling*	Indonesia (48)	100%
Ralph Coffman Cayman Ltd	Cayman Islands (56)	100%
Ralph Coffman Limited	Gibraltar (57)	100%
Ralph Coffman Luxembourg S.à r.l.	Luxembourg (63)	100%
RCI International Inc.	Cayman Islands (56)	100%
RD International Service PTE. Limited	Singapore (46)	100%
RDC Arabia Drilling, Inc.	Cayman Islands (56)	100%

RDC Holdings Luxembourg S.a.r.l.	Luxembourg	(63)	100%
RDC Malta Limited	Malta	(65)	100%
RDC Offshore Luxembourg S.a.r.l.	Luxembourg	(63)	100%
RDC Offshore Malta Limited	Malta	(65)	100%
RoCal Cayman Limited	Cayman Islands	(56)	100%
Rowan (UK) Relentless Limited	United Kingdom	(53)	100%
Rowan (UK) Reliance Limited	United Kingdom	(53)	100%
Rowan (UK) Renaissance Limited	United Kingdom	(53)	100%
Rowan (UK) Resolute Limited	Cayman Islands	(56)	100%
Rowan 240C #3, Inc.	Cayman Islands	(56)	100%
Rowan 350 Slot Rigs LLC	United States	(50)	100%
Rowan Angola Limitada	Angola	(54)	49%
Rowan Austria GmbH	Austria	(58)	100%
Rowan California S.A.R.L.	Luxembourg	(63)	100%
Rowan Cayman Limited	Cayman Islands	(56)	100%
Rowan Companies Limited	United Kingdom	(53)	100%
Rowan Companies, Inc.	United States	(50)	100%
Rowan Deepwater Drilling (Gibraltar) Limited	Gibraltar	(57)	100%
Rowan do Brasil Servicos de Perfuracao Ltda	Brazil	(31)	100%
Rowan Drilling (Gibraltar) Limited	Gibraltar	(57)	100%
Rowan Drilling (Trinidad) Limited	Cayman Islands	(56)	100%
Rowan Drilling (U.K.) Limited	United Kingdom	(52)	100%
Rowan Drilling Cyprus Limited	Cyprus	(62)	100%
Rowan Drilling S. de R. L. de C.V.	Mexico	(59)	100%
Rowan Drilling Services Limited	Gibraltar	(57)	100%
Rowan Drilling Services Nigeria Limited	Nigeria	(66)	100%
Rowan Egypt Petroleum Services LLC	Egypt	(55)	100%
Rowan Finance LLC	United States	(50)	100%
Rowan Financial Holdings S.à r.l.	Luxembourg	(63)	100%
Rowan Finanz S.a r.l.	Luxembourg	(63)	100%
Rowan Global Drilling Services Limited	Gibraltar	(57)	100%
Rowan Holdings Luxembourg S.a.r.l.	Luxembourg	(63)	100%
Rowan International Rig Holdings S.à r.l.	Luxembourg	(63)	100%
Rowan Marine Services LLC	United States	(51)	100%
Rowan Middle East, Inc.	Cayman Islands	(56)	100%
Rowan N-Class (Gibraltar) Limited	Gibraltar	(57)	100%
Rowan No. 1 Limited	United Kingdom	(53)	100%
Rowan No. 2 Limited	United Kingdom	(53)	100%
Rowan North Sea, Inc.	Cayman Islands	(56)	100%
Rowan Norway Limited	Gibraltar	(57)	100%
Rowan Offshore (Gibraltar) Limited	Gibraltar	(57)	100%
Rowan Offshore Luxembourg S.a.r.l.	Luxembourg	(63)	100%
Rowan Relentless Luxembourg S.a.r.l.	Luxembourg	(63)	100%
Rowan Reliance Luxembourg S.a.r.l.	Luxembourg	(63)	100%
Rowan Renaissance Luxembourg S.a.r.l.	Luxembourg	(63)	100%
Rowan Resolute Luxembourg S.a.r.l.	Luxembourg	(63)	100%
Rowan Rex Limited	Cayman Islands	(56)	100%
Rowan Rigs S.a.r.l.	Luxembourg	(63)	100%
Rowan Services LLC	United States	(50)	100%
Rowan Standard Ghana Limited	Ghana	(70)	100%

Rowan UK Renaissance Onshore Limited	United Kingdom (53)	100%
Rowan US Holdings (Gibraltar) Limited	Gibraltar (57)	100%
Rowan, S. de R.L. de C.V.	Mexico (59)	100%
Rowandrill Labuan Limited	Labuan (60)	100%
Rowandrill LLC	United States (51)	100%
Rowandrill Malaysia Sdn. Bhd.	Malaysia (61)	100%
Saudi Aramco Rowan Offshore Drilling Company	Saudi Arabia (67)	50%
SKDP 1 Limited	Cyprus (62)	100%
SKDP 2 Limited	Cyprus (62)	100%
SKDP 3 Limited	Cyprus (62)	100%
Societe Maritime de Services "SOMASER" S.A.S.	France (20)	100%
Sonamer Angola Ltd.	Bahamas (47)	100%
Sonamer Drilling International Limited	Bahamas (47)	100%
Sonamer Jack-Ups Ltd.	Bahamas (47)	100%
Sonamer Limited	Bahamas (47)	100%
Sonamer Perfuracoes Ltd.	Bahamas (47)	85%
Swiftdrill Malta*	Malta (10)	100%
Swiftdrill Offshore Drilling Services Company*	Cayman Islands (1)	100%

* The year end date for these companies is 30 September.

ENSCO Maritime Limited has a year end date of 31 March. All other subsidiaries have a year end date of 31 December.

The group's subsidiary undertakings have issued ordinary shares to their parent. The functional currency of a substantial portion of the subsidiaries is the U.S. dollar.

The addresses of the group's subsidiary undertakings listed in the table above are as follows:

Address	Reference	Physical Address
(1)		P.O. Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104
(2)		46A Avenue J.F. Kennedy, L-1855, Luxembourg
(3)		DTOS, 10th Floor, Standard Chartered Tower, 19 Cybercity, Ebene, Republic of Mauritius
(4)		45 Cantonment Road, Singapore, 089748
(5)		H/No. 42 Shiashie Road, East Legon, Accra
(6)		95 Aldwych, London, WC2B4JF
(7)		35 Peel Road, O'Connor, Western Australia, 6163
(8)		20 Avenue Pasteur, L-2310, Luxembourg
(9)		1999 Bryan Street, Suite 900, Dallas, Texas, 75201, United States
(10)		Vincenti Buildings, 28/19 (Suite No. 1273) Strait Street, Valetta VLT, 1432, Malta
(11)		Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200, Kuala Lumpur, Malaysia
(12)		Bosque De Ciruelos 180, PP-101, Bosques De Las Lomas, Miguel Hidalgo, Distrito Federal, C.P. 11700, Mexico
(13)		Level 15 (A2) Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000, Labuan FT, Malaysia
(14)		Suite 1, Burns House, 19 Town Range, Gibraltar
(15)		Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
(16)		6 Chesterfield Gardens, London, W1J 5BQ, United Kingdom
(17)		Nierstiner Strasse 20, 60598 Frankfurt am Main, Germany
(18)		Lune Arena, Herikerbergweg 238, Amersterdam Zuidoost, Amsterdam, Netherlands
(19)		80 Broad Street, Monrovia, Liberia, 1000
(20)		Le Millenium 1120, Avenue du Very Galant, Lescar, France, 64230
(21)		Cumberland House, 9th Floor, One Victoria Street, Hamilton, HM 11, Bermuda

- (22) Unit 1206, 12th Fl., Sakura Tower, 339 Bogyoke Aung San Road, Kyauktada Township, Yangon, Republic of Myanmar
- (23) 25th Floor, Abdulrahim Place, 990 Rama IV Road, Bangrak, Bangkok, Thailand, 10500
- (24) Al-Khobar, Homoud Street, Postal Code 31932, Al-Khobar, Saudi Arabia, 31932
- (25) 8 Marina Blvd. # 05-02, Marina Bay Financial Centre Tower 1, Singapore, 018981
- (26) 89 Nexus Way, Camana Bay, P.O. Box 31106, Grand Cayman, Cayman Islands, KY1-1205
- (27) 38 Station Street, Subiaco, Western Australia, 6008, Australia
- (28) 1209 Orange Street, Wilmington, Delaware, 19801, United States
- (29) Torre La Castella, Piso 6, Av. Eugenio Mendoza, Las Castellana, Caracas, Venezuela
- (30) Edificio Atlantic, Piso 6, Los Palos Grandes, Caracas, 1060, Venezuela
- (31) Rua Internacional No. 1000, Granja dos Cavaleiros, Macae-RJ, Brazil, CEP27.901-0
- (32) 1, Murtala Muhammed Drive, Ikoyi, Lagos, Nigeria
- (33) House No. 2, Beach Road, Sekondi Takoradi Metropolitan, Takoradi, Ghana
- (34) B-13-15, Level 13. Menara Prima Tower B, Jalan PJU 1/39, Dataran Prima, Petaling Jaya, Selangor Darul Ehsan, Malaysia, 47301
- (35) Baarermattstrasse 8A, Baar (Zug), Switzerland, 6340
- (36) Kingston Chambers, Post Office Box 173, Road Town, Tortola, British Virgin Islands, VG1110
- (37) 7 Albemarle Street, London, England and Wales, W1S 4HQ, United Kingdom
- (38) 701 S. Carson St., Suite 200, Carson City, Nevada, 89701, United States
- (39) 22 Grenville St., St Helier, Jersey, JE48PX
- (40) Level 1, Lot 7, Block F, Saguking Commercial Bldg., Jalan Patau-Patau, Labuan FT, Malaysia (Labuan), 87000
- (41) One Capital Place, PO Box 847, Grand Cayman, Cayman Islands, KY1-1103
- (42) 568-9-21 9th Floor, Kompleks Mutiara, 3 1/2 Mile Jalan Ipoh, Kualu Lu, Malaysia, 51200
- (43) 11 Bath Street, St Helier, Jersey, JE2 4ST
- (44) 2 Ajose Adeogun Street, Victoria Island, Lagos, Nigeria
- (45) Wahana Graha Building, 2nd & 3rd Floor, JL. Warung Buncit Raya No. 2, Jakarta, Indonesia, 12760
- (46) 10 Collyer Quay # 10-01, Ocean Financial Centre, Singapore, 049315
- (47) East Bay Street, Ocean Centre, Montagu Foreshore, P.O. Box SS-199084, Nassau, Bahamas
- (48) Gedung Plaza Bapindo, Menara Mandiri Lt. 16, Jl. Jend. Sudirman Kav. 54-55, Senayan, Kevayoran Baru Jakarta Selatan DKI, Jakarta - 12190, Indonesia
- (49) Ajeltake Road, Ajeltake Island, Majuro Marshall Islands MH96960
- (50) Corporation Service Company / 2711 Centerville Road, Ste 400, Wilmington, Delaware 19808, USA
- (51) Corporation Service Company - d/b/a CSC-Lawyers Incorporating Service Company, 211 E. 7th Street, Suite 620, Austin, Texas 78701-3218, USA
- (52) CMS Cameron McKenna LLP, 6 Queens Road, Aberdeen, Scotland AB12 3HT United Kingdom
- (53) Cannon Place, 78 Cannon Street, London EC4N 6AF, United Kingdom
- (54) Condominio Belas Businesse Park, Torre Benguela apart 114, Talatona, Luanda
- (55) 11 Metwally El-Shaaraway Street, First Floor, Postal Code Hareya, Heliopolis, 11361 Sheraton, Heliopolis, Cairo, Egypt
- (56) 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands
- (57) Suite 1 Burns House, 19 Town Range, Gibraltar
- (58) Nottendorfer Gasse 11, 1030 Vienna, Austria
- (59) Bosque de Ciruelos 180, Piso Principal 101, Bosques de las Lomas, 11700, Mexico, D.F.
- (60) Level 1, Lot 7, Block F Saguking Commercial Building Jalan Patau-Patau 87000 Labuan, F.T. Malaysia
- (61) Level 21, Suite 21.0, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia
- (62) Spyrou Kyprianou 47, 1st Floor, Mesa Geitonia, 4004 Limassol, Cyprus
- (63) 48, Boulevard Grande-Duchesse Charlotte L-1330 Luxembourg, Grand-Duchy of Luxembourg
- (64) Rua Teixeira de Freitas, No. 31, 9th floor - part, Centro, Rio de Janeiro - RJ 20021-350
- (65) Level 2, West Mercury Tower, The Exchange Financial & Business Centre, Elia Zammit Street, St. Julian's STJ 3155, Malta
- (66) Adcax Nominees Limited, 9th Floor, St. Nicholas House, Catholic Mission Street, Lagos Island, Lagos, Nigeria
- (67) King Saud Road, P.O. Box 493, Al-Khobar, King of Saudi Arabia, 31952, Saudi Arabia
- (68) Rua Eduardo Mondellane, 38, Angola
- (69) Avenida 4 Oriente, Lote 16, Between Calle 1 Sur and 2 Sur, Ciudad del Carmen, State of Campeche, Mexico
- (70) 8701 The Octagon, Barnes Road Accra, Accra Metropolitan, Ghana, Ghana

BOARD OF DIRECTORS

William E. Albrecht (2) (3)

Non-Executive Chairman of the Board of California Resources Corporation

Frederick Arnold (1) (4)

Retired Financial Executive

Mary E. Francis CBE (1) (2)

Former Senior Civil Servant in British Treasury and Prime Minister's Office (Retired)

Georges J. Lambert (4)

Former Partner and Senior Vice President of The Capital Group (Retired)

Suzanne Nimocks (3)

Former Director (Senior Partner) of McKinsey & Company (Retired)

Thierry Pilenko (2) (3)

Former Executive Chairman of TechnipFMC plc (Retired)

Keith O. Rattie (1)

Former Chairman, President and Chief Executive Officer Questar Corporation (Retired)

Paul E. Rowsey, III (2) (3)

Former President and Chief Executive Officer of Compatriot Capital Inc. (Retired)

Charles L. Szews (1) (4)

Former Chief Executive Officer of Oshkosh Corporation (Retired)

Adam Weitzman (3) (4)

Partner at Luminus Management

Thomas Burke

President and Chief Executive Officer of Valaris plc

Carl Trowell

Executive Chairman of the Board

(1) Audit Committee

(2) Nominating, Governance and Sustainability Committee

(3) Compensation Committee

(4) Finance Committee

EXECUTIVE MANAGEMENT

Thomas Burke

President and Chief Executive Officer

Jonathan Baksh

Executive Vice President and Chief Financial Officer

Gilles Luca

Senior Vice President and Chief Operating Officer

Alan Quintero

Senior Vice President, Business Development

Michael T. McGuinty

Senior Vice President, General Counsel and Secretary

Jack Winton

Vice President, Corporate Strategy and Integration

Maria Silva

Vice President, Human Resources

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