

ROWAN COMPANIES PLC

Form 10-Q

November 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

1-5491

Commission File Number

Rowan Companies plc

(Exact name of registrant as specified in its charter)

England and Wales

(State or other jurisdiction of  
incorporation or organization)

98-1023315

(I.R.S. Employer  
Identification No.)

2800 Post Oak Boulevard, Suite 5450, Houston, Texas

(Address of principal executive offices)

(713) 621-7800

(Registrant's telephone number, including area code)

77056-6189

(Zip Code)

Inapplicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

The number of Class A ordinary shares, \$0.125 par value, outstanding at October 31, 2013, was 124,236,421.

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ROWAN COMPANIES PLC

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROWAN COMPANIES PLC AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(Unaudited)

|                                                | September 30,<br>2013 | December 31,<br>2012 |
|------------------------------------------------|-----------------------|----------------------|
| ASSETS                                         |                       |                      |
| CURRENT ASSETS:                                |                       |                      |
| Cash and cash equivalents                      | \$1,008,879           | \$1,024,008          |
| Receivables - trade and other                  | 496,356               | 423,839              |
| Prepaid expenses and other current assets      | 55,258                | 55,121               |
| Deferred tax assets - net                      | 18,876                | 26,628               |
| Assets of discontinued operations              | 23,687                | 22,954               |
| Total current assets                           | 1,603,056             | 1,552,550            |
| PROPERTY, PLANT AND EQUIPMENT:                 |                       |                      |
| Drilling equipment                             | 6,949,524             | 6,764,046            |
| Construction in progress                       | 942,606               | 756,308              |
| Other property and equipment                   | 151,699               | 140,739              |
| Property, plant and equipment - gross          | 8,043,829             | 7,661,093            |
| Less accumulated depreciation and amortization | 1,746,007             | 1,589,364            |
| Property, plant and equipment - net            | 6,297,822             | 6,071,729            |
| Other assets                                   | 63,407                | 75,208               |
| TOTAL ASSETS                                   | \$7,964,285           | \$7,699,487          |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS (continued)  
 (In thousands, except shares)  
 (Unaudited)

|                                                                                                                                                  | September 30,<br>2013 | December 31,<br>2012 |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>LIABILITIES AND EQUITY</b>                                                                                                                    |                       |                      |
| <b>CURRENT LIABILITIES:</b>                                                                                                                      |                       |                      |
| Accounts payable - trade                                                                                                                         | \$95,568              | \$83,004             |
| Deferred revenues                                                                                                                                | 67,700                | 52,340               |
| Accrued pension and other postretirement benefits                                                                                                | 5,681                 | 23,392               |
| Accrued compensation and related employee costs                                                                                                  | 49,513                | 43,732               |
| Accrued income taxes                                                                                                                             | 4,004                 | 26,088               |
| Accrued interest                                                                                                                                 | 26,692                | 27,711               |
| Other current liabilities                                                                                                                        | 10,033                | 16,572               |
| Liabilities of discontinued operations                                                                                                           | 20,122                | 21,255               |
| Total current liabilities                                                                                                                        | 279,313               | 294,094              |
| Long-term debt                                                                                                                                   | 2,008,926             | 2,009,598            |
| Other liabilities                                                                                                                                | 419,639               | 390,199              |
| Deferred income taxes - net                                                                                                                      | 488,822               | 473,872              |
| Commitments and contingent liabilities (Note 4)                                                                                                  | —                     | —                    |
| <b>SHAREHOLDERS' EQUITY:</b>                                                                                                                     |                       |                      |
| Class A Ordinary Shares, \$0.125 par value, 124,778,407 and 124,740,407 shares issued at September 30, 2013, and December 31, 2012, respectively | 15,597                | 15,593               |
| Additional paid-in capital                                                                                                                       | 1,398,181             | 1,372,135            |
| Retained earnings                                                                                                                                | 3,569,842             | 3,366,964            |
| Cost of 541,837 and 529,387 treasury shares at September 30, 2013, and December 31, 2012, respectively                                           | (5,939)               | (1,886)              |
| Accumulated other comprehensive loss                                                                                                             | (210,096)             | (221,082)            |
| Total shareholders' equity                                                                                                                       | 4,767,585             | 4,531,724            |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                                                                              | <b>\$7,964,285</b>    | <b>\$7,699,487</b>   |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands, except per share amounts)

(Unaudited)

|                                                        | Three months ended September 30, |           | Nine months ended September 30, |             |
|--------------------------------------------------------|----------------------------------|-----------|---------------------------------|-------------|
|                                                        | 2013                             | 2012      | 2013                            | 2012        |
| REVENUES                                               | \$382,808                        | \$353,910 | \$1,185,929                     | \$1,038,405 |
| COSTS AND EXPENSES:                                    |                                  |           |                                 |             |
| Direct operating costs (excluding items below)         | 211,827                          | 188,152   | 637,340                         | 558,405     |
| Depreciation and amortization                          | 69,274                           | 63,027    | 200,421                         | 183,323     |
| Selling, general and administrative                    | 33,263                           | 25,780    | 95,957                          | 73,934      |
| Gain on disposals of property and equipment            | (65                              | ) (559    | ) (18,979                       | ) (2,678    |
| Material charges and other operating expenses          | —                                | 18,174    | —                               | 30,871      |
| Total costs and expenses                               | 314,299                          | 294,574   | 914,739                         | 843,855     |
| INCOME FROM OPERATIONS                                 | 68,509                           | 59,336    | 271,190                         | 194,550     |
| OTHER INCOME (EXPENSE):                                |                                  |           |                                 |             |
| Interest expense, net of interest capitalized          | (17,111                          | ) (13,690 | ) (53,377                       | ) (37,940   |
| Loss on extinguishment of debt                         | —                                | (10,456   | ) —                             | (22,223     |
| Interest income                                        | 417                              | 263       | 1,144                           | 523         |
| Other - net                                            | (368                             | ) (505    | ) (1,605                        | ) 710       |
| Total other income (expense) - net                     | (17,062                          | ) (24,388 | ) (53,838                       | ) (58,930   |
| INCOME FROM CONTINUING OPERATIONS                      |                                  |           |                                 |             |
| BEFORE INCOME TAXES                                    | 51,447                           | 34,948    | 217,352                         | 135,620     |
| (Benefit) provision for income taxes                   | (453                             | ) 8,533   | 14,474                          | 2,858       |
| NET INCOME FROM CONTINUING OPERATIONS                  | 51,900                           | 26,415    | 202,878                         | 132,762     |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX | —                                | 1,164     | —                               | (6,231      |
| NET INCOME                                             | \$51,900                         | \$27,579  | \$202,878                       | \$126,531   |
| INCOME (LOSS) PER SHARE - BASIC:                       |                                  |           |                                 |             |
| Income from continuing operations                      | \$0.42                           | \$0.21    | \$1.64                          | \$1.08      |
| Discontinued operations                                | \$—                              | \$0.01    | \$—                             | \$(0.05     |
| Net income                                             | \$0.42                           | \$0.22    | \$1.64                          | \$1.03      |
| INCOME (LOSS) PER SHARE - DILUTED:                     |                                  |           |                                 |             |
| Income from continuing operations                      | \$0.42                           | \$0.21    | \$1.63                          | \$1.07      |
| Discontinued operations                                | \$—                              | \$0.01    | \$—                             | \$(0.05     |
| Net income                                             | \$0.42                           | \$0.22    | \$1.63                          | \$1.02      |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|                                                                                                                                                                                                                                                       | Three months ended September 30, |          | Nine months ended September 30, |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                                                                                                                                                                                                                                       | 2013                             | 2012     | 2013                            | 2012      |
| NET INCOME                                                                                                                                                                                                                                            | \$51,900                         | \$27,579 | \$202,878                       | \$126,531 |
| OTHER COMPREHENSIVE INCOME:                                                                                                                                                                                                                           |                                  |          |                                 |           |
| Pension and other postretirement benefit adjustments, net of income taxes of \$1,993 and \$1,845 for the three months ended September 30, 2013 and 2012, and \$5,915 and \$5,494 for the nine months ended September 30, 2013 and 2012, respectively: |                                  |          |                                 |           |
| Amortization of net loss                                                                                                                                                                                                                              | 4,500                            | 4,131    | 13,359                          | 12,305    |
| Amortization of transition obligation                                                                                                                                                                                                                 | —                                | 77       | —                               | 231       |
| Amortization of prior service credit                                                                                                                                                                                                                  | (799)                            | (782)    | (2,373)                         | (2,333)   |
|                                                                                                                                                                                                                                                       | 3,701                            | 3,426    | 10,986                          | 10,203    |
| COMPREHENSIVE INCOME                                                                                                                                                                                                                                  | \$55,601                         | \$31,005 | \$213,864                       | \$136,734 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|                                                                         | Nine months ended September 30, |                   |
|-------------------------------------------------------------------------|---------------------------------|-------------------|
|                                                                         | 2013                            | 2012              |
| <b>CASH PROVIDED BY OPERATIONS:</b>                                     |                                 |                   |
| Net income                                                              | \$ 202,878                      | \$ 126,531        |
| Adjustments to reconcile net income to net cash provided by operations: |                                 |                   |
| Depreciation and amortization                                           | 200,421                         | 183,323           |
| Deferred income taxes                                                   | (9,928)                         | (5,068)           |
| Provision for pension and postretirement benefits                       | 22,810                          | 27,813            |
| Share-based compensation expense                                        | 27,319                          | 20,108            |
| Gain on disposals of property, plant and equipment                      | (18,979)                        | (2,678)           |
| Postretirement benefit claims paid                                      | (2,759)                         | (3,050)           |
| Contributions to pension plans                                          | (18,609)                        | (41,761)          |
| Asset impairment charges                                                | —                               | 2,896             |
| Write-off of deferred debt issuance costs                               | —                               | 690               |
| Changes in current assets and liabilities:                              |                                 |                   |
| Receivables - trade and other                                           | (49,233)                        | (115,873)         |
| Prepaid expenses and other current assets                               | (137)                           | (20,029)          |
| Accounts payable                                                        | 16,032                          | (1,115)           |
| Accrued income taxes                                                    | (18,653)                        | (2,259)           |
| Deferred revenues                                                       | 15,360                          | (245)             |
| Other current liabilities                                               | (24,118)                        | 10,349            |
| Net changes in other noncurrent assets and liabilities                  | 49,628                          | 9,870             |
| Net cash provided by operations                                         | 392,032                         | 189,502           |
| <b>CASH USED IN INVESTING ACTIVITIES:</b>                               |                                 |                   |
| Capital expenditures                                                    | (455,164)                       | (566,089)         |
| Proceeds from disposals of property, plant and equipment                | 42,295                          | 10,553            |
| Net cash used in investing activities                                   | (412,869)                       | (555,536)         |
| <b>CASH PROVIDED BY FINANCING ACTIVITIES:</b>                           |                                 |                   |
| Proceeds from borrowings                                                | —                               | 493,415           |
| Debt issue costs                                                        | —                               | (799)             |
| Repayments of borrowings                                                | —                               | (238,453)         |
| Excess tax benefits from share-based compensation                       | 977                             | 1,153             |
| Proceeds from exercise of share options                                 | 2,911                           | 155               |
| Other                                                                   | 1,820                           | —                 |
| Net cash provided by financing activities                               | 5,708                           | 255,471           |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                            | <b>(15,129)</b>                 | <b>(110,563)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                   | <b>1,024,008</b>                | <b>438,853</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                         | <b>\$ 1,008,879</b>             | <b>\$ 328,290</b> |

See Notes to Unaudited Condensed Consolidated Financial Statements.



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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

|                                                                   | Shares<br>outstanding | Class A<br>ordinary<br>shares/<br>Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Treasury<br>shares | Accumulated<br>other<br>comprehensive<br>income (loss) | Total<br>shareholders'<br>equity |
|-------------------------------------------------------------------|-----------------------|---------------------------------------------------|----------------------------------|----------------------|--------------------|--------------------------------------------------------|----------------------------------|
| Balance, January 1, 2012                                          | 123,581               | \$ 15,947                                         | \$ 1,478,233                     | \$ 3,186,362         | \$(128,884)        | \$(225,671)                                            | \$ 4,325,987                     |
| Net shares issued (acquired) under share-based compensation plans | 553                   | 64                                                | (21,362)                         | —                    | 17,483             | —                                                      | (3,815)                          |
| Share-based compensation                                          | —                     | —                                                 | 18,252                           | —                    | —                  | —                                                      | 18,252                           |
| Excess tax benefit from share-based compensation plans            | —                     | —                                                 | 1,153                            | —                    | —                  | —                                                      | 1,153                            |
| Retirement benefit adjustments, net of taxes of \$5,494           | —                     | —                                                 | —                                | —                    | —                  | 10,203                                                 | 10,203                           |
| Cancellation of treasury shares                                   | —                     | (419)                                             | (109,068)                        | —                    | 109,487            | —                                                      | —                                |
| Other                                                             | 52                    | —                                                 | —                                | —                    | —                  | —                                                      | —                                |
| Net income                                                        | —                     | —                                                 | —                                | 126,531              | —                  | —                                                      | 126,531                          |
| Balance, September 30, 2012                                       | 124,186               | \$ 15,592                                         | \$ 1,367,208                     | \$ 3,312,893         | \$(1,914)          | \$(215,468)                                            | \$ 4,478,311                     |
| Balance, January 1, 2013                                          | 124,211               | \$ 15,593                                         | \$ 1,372,135                     | \$ 3,366,964         | \$(1,886)          | \$(221,082)                                            | \$ 4,531,724                     |
| Net shares issued (acquired) under share-based compensation plans | 26                    | 4                                                 | 2,331                            | —                    | (4,053)            | —                                                      | (1,718)                          |
| Share-based compensation                                          | —                     | —                                                 | 20,918                           | —                    | —                  | —                                                      | 20,918                           |
| Excess tax benefit from share-based compensation plans            | —                     | —                                                 | 977                              | —                    | —                  | —                                                      | 977                              |
| Retirement benefit adjustments, net of taxes of \$5,915           | —                     | —                                                 | —                                | —                    | —                  | 10,986                                                 | 10,986                           |
| Other                                                             | —                     | —                                                 | 1,820                            | —                    | —                  | —                                                      | 1,820                            |
| Net income                                                        | —                     | —                                                 | —                                | 202,878              | —                  | —                                                      | 202,878                          |
| Balance, September 30, 2013                                       | 124,237               | \$ 15,597                                         | \$ 1,398,181                     | \$ 3,569,842         | \$(5,939)          | \$(210,096)                                            | \$ 4,767,585                     |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Nature of Operations

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

The financial statements included in this Form 10-Q have been prepared without audit in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission. Certain information and notes have been condensed or omitted as permitted by those rules and regulations. Management believes the accompanying financial statements contain all adjustments, which are of a normal recurring nature unless otherwise noted, necessary for a fair statement of the results for the interim periods presented. The Company’s results of operations and cash flows for the interim periods are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

The Company is a major provider of international and domestic offshore oil and gas contract drilling services and provides its services utilizing a fleet of 30 self-elevating mobile offshore “jack-up” drilling units. The Company’s primary focus is on high-specification and premium jack-up rigs, which its customers use for exploratory and development drilling and associated drilling services. Additionally, the Company has four ultra-deepwater drillships under construction. The Rowan Renaissance is scheduled for delivery in December 2013 and expected to commence operations under a three-year contract in late March 2014. The Rowan Resolute is scheduled for delivery in June 2014 and expected to commence operations under a three-year contract in late September 2014, and the Rowan Reliance is scheduled for delivery in October 2014 and expected to commence operations under a three-year contract in late January 2015. The Rowan Relentless is scheduled for delivery in March 2015 and is not yet under contract.

The Company conducts offshore drilling operations in various markets throughout the world, which currently include the United Kingdom (U.K.) and Norwegian sectors of the North Sea, the Middle East, Southeast Asia, the U.S. Gulf of Mexico (US GOM), Trinidad and Egypt.

The financial information as of December 31, 2012, presented in this report does not constitute the Company’s statutory accounts for that year within the meaning of the U.K. Companies Act 2006. Statutory accounts as required by the Companies Act 2006 for the year ended December 31, 2012, have been delivered to the Registrar of Companies in the U.K. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

Note 2 – Earnings Per Share

A reconciliation of basic and diluted shares follows (in thousands):

|                                  |                                 |
|----------------------------------|---------------------------------|
| Three months ended September 30, | Nine months ended September 30, |
|----------------------------------|---------------------------------|

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|                                                          | 2013    | 2012    | 2013    | 2012    |
|----------------------------------------------------------|---------|---------|---------|---------|
| Average common shares outstanding - basic                | 123,635 | 123,132 | 123,468 | 122,947 |
| Effect of dilutive securities - share-based compensation | 966     | 905     | 915     | 850     |
| Average common shares - diluted                          | 124,601 | 124,037 | 124,383 | 123,797 |

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

Share options and appreciation rights granted under share-based compensation plans are antidilutive and excluded from diluted earnings per share when their exercise or strike price exceeds the average market price during the period. The following table sets

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

forth antidilutive shares excluded from diluted earnings per share. Such securities could potentially dilute earnings per share in the future (in thousands):

|                                     | Three months ended September 30, |      | Nine months ended September 30, |      |
|-------------------------------------|----------------------------------|------|---------------------------------|------|
|                                     | 2013                             | 2012 | 2013                            | 2012 |
| Employee and director share options | 53                               | 42   | 53                              | 42   |
| Share appreciation rights           | 978                              | 566  | 1,012                           | 616  |
| Total potentially dilutive shares   | 1,031                            | 608  | 1,065                           | 658  |

## Note 3 – Pension and Other Postretirement Benefits

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

Recognized net periodic pension cost included the following components (in thousands):

|                                      | Three months ended September 30, |          | Nine months ended September 30, |           |
|--------------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                      | 2013                             | 2012     | 2013                            | 2012      |
| Service cost                         | \$3,102                          | \$2,750  | \$8,833                         | \$8,192   |
| Interest cost                        | 7,558                            | 7,653    | 22,253                          | 22,791    |
| Expected return on plan assets       | (9,658)                          | ) (9,469 | ) (28,686                       | ) (28,203 |
| Amortization of net loss             | 7,171                            | 4,887    | 20,797                          | 18,691    |
| Settlement loss                      | —                                | 5,126    | —                               | 5,126     |
| Amortization of prior service credit | (1,194                           | ) (1,171 | ) (3,543                        | ) (3,488  |
| Total net pension cost               | 6,979                            | 9,776    | 19,654                          | 23,109    |
| Less: Discontinued operations        | —                                | (1,370   | ) —                             | 54        |
| Continuing operations                | \$6,979                          | \$11,146 | \$19,654                        | \$23,055  |

Recognized other postretirement benefit cost included the following components (in thousands):

|                                         | Three months ended September 30, |         | Nine months ended September 30, |         |
|-----------------------------------------|----------------------------------|---------|---------------------------------|---------|
|                                         | 2013                             | 2012    | 2013                            | 2012    |
| Service cost                            | \$365                            | \$463   | \$1,072                         | \$1,378 |
| Interest cost                           | 757                              | 952     | 2,194                           | 2,836   |
| Amortization of net loss                | —                                | 82      | —                               | 243     |
| Amortization of transition obligation   | —                                | 120     | —                               | 357     |
| Amortization of prior service credit    | (37                              | ) (37   | ) (110                          | ) (110  |
| Total other postretirement benefit cost | \$1,085                          | \$1,580 | \$3,156                         | \$4,704 |



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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the nine months ended September 30, 2013, the Company contributed \$21.4 million to its pension and other postretirement benefit plans and expects to make additional contributions to such plans totaling approximately \$1.2 million for the remainder of 2013.

## Note 4 – Commitments and Contingent Liabilities

The following table presents the status of the Company's rigs under construction as of September 30, 2013. Amounts include capitalized interest and an estimate for project contingencies (in millions):

|                      | Scheduled<br>delivery date | Total<br>estimated<br>project costs | Total costs<br>incurred<br>through<br>September<br>30, 2013 | Projected<br>costs for the<br>remainder of<br>2013 | Projected<br>costs in<br>2014 | Projected<br>costs in<br>2015 | Total future<br>costs |
|----------------------|----------------------------|-------------------------------------|-------------------------------------------------------------|----------------------------------------------------|-------------------------------|-------------------------------|-----------------------|
| Rowan<br>Renaissance | December 2013              | \$728                               | \$260                                                       | \$457                                              | \$11                          | \$—                           | \$468                 |
| Rowan Resolute       | June 2014                  | 736                                 | 270                                                         | 29                                                 | 437                           | —                             | 466                   |
| Rowan Reliance       | October 2014               | 730                                 | 199                                                         | 19                                                 | 508                           | 4                             | 531                   |
| Rowan<br>Relentless  | March 2015                 | 751                                 | 183                                                         | 12                                                 | 108                           | 448                           | 568                   |
|                      |                            | \$2,945                             | \$912                                                       | \$517                                              | \$1,064                       | \$452                         | \$2,033               |

In addition, the Company expects to incur approximately \$49 million of capital expenditures for the remainder of 2013 for riser gas-handling equipment, software certifications and drillship fleet spares to support its deepwater operations.

In October 2013, Hyundai Heavy Industries Co., Ltd., the builder of the four drillships currently under construction, extended the Company's option for construction of a fifth ultra-deepwater drillship to December 31, 2013, with expected delivery of the drillship in the first quarter of 2016.

The Company periodically employs letters of credit in the normal course of its business, and had outstanding letters of credit of approximately \$26.0 million at September 30, 2013.

**Uncertain tax positions** – In 2009, the Company recognized a \$25.4 million tax benefit as a result of applying the facts of a third-party tax case to the Company's situation. That case provided a more favorable tax treatment for certain foreign contracts entered into in prior years. This position is currently under audit and is initially being challenged by field agents of the U.S. Internal Revenue Service. We have appealed their findings and expect to come to a conclusion in the near term. We plan to vigorously defend our position and continue to believe that we will more likely than not prevail.

**Asbestos related claims** – We are from time to time a party to various lawsuits filed by current or former employees that are incidental to our operations in which the claimants seek unspecified amounts of monetary damages for personal injury, including injuries purportedly resulting from exposure to asbestos on our drilling rigs. At September 30, 2013, there were approximately 27 asbestos related lawsuits in which we are one of many defendants. These lawsuits have been filed in the state courts of Louisiana, Mississippi and Texas. We intend to

vigorously defend against the litigation. We are unable to predict the ultimate outcome of these lawsuits; however, we do not believe the ultimate resolution of these matters will have a material adverse effect on our financial position, results of operations or cash flows.

The Company is involved in various other legal proceedings incidental to its businesses and is vigorously defending its position in all such matters. Management believes that there are no known contingencies, claims or lawsuits, other than those described above, that could have a material effect on the Company's financial position, results of operations or cash flows.

#### Note 5 – Share-Based Compensation

Effective March 6, 2013, the Company approved a policy with respect to the vesting of certain awards granted under its long-term incentive award plans. Under the policy, share appreciation rights, restricted share units, performance units and certain other

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

awards, other than restricted shares, granted to employees on or after March 6, 2013, will become fully vested upon retirement, subject to the holder having attained the age of 60 and five years of continuous service at the date of retirement, and subject to the awards having been granted at least six months prior to retirement. The effect of the policy is to reduce the period over which compensation expense for share-based awards granted on or after March 6, 2013, will be recognized to a minimum of six months for employees that are retirement eligible at the date of the grant up to the maximum 36-month normal vesting period, depending on the date a holder becomes eligible to retire.

On March 6, 2013, the Company granted restricted share units and share appreciation rights with a grant-date fair value aggregating \$25.2 million. The aggregate fair value, net of estimated forfeitures, was \$24.2 million, which will be recognized as compensation expense over a weighted-average period of 2.4 years from the grant date. For purposes of computing the grant-date fair value of share appreciation rights, the Company uses the simplified method for determining the expected life because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term, as permitted under US GAAP.

Additionally, on March 6, 2013, the Company granted to certain members of management performance units (P-Units) that have a target value of \$100 per unit. The aggregate amount ultimately payable with respect to the P-Units will be determined by the Company's total shareholder return (TSR) ranking compared to a group of peer companies over a three-year period ending December 31, 2015, and could range from zero to \$11.6 million depending on performance. Twenty-five percent of the P-Units' value is determined by the Company's relative TSR ranking for each one-year period ended December 31, 2013, 2014, and 2015, respectively, and 25% of the P-Units' value is determined by the relative TSR ranking for the three-year period ended December 31, 2015. Vesting of awards and any payment with respect to the P-Units would not occur until the third anniversary following the grant date. Any employee who terminates employment with the Company prior to the third anniversary for any reason other than retirement will not receive any payment with respect to P-Units unless approved by the Compensation Committee. Any amount payable under the P-Units will be settled in cash.

The grant-date fair value of the P-Units was estimated to be \$5.8 million. Fair value was estimated using a Monte Carlo simulation model, which considers the probabilities of the Company's TSR ranking at the end of each performance period, and the amount of the payout at each rank to determine the probability-weighted expected payout. The Company uses liability accounting to account for the P-Units. Compensation is recognized on a straight-line basis over a maximum period of three years from the grant date and is adjusted for changes in fair value through the vesting date. In the event there is no payout of the P-Units for any 25% tranche as the result of a failure to meet the performance thresholds, any previously recognized expense relating to that tranche would be reversed at the end of the tranche's performance period.

At September 30, 2013, the Company had approximately \$37.4 million of estimated unrecognized share-based compensation, which is expected to be recognized as compensation expense over a remaining weighted-average period of 1.8 years.

Note 6 – Other Financial Statement Disclosures

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

Level 1 – Quoted prices for identical instruments in active markets,

Level 2 – Quoted market prices for similar instruments in active markets; quoted prices for identical instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as those used in pricing models or discounted cash flow methodologies, for example.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Those financial instruments that are required to be measured at fair value include the Company's cash equivalents, trade receivables and trade payables, whose carrying value approximated their fair values due to their short maturities.

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Those financial instruments not required to be measured at fair value consist of the Company's publicly traded debt securities. Fair values of the Company's debt securities were provided by one to two brokers who make a market in our debt securities and were measured using a market-approach valuation technique. Fair value was determined by adding a spread based on actual trades for that security (or a trader quote where actual trades were unavailable) to the applicable benchmark Treasury security with a comparable maturity in order to derive a current yield. The yield is then used to determine a price given the individual security's coupon rate and maturity. Such inputs are considered "significant other observable inputs," which are categorized as Level 2 inputs in the fair value hierarchy. Estimated fair values and related carrying values of our long-term debt securities are shown below (in thousands):

|                               | September 30, 2013 |                | December 31, 2012 |                |
|-------------------------------|--------------------|----------------|-------------------|----------------|
|                               | Fair value         | Carrying value | Fair value        | Carrying value |
| 5% Senior Notes, due 2017     | \$434,720          | \$398,890      | \$445,568         | \$398,678      |
| 7.875% Senior Notes, due 2019 | 601,852            | 498,088        | 617,076           | 497,842        |
| 4.875% Senior Notes, due 2022 | 712,991            | 713,602        | 761,509           | 714,775        |
| 5.4% Senior Notes, due 2042   | 356,112            | 398,346        | 406,493           | 398,303        |
|                               | \$2,105,675        | \$2,008,926    | \$2,230,646       | \$2,009,598    |

Shareholders' Equity – In June 2013, the Company received \$1.8 million in cash in the settlement of a bankruptcy court claim with respect to approximately 52 thousand shares of Company stock. The treasury shares had been held on behalf of the Company by a financial services firm as a custodian. The Company accounted for the receipt as an increase to additional paid-in capital.

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-2 ("ASU 2013-2"), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-2 requires entities to disclose, among other items, the changes in accumulated balances for each component of other comprehensive income and current-period reclassifications out of accumulated other comprehensive income. The Company had accumulated other comprehensive losses (AOCL) totaling \$210.1 million and \$215.5 million at September 30, 2013 and 2012, respectively, all of which were solely attributable to pension and other postretirement benefits. All amounts reclassified from AOCL during the three and nine months ended September 30, 2013 and 2012, were attributable to amortization of pension and postretirement benefit cost and totaled \$3.7 million and \$3.4 million for the three months ended September 30, 2013 and 2012, respectively, and \$11.0 million and \$10.2 million for the nine months ended September 30, 2013 and 2012, respectively, net of tax (see Note 3). There were no other changes in the balances of AOCL during the periods ended September 30, 2012 and 2013.

Supplemental Cash Flow Information – Accrued capital expenditures, which are excluded from capital expenditures in the Condensed Consolidated Statements of Cash Flows until settlement, totaled \$37.2 million and \$41.3 million at September 30, 2013 and 2012, respectively. Interest capitalized in connection with rig construction projects totaled \$12.9 million and \$35.1 million in the three and nine months ended September 30, 2013, as compared to \$8.3 million and \$22.4 million, respectively, in the comparable period of the prior year.

Income Taxes – Rowan Companies, Inc. (RCI), our predecessor company and currently a 100%-owned subsidiary, was domiciled in the U.S. and subject to a statutory rate of 35%. Effective May 4, 2012, the date of the Company's redomestication to the U.K., the Company became subject to the U.K. statutory rate of 26% through March 31, 2012, 24% from April 1, 2012 through March 31, 2013, and 23% from April 1, 2013 through March 31, 2014.

In accordance with US GAAP for interim reporting, the Company estimates its full-year effective tax rate and applies this rate to its year-to-date pretax income. In addition, the Company separately calculates the tax impact of unusual items, if any.

The Company has not provided deferred income taxes on undistributed earnings of its non-U.K. subsidiaries, including RCI and non-U.S. subsidiaries of RCI. It is the Company's policy and intention to permanently reinvest the earnings of non-U.S. subsidiaries of RCI outside the U.S. Generally, earnings of non-U.K. subsidiaries that are not subsidiaries of RCI may be distributed to the Company without imposition of either U.K. or local country tax.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Gain on Sale of Equipment – In June 2013, the Company sold the Rowan Paris, one of the Company's older rigs, for \$40.0 million in cash and recognized a gain of \$19.2 million.

Material Charges and Other Operating Expenses – Components of material charges follow (in thousands):

|                                                | Three months ended September 30,<br>2012 | Nine months ended September 30,<br>2012 |
|------------------------------------------------|------------------------------------------|-----------------------------------------|
| Redomestication expenses                       | \$1,895                                  | \$11,696                                |
| Repair costs for EXL I                         | 8,855                                    | 8,855                                   |
| Pension settlement loss                        | 5,126                                    | 5,126                                   |
| Share-based compensation for retiring employee | 2,298                                    | 2,298                                   |
| Steel impairment costs                         | —                                        | 2,896                                   |
|                                                | \$18,174                                 | \$30,871                                |

There were no material charges reported for 2013.

Note 7 – Guarantees of Registered Securities

The following condensed consolidating financial information is presented on the equity method of accounting in accordance with Rule 3-10 of Regulation S-X in connection with the full, unconditional and irrevocable guarantee by Rowan Companies plc of the Senior Notes issued by its 100% owned subsidiary, RCI.

The financial information which follows reflects the organizational structure as of September 30, 2013. Financial information for the three and nine months ended September 30, 2012, has been recast for the effects of an internal reorganization in the fourth quarter of 2012 and is presented as though the structure at September 30, 2013, was in place at January 1, 2012.

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
Condensed Consolidating Balance Sheets  
September 30, 2013  
(in thousands)  
(unaudited)

|                                                | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| <b>CURRENT ASSETS:</b>                         |                                    |              |                                        |                              |              |
| Cash and cash equivalents                      | \$63,485                           | \$277,829    | \$667,565                              | \$—                          | \$1,008,879  |
| Receivables - trade and other                  | 287                                | 124,072      | 371,997                                | —                            | 496,356      |
| Other current assets                           | 520                                | 51,800       | 21,814                                 | —                            | 74,134       |
| Assets of discontinued operations              | —                                  | 23,687       | —                                      | —                            | 23,687       |
| Total current assets                           | 64,292                             | 477,388      | 1,061,376                              | —                            | 1,603,056    |
| Property, plant and equipment - gross          | —                                  | 1,323,938    | 6,719,891                              | —                            | 8,043,829    |
| Less accumulated depreciation and amortization | —                                  | 511,964      | 1,234,043                              | —                            | 1,746,007    |
| Property, plant and equipment - net            | —                                  | 811,974      | 5,485,848                              | —                            | 6,297,822    |
| Investments in subsidiaries                    | 4,730,856                          | 5,412,346    | —                                      | (10,143,202 )                | —            |
| Due from affiliates                            | 119                                | 1,444,284    | 965,206                                | (2,409,609 )                 | —            |
| Other assets                                   | —                                  | 35,719       | 27,688                                 | —                            | 63,407       |
|                                                | \$4,795,267                        | \$8,181,711  | \$7,540,118                            | \$(12,552,811)               | \$7,964,285  |
| <b>CURRENT LIABILITIES:</b>                    |                                    |              |                                        |                              |              |
| Accounts payable - trade                       | \$81                               | \$10,483     | \$85,004                               | \$—                          | \$95,568     |
| Deferred revenues                              | —                                  | —            | 67,700                                 | —                            | 67,700       |
| Accrued liabilities                            | —                                  | 57,089       | 38,834                                 | —                            | 95,923       |
| Liabilities of discontinued operations         | —                                  | 20,122       | —                                      | —                            | 20,122       |
| Total current liabilities                      | 81                                 | 87,694       | 191,538                                | —                            | 279,313      |
| Long-term debt                                 | —                                  | 2,008,926    | —                                      | —                            | 2,008,926    |
| Due to affiliates                              | 19,649                             | 963,024      | 1,426,936                              | (2,409,609 )                 | —            |
| Other liabilities                              | 7,952                              | 328,240      | 83,447                                 | —                            | 419,639      |
| Deferred income taxes - net                    | —                                  | 138,291      | 350,531                                | —                            | 488,822      |
| Shareholders' equity                           | 4,767,585                          | 4,655,536    | 5,487,666                              | (10,143,202 )                | 4,767,585    |
|                                                | \$4,795,267                        | \$8,181,711  | \$7,540,118                            | \$(12,552,811)               | \$7,964,285  |

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
Condensed Consolidating Balance Sheets  
December 31, 2012  
(in thousands)

|                                                | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| <b>CURRENT ASSETS:</b>                         |                                    |              |                                        |                              |              |
| Cash and cash equivalents                      | \$58,628                           | \$228,085    | \$737,295                              | \$—                          | \$1,024,008  |
| Receivables - trade and other                  | 107                                | 95,386       | 328,346                                | —                            | 423,839      |
| Other current assets                           | 293                                | 46,614       | 34,842                                 | —                            | 81,749       |
| Assets of discontinued operations              | —                                  | 22,954       | —                                      | —                            | 22,954       |
| Total current assets                           | 59,028                             | 393,039      | 1,100,483                              | —                            | 1,552,550    |
| Property, plant and equipment - gross          | —                                  | 1,311,987    | 6,349,106                              | —                            | 7,661,093    |
| Less accumulated depreciation and amortization | —                                  | 487,147      | 1,102,217                              | —                            | 1,589,364    |
| Property, plant and equipment - net            | —                                  | 824,840      | 5,246,889                              | —                            | 6,071,729    |
| Investments in subsidiaries                    | 4,562,016                          | 1,355,968    | —                                      | (5,917,984 )                 | —            |
| Due from affiliates                            | —                                  | 4,524,480    | 391,008                                | (4,915,488 )                 | —            |
| Other assets                                   | —                                  | 37,787       | 37,421                                 | —                            | 75,208       |
|                                                | \$4,621,044                        | \$7,136,114  | \$6,775,801                            | \$(10,833,472)               | \$7,699,487  |
| <b>CURRENT LIABILITIES:</b>                    |                                    |              |                                        |                              |              |
| Accounts payable - trade                       | \$1,277                            | \$23,210     | \$58,517                               | \$—                          | \$83,004     |
| Deferred revenues                              | —                                  | —            | 52,340                                 | —                            | 52,340       |
| Accrued liabilities                            | —                                  | 73,443       | 64,052                                 | —                            | 137,495      |
| Liabilities of discontinued operations         | —                                  | 21,255       | —                                      | —                            | 21,255       |
| Total current liabilities                      | 1,277                              | 117,908      | 174,909                                | —                            | 294,094      |
| Long-term debt                                 | —                                  | 2,009,598    | —                                      | —                            | 2,009,598    |
| Due to affiliates                              | 88,043                             | —            | 4,827,445                              | (4,915,488 )                 | —            |
| Other liabilities                              | —                                  | 323,778      | 66,421                                 | —                            | 390,199      |
| Deferred income taxes - net                    | —                                  | 122,814      | 351,058                                | —                            | 473,872      |
| Shareholders' equity                           | 4,531,724                          | 4,562,016    | 1,355,968                              | (5,917,984 )                 | 4,531,724    |
|                                                | \$4,621,044                        | \$7,136,114  | \$6,775,801                            | \$(10,833,472)               | \$7,699,487  |

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
Condensed Consolidating Income Statements  
Three months ended September 30, 2013  
(in thousands)  
(unaudited)

|                                                              | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|--------------------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| REVENUES                                                     | \$—                                | \$33,381     | \$ 380,307                             | \$(30,880 )                  | \$382,808    |
| COSTS AND EXPENSES:                                          |                                    |              |                                        |                              |              |
| Direct operating costs (excluding items below)               | —                                  | 8,462        | 234,245                                | (30,880 )                    | 211,827      |
| Depreciation and amortization                                | —                                  | 6,868        | 62,406                                 | —                            | 69,274       |
| Selling, general and administrative                          | 6,363                              | 1,434        | 25,466                                 | —                            | 33,263       |
| Loss (gain) on disposals of property and equipment           | —                                  | 2            | (67 )                                  | —                            | (65 )        |
| Total costs and expenses                                     | 6,363                              | 16,766       | 322,050                                | (30,880 )                    | 314,299      |
| INCOME (LOSS) FROM OPERATIONS                                | (6,363 )                           | 16,615       | 58,257                                 | —                            | 68,509       |
| OTHER INCOME (EXPENSE):                                      |                                    |              |                                        |                              |              |
| Interest expense, net of interest capitalized                | —                                  | (17,111 )    | (38 )                                  | 38                           | (17,111 )    |
| Interest income                                              | 59                                 | 122          | 274                                    | (38 )                        | 417          |
| Other - net                                                  | 2,496                              | (2,690 )     | (174 )                                 | —                            | (368 )       |
| Total other income (expense) - net                           | 2,555                              | (19,679 )    | 62                                     | —                            | (17,062 )    |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (3,808 )                           | (3,064 )     | 58,319                                 | —                            | 51,447       |
| Benefit for income taxes                                     | —                                  | (167 )       | (286 )                                 | —                            | (453 )       |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS                 | (3,808 )                           | (2,897 )     | 58,605                                 | —                            | 51,900       |
| EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX               | 55,708                             | 22,577       | —                                      | (78,285 )                    | —            |
| NET INCOME                                                   | \$51,900                           | \$19,680     | \$ 58,605                              | \$(78,285 )                  | \$51,900     |



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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
Condensed Consolidating Income Statements  
Three months ended September 30, 2012  
(in thousands)  
(unaudited)

|                                                                     | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|---------------------------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| REVENUES                                                            | \$—                                | \$39,847     | \$ 347,176                             | \$(33,113 )                  | \$353,910    |
| <b>COSTS AND EXPENSES:</b>                                          |                                    |              |                                        |                              |              |
| Direct operating costs (excluding items below)                      | (162 )                             | 7,487        | 213,940                                | (33,113 )                    | 188,152      |
| Depreciation and amortization                                       | —                                  | 13,915       | 49,112                                 | —                            | 63,027       |
| Selling, general and administrative                                 | 5,164                              | 99           | 20,517                                 | —                            | 25,780       |
| (Gain) loss on disposals of property and equipment                  | —                                  | (2,159 )     | 1,600                                  | —                            | (559 )       |
| Material charges and other operating expenses                       | 1,895                              | 8,962        | 7,317                                  | —                            | 18,174       |
| Total costs and expenses                                            | 6,897                              | 28,304       | 292,486                                | (33,113 )                    | 294,574      |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                                | (6,897 )                           | 11,543       | 54,690                                 | —                            | 59,336       |
| <b>OTHER INCOME (EXPENSE):</b>                                      |                                    |              |                                        |                              |              |
| Interest expense, net of interest capitalized                       | —                                  | (13,777 )    | 87                                     | —                            | (13,690 )    |
| Interest income                                                     | 36                                 | 126          | 101                                    | —                            | 263          |
| Loss on debt extinguishment                                         | —                                  | (10,423 )    | (33 )                                  | —                            | (10,456 )    |
| Other - net                                                         | 1                                  | (324 )       | (182 )                                 | —                            | (505 )       |
| Total other income (expense) - net                                  | 37                                 | (24,398 )    | (27 )                                  | —                            | (24,388 )    |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b> | (6,860 )                           | (12,855 )    | 54,663                                 | —                            | 34,948       |
| Provision for income taxes                                          | —                                  | 2,721        | 5,812                                  | —                            | 8,533        |
| <b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>                 | (6,860 )                           | (15,576 )    | 48,851                                 | —                            | 26,415       |
| <b>DISCONTINUED OPERATIONS, NET OF TAX</b>                          | —                                  | 1,164        | —                                      | —                            | 1,164        |
| <b>EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX</b>               | 34,439                             | 12,292       | —                                      | (46,731 )                    | —            |

|            |          |          |   |           |           |   |          |
|------------|----------|----------|---|-----------|-----------|---|----------|
| NET INCOME | \$27,579 | \$(2,120 | ) | \$ 48,851 | \$(46,731 | ) | \$27,579 |
|------------|----------|----------|---|-----------|-----------|---|----------|

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
Condensed Consolidating Income Statements  
Nine months ended September 30, 2013  
(in thousands)  
(unaudited)

|                                                              | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|--------------------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| REVENUES                                                     | \$—                                | \$93,017     | \$ 1,179,913                           | \$(87,001 )                  | \$1,185,929  |
| COSTS AND EXPENSES:                                          |                                    |              |                                        |                              |              |
| Direct operating costs (excluding items below)               | —                                  | 25,771       | 698,570                                | (87,001 )                    | 637,340      |
| Depreciation and amortization                                | —                                  | 32,144       | 168,277                                | —                            | 200,421      |
| Selling, general and administrative                          | 22,462                             | 3,885        | 69,610                                 | —                            | 95,957       |
| Loss (gain) on disposals of property and equipment           | —                                  | 231          | (19,210 )                              | —                            | (18,979 )    |
| Total costs and expenses                                     | 22,462                             | 62,031       | 917,247                                | (87,001 )                    | 914,739      |
| INCOME (LOSS) FROM OPERATIONS                                | (22,462 )                          | 30,986       | 262,666                                | —                            | 271,190      |
| OTHER INCOME (EXPENSE):                                      |                                    |              |                                        |                              |              |
| Interest expense, net of interest capitalized                | —                                  | (53,377 )    | (106 )                                 | 106                          | (53,377 )    |
| Interest income                                              | 153                                | 358          | 739                                    | (106 )                       | 1,144        |
| Other - net                                                  | 7,497                              | (7,460 )     | (1,642 )                               | —                            | (1,605 )     |
| Total other income (expense) - net                           | 7,650                              | (60,479 )    | (1,009 )                               | —                            | (53,838 )    |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (14,812 )                          | (29,493 )    | 261,657                                | —                            | 217,352      |
| (Benefit) provision for income taxes                         | —                                  | (17,165 )    | 31,639                                 | —                            | 14,474       |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS                 | (14,812 )                          | (12,328 )    | 230,018                                | —                            | 202,878      |
| EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX               | 217,690                            | 153,907      | —                                      | (371,597 )                   | —            |
| NET INCOME                                                   | \$202,878                          | \$141,579    | \$ 230,018                             | \$(371,597 )                 | \$202,878    |

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
Condensed Consolidating Income Statements  
Nine months ended September 30, 2012  
(in thousands)  
(unaudited)

|                                                              | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|--------------------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| REVENUES                                                     | \$—                                | \$ 121,110   | \$ 1,018,233                           | \$(100,938 )                 | \$ 1,038,405 |
| COSTS AND EXPENSES:                                          |                                    |              |                                        |                              |              |
| Direct operating costs (excluding items below)               | —                                  | 21,776       | 637,567                                | (100,938 )                   | 558,405      |
| Depreciation and amortization                                | —                                  | 40,588       | 142,735                                | —                            | 183,323      |
| Selling, general and administrative                          | 9,839                              | 10,009       | 54,086                                 | —                            | 73,934       |
| Gain on disposals of property and equipment                  | —                                  | (618 )       | (2,060 )                               | —                            | (2,678 )     |
| Material charges and other operating expenses                | 11,696                             | 10,319       | 8,856                                  | —                            | 30,871       |
| Total costs and expenses                                     | 21,535                             | 82,074       | 841,184                                | (100,938 )                   | 843,855      |
| INCOME (LOSS) FROM OPERATIONS                                | (21,535 )                          | 39,036       | 177,049                                | —                            | 194,550      |
| OTHER INCOME (EXPENSE):                                      |                                    |              |                                        |                              |              |
| Interest expense, net of interest capitalized                | —                                  | (37,736 )    | (204 )                                 | —                            | (37,940 )    |
| Interest income                                              | 46                                 | 267          | 210                                    | —                            | 523          |
| Loss on debt extinguishment                                  | —                                  | (21,603 )    | (620 )                                 | —                            | (22,223 )    |
| Other - net                                                  | 3                                  | (190 )       | 897                                    | —                            | 710          |
| Total other income (expense) - net                           | 49                                 | (59,262 )    | 283                                    | —                            | (58,930 )    |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (21,486 )                          | (20,226 )    | 177,332                                | —                            | 135,620      |
| Provision (benefit) for income taxes                         | —                                  | 8,173        | (5,315 )                               | —                            | 2,858        |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS                 | (21,486 )                          | (28,399 )    | 182,647                                | —                            | 132,762      |
| DISCONTINUED OPERATIONS, NET OF TAX                          | —                                  | (6,231 )     | —                                      | —                            | (6,231 )     |
| EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX               | 148,017                            | 115,733      | —                                      | (263,750 )                   | —            |
| NET INCOME                                                   | \$ 126,531                         | \$ 81,103    | \$ 182,647                             | \$(263,750 )                 | \$ 126,531   |



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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
 Statements of Comprehensive Income  
 Three months ended September 30, 2013  
 (in thousands)  
 (unaudited)

|                                                                              | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|------------------------------------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| NET INCOME                                                                   | \$51,900                           | \$19,680     | \$ 58,605                              | \$(78,285 )                  | \$51,900     |
| OTHER COMPREHENSIVE INCOME:                                                  |                                    |              |                                        |                              |              |
| Pension and other postretirement benefit<br>adjustments, net of income taxes |                                    |              |                                        |                              |              |
| Amortization of net loss                                                     | 4,500                              | 4,500        | —                                      | (4,500 )                     | 4,500        |
| Amortization of prior service credit                                         | (799 )                             | (799 )       | —                                      | 799                          | (799 )       |
|                                                                              | 3,701                              | 3,701        | —                                      | (3,701 )                     | 3,701        |
| COMPREHENSIVE INCOME                                                         | \$55,601                           | \$23,381     | \$ 58,605                              | \$(81,986 )                  | \$55,601     |

Rowan Companies plc and Subsidiaries  
 Statements of Comprehensive Income  
 Three months ended September 30, 2012  
 (in thousands)  
 (unaudited)

|                                                                              | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|------------------------------------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| NET INCOME                                                                   | \$27,579                           | \$(2,120 )   | \$ 48,851                              | \$(46,731 )                  | \$27,579     |
| OTHER COMPREHENSIVE INCOME:                                                  |                                    |              |                                        |                              |              |
| Pension and other postretirement benefit<br>adjustments, net of income taxes |                                    |              |                                        |                              |              |
| Amortization of net loss                                                     | 4,131                              | 4,131        | —                                      | (4,131 )                     | 4,131        |
| Amortization of transition obligation                                        | 77                                 | 77           | —                                      | (77 )                        | 77           |
| Amortization of prior service credit                                         | (782 )                             | (782 )       | —                                      | 782                          | (782 )       |
|                                                                              | 3,426                              | 3,426        | —                                      | (3,426 )                     | 3,426        |
| COMPREHENSIVE INCOME                                                         | \$31,005                           | \$1,306      | \$ 48,851                              | \$(50,157 )                  | \$31,005     |



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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
 Statements of Comprehensive Income  
 Nine months ended September 30, 2013  
 (in thousands)  
 (unaudited)

|                                                                              | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|------------------------------------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| NET INCOME                                                                   | \$ 202,878                         | \$ 141,579   | \$ 230,018                             | \$(371,597 )                 | \$ 202,878   |
| OTHER COMPREHENSIVE INCOME:                                                  |                                    |              |                                        |                              |              |
| Pension and other postretirement benefit<br>adjustments, net of income taxes |                                    |              |                                        |                              |              |
| Amortization of net loss                                                     | 13,359                             | 13,359       | —                                      | (13,359 )                    | 13,359       |
| Amortization of prior service credit                                         | (2,373 )                           | (2,373 )     | —                                      | 2,373                        | (2,373 )     |
|                                                                              | 10,986                             | 10,986       | —                                      | (10,986 )                    | 10,986       |
| COMPREHENSIVE INCOME                                                         | \$ 213,864                         | \$ 152,565   | \$ 230,018                             | \$(382,583 )                 | \$ 213,864   |

Rowan Companies plc and Subsidiaries  
 Statements of Comprehensive Income  
 Nine months ended September 30, 2012  
 (in thousands)  
 (unaudited)

|                                                                              | Rowan<br>Companies<br>plc (Parent) | RCI (Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|------------------------------------------------------------------------------|------------------------------------|--------------|----------------------------------------|------------------------------|--------------|
| NET INCOME                                                                   | \$ 126,531                         | \$ 81,103    | \$ 182,647                             | \$(263,750 )                 | \$ 126,531   |
| OTHER COMPREHENSIVE INCOME:                                                  |                                    |              |                                        |                              |              |
| Pension and other postretirement benefit<br>adjustments, net of income taxes |                                    |              |                                        |                              |              |
| Amortization of net loss                                                     | 12,305                             | 12,305       | —                                      | (12,305 )                    | 12,305       |
| Amortization of transition obligation                                        | 231                                | 231          | —                                      | (231 )                       | 231          |
| Amortization of prior service credit                                         | (2,333 )                           | (2,333 )     | —                                      | 2,333                        | (2,333 )     |
|                                                                              | 10,203                             | 10,203       | —                                      | (10,203 )                    | 10,203       |
| COMPREHENSIVE INCOME                                                         | \$ 136,734                         | \$ 91,306    | \$ 182,647                             | \$(273,953 )                 | \$ 136,734   |



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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
Consolidated Statements of Cash Flows  
Nine months ended September 30, 2013  
(in thousands)  
(unaudited)

|                                                          | Rowan<br>Companies plc<br>(Parent) | RCI<br>(Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|----------------------------------------------------------|------------------------------------|-----------------|----------------------------------------|------------------------------|--------------|
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES      | \$(12,478 )                        | \$12,237        | \$392,273                              | \$—                          | \$392,032    |
| INVESTING ACTIVITIES:                                    |                                    |                 |                                        |                              |              |
| Property, plant and equipment additions                  | —                                  | (39,413 )       | (415,751 )                             | —                            | (455,164 )   |
| Proceeds from disposals of property, plant and equipment | —                                  | 2,230           | 40,065                                 | —                            | 42,295       |
| Investments in consolidated subsidiaries                 | (100 )                             | (170,107 )      | —                                      | 170,207                      | —            |
| Net cash used in investing activities                    | (100 )                             | (207,290 )      | (375,686 )                             | 170,207                      | (412,869 )   |
| FINANCING ACTIVITIES:                                    |                                    |                 |                                        |                              |              |
| Advances (to) from affiliates                            | 12,704                             | 243,820         | (256,524 )                             | —                            | —            |
| Contributions from parent                                | —                                  | —               | 170,207                                | (170,207)                    | —            |
| Excess tax benefits from share-based compensation        | —                                  | 977             | —                                      | —                            | 977          |
| Proceeds from exercise of share options                  | 2,911                              | —               | —                                      | —                            | 2,911        |
| Other                                                    | 1,820                              | —               | —                                      | —                            | 1,820        |
| Net cash provided by (used in) financing activities      | 17,435                             | 244,797         | (86,317 )                              | (170,207)                    | 2,708        |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS         | 4,857                              | 49,744          | (69,730 )                              | —                            | (15,129 )    |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD           | 58,628                             | 228,085         | 737,295                                | —                            | 1,024,008    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                 | \$63,485                           | \$277,829       | \$667,565                              | \$—                          | \$1,008,879  |

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries  
Consolidated Statements of Cash Flows  
Nine months ended September 30, 2012  
(in thousands)  
(unaudited)

|                                                          | Rowan<br>Companies<br>plc<br>(Parent) | RCI<br>(Issuer) | Other<br>non-guarantor<br>subsidiaries | Consolidating<br>adjustments | Consolidated |
|----------------------------------------------------------|---------------------------------------|-----------------|----------------------------------------|------------------------------|--------------|
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES      | \$38,290                              | \$78,317        | \$223,895                              | \$(151,000)                  | \$189,502    |
| INVESTING ACTIVITIES:                                    |                                       |                 |                                        |                              |              |
| Property, plant and equipment additions                  | —                                     | (84,284 )       | (481,805 )                             | —                            | (566,089 )   |
| Proceeds from disposals of property, plant and equipment | —                                     | 6,325           | 4,228                                  | —                            | 10,553       |
| Investments in consolidated subsidiaries                 | —                                     | (175,858)       | —                                      | 175,858                      | —            |
| Net cash used in investing activities                    | —                                     | (253,817)       | (477,577 )                             | 175,858                      | (555,536 )   |
| FINANCING ACTIVITIES:                                    |                                       |                 |                                        |                              |              |
| Repayments of borrowings                                 | —                                     | (200,446)       | (38,007 )                              | —                            | (238,453 )   |
| Advances (to) from affiliates                            | 12,902                                | (259,615)       | 246,713                                | —                            | —            |
| Contributions from parent                                | —                                     | —               | 175,858                                | (175,858 )                   | —            |
| Proceeds from borrowings                                 | —                                     | 493,415         | —                                      | —                            | 493,415      |
| Debt issue costs                                         | —                                     | (799 )          | —                                      | —                            | (799 )       |
| Dividends paid                                           | —                                     | —               | (151,000 )                             | 151,000                      | —            |
| Excess tax benefits from share-based compensation        | —                                     | 1,153           | —                                      | —                            | 1,153        |
| Proceeds from exercise of share options                  | 155                                   | —               | —                                      | —                            | 155          |
| Net cash provided by financing activities                | 13,057                                | 33,708          | 233,564                                | (24,858 )                    | 255,471      |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS         | 51,347                                | (141,792)       | (20,118 )                              | —                            | (110,563 )   |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD           | 21,472                                | 184,677         | 232,704                                | —                            | 438,853      |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                 | \$72,819                              | \$42,885        | \$212,586                              | \$—                          | \$328,290    |

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

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

## SUMMARY

For the three months ended September 30, 2013, revenues increased by approximately \$29 million or 8% to \$383 million from \$354 million in the comparable prior-year period. For the nine months ended September 30, 2013, revenues increased by approximately \$148 million or 14% to \$1.2 billion from \$1.0 billion in the comparable prior-year period. The increases were primarily due to higher day rates and utilization and the full-period impact of the Joe Douglas, which commenced initial operations in February 2012. Our utilization and average day rates by rig classification were as follows:

|                                           | Three months ended September 30, |           | Nine months ended September 30, |           |   |
|-------------------------------------------|----------------------------------|-----------|---------------------------------|-----------|---|
|                                           | 2013                             | 2012      | 2013                            | 2012      |   |
| Utilization: <sup>(1)</sup>               |                                  |           |                                 |           |   |
| High specification jack-up <sup>(2)</sup> | 89                               | % 86      | % 93                            | % 91      | % |
| Premium jack-up <sup>(3)</sup>            | 79                               | % 65      | % 74                            | % 59      | % |
| Conventional jack-up                      | 25                               | % 33      | % 24                            | % 33      | % |
| Average day rate: <sup>(4)</sup>          |                                  |           |                                 |           |   |
| High specification jack-up                | \$196,187                        | \$190,582 | \$199,472                       | \$181,507 |   |
| Premium jack-up                           | \$105,675                        | \$95,438  | \$101,882                       | \$95,414  |   |
| Conventional jack-up                      | \$95,472                         | \$71,928  | \$104,738                       | \$72,639  |   |

(1) Utilization is the number of revenue-producing days, including fractional days, divided by the aggregate number of calendar days in the period.

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

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

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

For the three months ended September 30, 2013, income from operations increased by \$9.2 million or 15% to \$68.5 million from \$59.3 million in the third quarter 2012. Income from operations for the three months ended September 30, 2012 included \$18.2 million of material charges and other operating expenses compared to none for the 2013 period. Material charges in 2012 consisted of expenses in connection with the Company's redomestication to the U.K.; repair costs for the EXL I, which was struck by a tanker; a noncash pension settlement loss in connection with the prior sale of a subsidiary; noncash share-based compensation costs for a retiring employee; and a noncash asset impairment charge.

For the nine months ended September 30, 2013, income from operations increased by \$76.6 million or 39% to \$271.2 million from \$194.6 million in the comparable prior-year period. Income from operations for the nine months ended September 30, 2013, included a \$19.2 million gain on sale of the Rowan Paris, which the Company sold during the second quarter. Income from operations for the nine months ended September 30, 2012 included \$30.9 million of material charges and other operating expenses compared to none for the 2013 period.

Net income from continuing operations increased by \$25.5 million or 96% to \$51.9 million from \$26.4 million in the third quarter of 2012. Net income for the 2013 quarter benefited from the recognition of discrete tax benefits during the quarter. Additionally, the prior-year quarter included a \$10.5 million loss on extinguishment of debt.

For the nine months ended September 30, 2013, net income from continuing operations increased by \$70.1 million or 53% to \$202.9 million from \$132.8 million in the comparable prior-year period. The year-over-year comparison was favorable in part due to a \$22.2 million loss on extinguishment of debt recognized in the prior-year period.

We recognized an income tax benefit of \$0.5 million and expense of \$14.5 million in the three and nine months ended September 30, 2013, respectively, compared to expense of \$8.5 million and \$2.9 million, respectively, in the comparable prior-year periods.

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Income tax expense for the nine months ended September 30, 2013, was increased by a net \$3.1 million as a result of discrete tax items recognized during the period. Excluding the effect of discrete items, the effective tax rate for the nine months ended September 30, 2013, approximated 5.8% compared to a benefit of 1.7% for the prior-year period. The low effective rates in 2013 and 2012 (relative to the 35% U.S. and 24% U.K. statutory rates) were primarily due to the amortization of benefits related to outbidding certain rigs to our non-U.S. subsidiaries in prior years and a significant proportion of income earned in low-tax foreign jurisdictions.

As of October 24, 2013, the date of our most recent Fleet Status Report, we had six jack-ups in the North Sea, ten in the Middle East, seven in the US GOM, two in each of Malaysia, Trinidad, and Indonesia and one in Egypt. As of October 24, 2013, three of our rigs had drilling contracts estimated to be completed in 2013, eighteen had contracts estimated to be completed in 2014, seven had contracts estimated to be completed in 2015 through 2017, and two were available.

In addition, we currently have drilling contracts for three of our four ultra-deepwater drillships under construction. The Rowan Renaissance has a three-year contract, which is expected to commence in late March 2014 following its scheduled delivery from the shipyard in December 2013. The Rowan Renaissance is expected to operate initially in West Africa at an effective day rate of \$619,000. The Rowan Resolute has a three-year contract under which it is expected to commence operations in the US GOM in late September 2014 at an effective day rate of \$608,000. The Rowan Reliance has a three-year contract under which it is expected to commence operations in the US GOM in late January 2015 at an effective day rate of \$602,000.

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## KEY PERFORMANCE MEASURES

The following table presents certain key performance measures for our fleet:

|                                    | Three months ended September 30, |            | Nine months ended September 30, |             |
|------------------------------------|----------------------------------|------------|---------------------------------|-------------|
|                                    | 2013                             | 2012       | 2013                            | 2012        |
| Revenues (in thousands):           |                                  |            |                                 |             |
| Northern Europe                    | \$ 104,006                       | \$ 136,627 | \$ 378,761                      | \$ 386,227  |
| Middle East <sup>(1)</sup>         | 114,528                          | 103,941    | 317,930                         | 293,597     |
| US GOM                             | 61,297                           | 33,226     | 170,941                         | 155,727     |
| Southeast Asia                     | 46,927                           | 34,577     | 155,262                         | 88,170      |
| Other international <sup>(2)</sup> | 46,254                           | 35,655     | 136,095                         | 88,427      |
| Subtotal - Day-rate revenues       | 373,012                          | 344,026    | 1,158,989                       | 1,012,148   |
| Other revenues <sup>(3)</sup>      | 9,796                            | 9,884      | 26,940                          | 26,257      |
| Total                              | \$382,808                        | \$353,910  | \$1,185,929                     | \$1,038,405 |
| Revenue-producing days:            |                                  |            |                                 |             |
| Northern Europe                    | 370                              | 546        | 1,419                           | 1,626       |
| Middle East                        | 835                              | 804        | 2,324                           | 2,186       |
| US GOM                             | 437                              | 276        | 1,250                           | 1,309       |
| Southeast Asia                     | 291                              | 266        | 951                             | 685         |
| Other international                | 272                              | 238        | 804                             | 629         |
| Total                              | 2,205                            | 2,130      | 6,748                           | 6,435       |
| Average day rate: <sup>(4)</sup>   |                                  |            |                                 |             |
| Northern Europe                    | \$281,118                        | \$250,233  | \$266,930                       | \$237,532   |
| Middle East                        | \$137,214                        | \$129,280  | \$136,787                       | \$134,308   |
| US GOM                             | \$140,154                        | \$120,384  | \$136,769                       | \$118,966   |
| Southeast Asia                     | \$161,400                        | \$129,989  | \$163,302                       | \$128,715   |
| Other international                | \$169,869                        | \$149,811  | \$169,338                       | \$140,583   |
| Total fleet                        | \$169,164                        | \$161,515  | \$171,765                       | \$157,288   |
| Utilization: <sup>(5)</sup>        |                                  |            |                                 |             |
| Northern Europe                    | 67                               | % 99       | % 87                            | % 99        |
| Middle East                        | 91                               | % 79       | % 81                            | % 73        |
| US GOM                             | 68                               | % 43       | % 65                            | % 59        |
| Southeast Asia                     | 79                               | % 72       | % 87                            | % 77        |
| Other international                | 99                               | % 86       | % 98                            | % 94        |
| Total fleet                        | 80                               | % 75       | % 81                            | % 76        |

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

(2) "Other international" includes rigs operating in Egypt and Trinidad.

(3) Other revenues are primarily revenues received for reimbursable expenses.

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

(5) Utilization is the number of revenue-producing days, including fractional days, divided by the aggregate number of calendar days in the period.



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## RESULTS OF OPERATIONS

Three months ended September 30, 2013, compared to three months ended September 30, 2012

Our operating results for the three months ended September 30, 2013 and 2012 are highlighted below (dollars in millions):

|                                                 | Three months ended<br>September 30, 2013 |                  |   | Three months ended<br>September 30, 2012 |                  |   |
|-------------------------------------------------|------------------------------------------|------------------|---|------------------------------------------|------------------|---|
|                                                 | Amount                                   | % of<br>Revenues |   | Amount                                   | % of<br>Revenues |   |
| Revenues                                        | \$382.8                                  | 100              | % | \$353.9                                  | 100              | % |
| Direct operating costs (excluding items below)  | (211.8)                                  | ) -55            | % | (188.1)                                  | ) -53            | % |
| Depreciation expense                            | (69.3)                                   | ) -18            | % | (63.0)                                   | ) -18            | % |
| Selling, general and administrative expenses    | (33.3)                                   | ) -9             | % | (25.8)                                   | ) -7             | % |
| Net gain on disposals of property and equipment | 0.1                                      | —                | % | 0.5                                      | —                | % |
| Material charges and other operating expenses   | —                                        | —                | % | (18.2)                                   | ) -5             | % |
| Operating income                                | \$68.5                                   | 18               | % | \$59.3                                   | 17               | % |

Revenues for the three months ended September 30, 2013, increased by \$28.9 million or 8% compared to the three months ended September 30, 2012, as a result of the following (in millions):

|                                                | Increase<br>(decrease) |
|------------------------------------------------|------------------------|
| Higher average day rates for existing rigs     | \$16.9                 |
| Higher utilization of existing rigs            | 12.1                   |
| Revenues for reimbursable costs and other, net | (0.1)                  |
| Net increase                                   | \$28.9                 |

Operating costs for the three months ended September 30, 2013, increased by \$23.7 million or 13% compared to the three months ended September 30, 2012 as a result of the following (in millions):

|                                                         | Increase |
|---------------------------------------------------------|----------|
| Repair costs for Gorilla VII                            | \$9.3    |
| Increase due to rigs operating in higher-cost locations | 7.7      |
| Expansion of foreign shorebases                         | 3.0      |
| Other, net                                              | 3.7      |
| Net increase                                            | \$23.7   |

Our operating margin (revenues in excess of operating costs, other than depreciation, selling, general and administrative expenses and material charges) was approximately 45% of revenues in the third quarter of 2013 compared to 47% in the third quarter of 2012. Depreciation increased by \$6.2 million or 10% compared to the third quarter of 2012 due to improvements to the fleet.

In mid-July, while the Gorilla VII was changing locations, the legs were severely damaged as the hull was being lowered into the water. As a result of the incident, the rig was out of service for 82 days in the third quarter, resulting in a loss of revenue of approximately \$21 million. During the third quarter, we incurred \$9.3 million in repair costs to

the rig, which are included in direct operating costs. The rig is expected to return to service in mid-November.

Selling, general and administrative expenses increased by \$7.5 million or 29% due primarily to professional services and fees for corporate restructuring, initiatives related to the Company's internationalization and entry into the ultra-deepwater market; the

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noncash impact of the new retirement policy on the vesting period for share-based compensation; incremental incentive-based compensation based on the Company's projected performance; and fair market adjustments to certain share-based awards based on changes in the share price.

Material charges and other operating expenses for the three months ended September 30, 2012, consisted of \$8.9 million of repair costs for the EXL I, a \$5.1 million noncash pension settlement loss, \$2.3 million of noncash share-based compensation expense for a retiring employee and \$1.9 million of expenses incurred in connection with the Company's corporate redomestication to the U.K. There were no material charges reported for 2013.

Nine months ended September 30, 2013, compared to nine months ended September 30, 2012

Our operating results for the nine months ended September 30, 2013 and 2012 are highlighted below (dollars in millions):

|                                                 | Nine months ended<br>September 30, 2013 |                  | Nine months ended<br>September 30, 2012 |                  |   |
|-------------------------------------------------|-----------------------------------------|------------------|-----------------------------------------|------------------|---|
|                                                 | Amount                                  | % of<br>Revenues | Amount                                  | % of<br>Revenues |   |
| Revenues                                        | \$1,185.9                               | 100              | % \$1,038.4                             | 100              | % |
| Direct operating costs (excluding items below)  | (637.3)                                 | ) -54            | % (558.4)                               | ) -54            | % |
| Depreciation expense                            | (200.4)                                 | ) -17            | % (183.3)                               | ) -18            | % |
| Selling, general and administrative expenses    | (96.0)                                  | ) -8             | % (73.9)                                | ) -7             | % |
| Net gain on disposals of property and equipment | 19.0                                    | 2                | % 2.7                                   | —                | % |
| Material charges and other operating expenses   | —                                       | —                | % (30.9)                                | ) -3             | % |
| Operating income                                | \$271.2                                 | 23               | % \$194.6                               | 19               | % |

Revenues for the nine months ended September 30, 2013, increased by \$147.5 million or 14% compared to the nine months ended September 30, 2012, as a result of the following (in millions):

|                                                | Increase |
|------------------------------------------------|----------|
| Higher average day rates for existing rigs     | \$92.2   |
| Higher utilization of existing rigs            | 42.6     |
| Addition of the Joe Douglas                    | 12.0     |
| Revenues for reimbursable costs and other, net | 0.7      |
| Net increase                                   | \$147.5  |

The Joe Douglas commenced operations in February 2012 and contributed 272 revenue-producing days for the nine months ended September 30, 2013, compared to 228 days in the comparable prior-year period.

Operating costs for the nine months ended September 30, 2013, increased by \$78.9 million or 14% compared to the comparable prior-year period as a result of the following (in millions):

|                                                         | Increase |
|---------------------------------------------------------|----------|
| Increase due to rigs operating in higher-cost locations | \$47.3   |
| Repair costs for Gorilla VII                            | 9.3      |
| Expansion of foreign shorebases                         | 7.8      |
| Addition of the Joe Douglas                             | 1.9      |
| Other, net                                              | 12.6     |

Net increase

\$78.9

27

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Our operating margin (revenues in excess of operating costs, other than depreciation, selling, general and administrative expenses and material charges) was approximately 46% of revenues in both the first nine months of 2013 and 2012. Depreciation increased by \$17.1 million or 9% over the 2012 period primarily due to improvements to the existing fleet.

Selling, general and administrative expenses increased by \$22.0 million or 30% due primarily to professional services and fees for corporate restructuring, initiatives related to the Company's internationalization and entry into the ultra-deepwater market; the noncash impact of the new retirement policy on the vesting period for share-based compensation; incremental incentive-based compensation based on the Company's projected performance; and fair market adjustments to certain share-based awards based on changes in the share price.

In June 2013, the Company sold the Rowan Paris, one of the Company's older rigs, for \$40.0 million in cash and recognized a gain of \$19.2 million.

Material charges and other operating expenses for the nine months ended September 30, 2012, consisted of \$11.7 million of expenses incurred in connection with the Company's corporate redomestication to the U.K., \$8.9 million of repair costs for the EXL I, a \$5.1 million noncash pension settlement loss, a \$2.9 million noncash impairment loss for the carrying value of steel and \$2.3 million of noncash share-based compensation expense for a retiring employee. There were no material charges reported for 2013.

### Outlook

Our backlog by geographic area as of October 24, 2013 and February 21, 2013 (as presented in our 2012 Form 10-K), is set forth below. Backlog at October 24, 2013 for the US GOM and West Africa includes \$1.8 billion and \$226 million, respectively, attributable to the three drillships under construction (in millions):

|                     | October 24, 2013 | February 21, 2013 |
|---------------------|------------------|-------------------|
| Northern Europe     | \$ 1,461         | \$ 1,599          |
| Middle East         | 521              | 790               |
| US GOM              | 1,922            | 594               |
| West Africa         | 226              | 226               |
| Southeast Asia      | 91               | 183               |
| Other international | 141              | 203               |
|                     | \$4,362          | \$3,595           |

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

|      |         |
|------|---------|
| 2013 | \$287   |
| 2014 | 1,335   |
| 2015 | 1,206   |
| 2016 | 1,026   |
| 2017 | 508     |
|      | \$4,362 |

About 79% of our remaining available rig days in 2013 and 54% of available rig days in 2014 were under contract or commitment as of October 24, 2013. We expect our rigs to roll over at higher day rates as they come off contract in 2014.

Our out-of-service days increased to approximately 12.8% of our available rig days in the third quarter 2013, as compared to 7.8% in the second quarter 2013 and 14.1% in the third quarter 2012. Out-of-service days for the third quarter of 2013 were negatively impacted by the extended downtime of the Gorilla VII due to leg repairs, and shipyard time for the Gorilla VI, Gorilla II and the Rowan California in preparation for contracts. Out-of-service time was down from the prior year as fleet repositioning declined and certain rigs returned to service. We currently estimate out-of-service days to be approximately 10% of our available rig days

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for the fourth quarter and full year 2013 compared to 11.6% experienced for 2012. We estimate out-of-service days for our jack-up fleet to range from 7% to 9% of available rig days in 2014 for inspections and special surveys, customer required equipment upgrades and other equipment modifications.

We define out-of-service days as those for which no revenues are recognized other than operational downtime and cold-stacked days. The Company may be compensated for certain out-of-service days, such as for shipyard stays or for rig transit periods preceding a contract; however, recognition of any such compensation is deferred and recognized over the period of drilling operations.

Operational downtime is defined as the unbillable time a rig is under contract and unable to conduct planned operations due to equipment breakdowns or procedural failures. Our operational downtime, which is excluded from out-of-service days, was less than 1% of in-service days for the quarter ended September 30, 2013. We estimate operational downtime will typically approximate 2.5% of operating days on a go-forward basis.

We expect our first two ultra-deepwater drillship to commence initial operations in late March and late September 2014. We project that operational downtime for our ultra-deepwater drillships will be less than 5% following their initial break-in period of operations, during which time the actual rate could be somewhat higher.

As the Company has expanded its operations internationally, the costs of complying with local laws and regulations have increased. We expect this trend of higher compliance costs, as well as higher costs due to wage pressures, to continue into 2014. Additionally, the Company has incurred substantial "off-rig" costs over the last several quarters in preparation of its entrance into the ultra-deepwater market. We expect the growth of such costs to moderate in 2014 and be mitigated somewhat with the commencement of operations of our first two ultra-deepwater drillships in 2014.

**LIQUIDITY AND CAPITAL RESOURCES**

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

|                                                                             | September 30, 2013 | December 31, 2012 |
|-----------------------------------------------------------------------------|--------------------|-------------------|
| Cash and cash equivalents                                                   | \$1,008.9          | \$1,024.0         |
| Current assets (excluding assets of discontinued operations)                | \$1,579.4          | \$1,529.6         |
| Current liabilities (excluding liabilities of discontinued operations)      | \$259.2            | \$272.8           |
| Current ratio (excluding assets and liabilities of discontinued operations) | 6.09               | 5.61              |
| Long-term debt                                                              | \$2,008.9          | \$2,009.6         |
| Shareholders' equity                                                        | \$4,767.6          | \$4,531.7         |
| Long-term debt/total capitalization                                         | 0.30               | 0.31              |

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

|                                                   | Nine months ended September 30, |           |
|---------------------------------------------------|---------------------------------|-----------|
|                                                   | 2013                            | 2012      |
| Net cash provided by operating activities         | \$392.0                         | \$189.5   |
| Capital expenditures                              | (455.2)                         | (566.1)   |
| Repayments of borrowings                          | —                               | (238.5)   |
| Proceeds from borrowings, net of issue costs      | —                               | 492.6     |
| Proceeds from disposals of property and equipment | 42.3                            | 10.6      |
| Proceeds from exercise of share options           | 2.9                             | 0.2       |
| Other                                             | 2.9                             | 1.1       |
| Total net use                                     | \$(15.1)                        | \$(110.6) |



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### Operating Cash Flows

Cash flows from operations increased to approximately \$392 million in the nine months ended September 30, 2013, from \$190 million in the comparable prior-year period. Operating cash flows for 2013 were favorably impacted by higher revenues, improved timing of collections of accounts receivables and a reduction in the required minimum pension contribution as a result of the Moving Ahead for Progress in the 21<sup>st</sup> Century Act, which became effective in July 2012. The Company contributed \$17.7 million to its qualified pension plan in the first nine months of 2013 compared to \$40.7 million in the comparable period of 2012. The Company does not anticipate making additional contributions to its qualified plan for the remainder of 2013.

The Company has not provided deferred income taxes on undistributed earnings of its non-U.K. subsidiaries, including RCI and non-U.S. subsidiaries of RCI. It is the Company's policy and intention to permanently reinvest the earnings of non-U.S. subsidiaries of RCI outside the U.S. Generally, earnings of non-U.K. subsidiaries that are not subsidiaries of RCI can be distributed to the Company without imposition of either U.K. or local country tax.

As of December 31, 2012, unremitted earnings of RCI were approximately \$2,453 million, and unremitted earnings of the non-U.S. subsidiaries of RCI were approximately \$400 million. Should the non-U.S. subsidiaries of RCI make a distribution from these earnings, we may be subject to additional U.S. income taxes. It is not practicable to estimate the amount of a deferred tax liability related to the undistributed earnings, and RCI has no plan to distribute earnings in a manner that would cause them to be subject to U.S., U.K. or other local country taxation.

At September 30, 2013, RCI and the non-U.S. subsidiaries of RCI held approximately \$278 million and \$421 million, respectively, of the \$1.0 billion of consolidated cash and cash equivalents. The Company has significant net assets, liquidity, contract backlog and/or other financial resources available to meet its operational and capital investment requirements and otherwise allow us to continue to maintain our policy of reinvesting such undistributed earnings outside the U.K. and U.S. indefinitely.

### Investing Activities

Reference should be made to Note 4 of Notes to Condensed Consolidated Financial Statements in this Form 10-Q for the status of our newbuild rig projects.

Capital expenditures totaled \$455.2 million for the first nine months of 2013, and included the following:

\$177.3 million towards construction of the ultra-deepwater drillships Rowan Renaissance, Rowan Resolute, Rowan Reliance and Rowan Relentless;

\$237.7 million for improvements to the existing fleet, including contractually required modifications; and

\$40.2 million for rig equipment inventory and other.

For the remainder of 2013, we expect our capital expenditures to be approximately \$730 million, including \$517 million towards construction of our four ultra-deepwater drillships, \$49 million for riser gas-handling equipment, software certifications and drillship fleet spares in support of deepwater operations, \$105 million for life enhancement projects and existing fleet maintenance capital, \$24 million for partially reimbursed contractually required modifications to the fleet, and \$35 million for equipment spares, drill pipe and improvements to our shore bases.

We expect to fund the four drillships currently under construction and other capital expenditures from available cash, cash flows from operations, future financings and the revolving credit facility, if necessary.

In October 2013, Hyundai Heavy Industries Co., Ltd. extended the Company's option for construction of a fifth ultra-deepwater drillship to December 31, 2013, with expected delivery of the drillship in the first quarter of 2016.

#### Financing Activities

Management expects to fund its cash requirements over the next twelve months from available cash, cash flows from operating activities, draws under our revolving credit facility, if necessary, and potential future financings. In the event the Company does not draw on its revolving credit facility, the Company anticipates a financing prior to June 30, 2014.

We were in compliance with our debt covenants at September 30, 2013, and we do not expect to encounter difficulty complying in the following twelve-month period.

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### Critical Accounting Policies and Management Estimates

The Company's significant accounting policies are presented in Note 2 of "Notes to Consolidated Financial Statements" in Item 8 of our 2012 Form 10-K. These policies, and management judgments, assumptions and estimates made in their application underlie reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. We believe that our most critical accounting policies and management estimates involve carrying values of long-lived assets, pension and other postretirement benefit liabilities and costs (specifically, assumptions used in actuarial calculations), and income taxes (particularly our estimated reserves for uncertain tax positions), as changes in such policies and/or estimates would produce significantly different amounts from those reported herein.

During the quarter ended September 30, 2013, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates were based.

### Recent Accounting Standards

In July 2013 the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-11, which requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if net settlement is required or expected. We will be required to adopt the new standard effective January 1, 2014. We are evaluating the potential effect of this accounting standard update; however, we do not expect that our adoption will have a material effect on our financial statements.

### 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 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "could," "might," "should," "will," "forecast," "potential," "outlook," "scheduled," "predict," "will be," "will continue," "will likely," "similar words and specifically include statements regarding expected financial performance; growth strategies; expected utilization, day rates, revenues, operating expenses, contract terms, contract backlog, capital expenditures, tax rates and positions, insurance coverages, access to financing and funding sources; the availability, delivery, mobilization, contract commencement, relocation or other movement of rigs and the timing thereof; future rig construction (including construction in progress and completion thereof), enhancement, upgrade or repair and costs and timing thereof; the suitability of rigs for future contracts; general market, business and industry conditions, trends and outlook; future operations; the impact of increasing regulatory requirements and complexity; expected contributions from our new rigs and our entry into the ultra-deepwater market; expense management; the likely outcome of legal proceedings or insurance or other claims and the timing thereof; activity levels in the offshore drilling market; customer drilling programs; and commodity prices. Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including:

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

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

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

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

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

• downtime, lost revenue and other risks associated with rig operations, operating hazards, or rig relocations and transportation, including rig or equipment failure, collisions, damage and other unplanned repairs, the limited

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

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

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

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

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

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

our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to competition from other contract drillers, labor regulations or otherwise;

governmental action and political and economic uncertainties, including uncertainty or instability resulting from 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 or other geographic areas, which may result in extended business interruptions, suspended operations, or result in claims by our customers of a force majeure situation and payment disputes;

terrorism, piracy, political instability, hostilities, acts of war, nationalization, expropriation, confiscation or deprivation of our assets or military action impacting our operations, assets or financial performance in our areas of operations, including the Middle East;

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

potential long-lived asset impairments;

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

impacts of any global financial or economic downturn;

effects of accounting changes and adoption of accounting policies;

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

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

In addition to the risks, uncertainties and assumptions described above, you should also carefully read and consider the risk factors and forward-looking statement disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2012. We disclaim any obligation to update or revise any forward-looking statements except as required by applicable law or regulation.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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Our outstanding debt at September 30, 2013, consisted entirely of fixed-rate debt with a carrying value of \$2.009 billion and a weighted-average annual interest rate of 5.7%. Due to the fixed-rate nature of our debt, we believe that our exposure to risk of earnings loss due to changes in market interest rates is not material.

We have a \$750 million revolving credit facility that expires June 30, 2016. There were no borrowings outstanding under the facility at September 30, 2013.

The majority of our transactions are denominated in U.S. dollars. Our primary exposure to currency exchange is the British pound. In order to reduce the impact of exchange rate fluctuations, we generally require customer payments to be in U.S. dollars and generally limit local currency holdings to the extent they are needed to pay liabilities denominated in local currencies. In certain countries in which we operate, however, such as Egypt, local laws or contracts may require us to receive payment for a portion of the contract in the local currency. In such instances, we may hold a greater amount of local currency than would otherwise be the case.

Fluctuating commodity prices affect our future earnings materially to the extent that they influence demand for our products and services. As a general practice, we do not hold or issue derivative financial instruments and had no derivatives outstanding during the periods covered by this report.

### Item 4. Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2013.

There has been no change to our internal control over financial reporting during the quarter ended September 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On the morning of May 2, 2012, while attempting to enter the Port of Corpus Christi Ship Channel, the tanker M/V FR8 PRIDE lost engine power and propulsion and collided with the Company's EXL I rig, causing extensive damage to the rig. As a result of the collision, on May 18, 2012, the Company filed suit in federal court in the Southern District of Texas, Corpus Christi Division, against the M/V FR8 PRIDE, FR8 Pride Shipping Corp. PTE. Ltd. (FR8 Pride Shipping), Thome Ship Management PTE. Ltd. (Thome Ship Management), Scorpio USA LLC, and Scorpio Panamax Tanker Pool Ltd., believed to be the M/V FR8 PRIDE's owners and operators. The Company maintains that the M/V FR8 PRIDE failed to properly overtake the EXL I, the mechanical, electrical, and safety systems of M/V FR8 PRIDE were not properly maintained, and that navigational regulations were violated, and seeks damages primarily for repairs to and loss of use of the rig. The Company completed repairs to the rig at a cost of approximately \$12 million, which were recognized and included in material charges and other operating expenses in the Consolidated Statement of Income for the year ended December 31, 2012. The EXL I returned to work November 5, 2012, and the Company estimates its loss-of-use claim to be \$12.5 million. The repair costs to the EXL I will not be covered by the Company's insurance because such costs were below its \$25 million deductible. In addition, loss of use is not an insured risk.

In response to the Company's suit, FR8 Pride Shipping and Thome Ship Management filed a complaint for exoneration from or limitation of liability pursuant to the Limitation of a Shipowner's Liability Act (the Act) in federal court in the Southern District of Texas, Corpus Christi Division. Under the Act, a vessel owner is liable only to the extent of the post-accident value of the vessel plus freight pending as long as the incident's cause(s) were beyond the knowledge or privity of the vessel owner. Pursuant to the Act, litigation arising from the incident is stayed, and claimants are directed to file their claims in the limitation proceeding. Additionally, a limitation fund is established, from which legitimate claims are paid. Limitable claims include those for personal injury, wrongful death, and damage to property. Ultimately, the court determines whether the vessel and its owner are liable, whether liability should be limited, the amount of just claims, and how to distribute funds to claimants.

In their complaint, the tanker owners contend that the loss of main engine power and the resulting collision were unavoidable accidents. The Company has answered the complaint and filed a claim in the Limitation Action, which parallels its prior-filed suit. Two individuals employed by third-party service contractors have joined the Limitation Action asserting personal injury claims arising as a result of the collision. These individuals are demanding, collectively, approximately \$10.6 million. The Company

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believes that these amounts do not reflect the value, if any, of these claims, which will likely be far lower; however, these claims could possibly reduce the security amount available to the Company for its claims. On June 18, 2012, the Court entered an order requiring the tanker owner to post a \$20 million bond, which was posted on November 2, 2012. The Court has reset the trial for February 2014, and mediation is scheduled for December 12 and 13, 2013. Although we believe the Company's claims are legally and factually strong, we are unable to predict the ultimate outcome of this litigation. In the event the tanker owners are successful in limiting their liability, it is possible that such limitation will not cover our repair costs and loss-of-use damages.

## Item 1A. Risk Factors

Security holders and potential investors in our securities should carefully consider the risk factors set forth in our 2012 Annual Report on Form 10-K in addition to other information in such annual report and in our Quarterly Reports on Form 10-Q. These risk factors are important factors that could cause our actual results to differ materially from those contained in any written or oral forward-looking statements made by us or on our behalf.

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

## Issuer Purchases of Equity Securities

The following table presents information with respect to acquisitions of our shares for the third quarter of 2013:

| Month ended        | Total number of shares acquired <sup>1</sup> | Average price paid per share <sup>1</sup> | Total number of shares purchased as part of publicly announced plans or programs <sup>2</sup> | Approximate dollar value of shares that may yet be purchased under the plans or programs <sup>2</sup> |
|--------------------|----------------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Balance forward    |                                              |                                           |                                                                                               | \$24,987,408                                                                                          |
| July 31, 2013      | 155                                          | \$34.69                                   | —                                                                                             | 24,987,408                                                                                            |
| August 31, 2013    | 13,238                                       | \$36.16                                   | —                                                                                             | 24,987,408                                                                                            |
| September 30, 2013 | 178                                          | \$36.03                                   | —                                                                                             | 24,987,408                                                                                            |
| Total              | 13,571                                       | \$36.14                                   | —                                                                                             |                                                                                                       |

<sup>1</sup> The total number of shares acquired includes (i) shares acquired from employees and non-employee directors by an affiliated employee benefit trust upon forfeiture of nonvested awards or in satisfaction of tax withholding requirements and (ii) shares purchased, if any, pursuant to a publicly announced share repurchase program described in note 2 below. The price paid for shares acquired as a result of forfeitures is the par value of \$0.125 per share. The price paid for shares acquired in satisfaction of withholding taxes is the share price on the date of the transaction. There were no shares repurchased under the Company's share repurchase program during the third quarter of 2013.

<sup>2</sup> On July 25, 2012, the Board of Directors of Rowan Companies plc, as successor issuer to Rowan Companies, Inc., approved the continuation of its \$150 million share repurchase program, of which approximately \$25 million remained available. Share repurchases may be commenced or suspended from time to time without prior notice. Any shares acquired under the share repurchase program will be canceled.

Restrictive provisions in the Company's debt agreements require the Company to maintain a minimum level of shareholders' equity equal to no less than the 100% of the book value of outstanding debt. The payment of future dividends and the purchase of shares on the open market, if any, would only be made from distributable profits at the discretion of the Board of Directors.



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Item 6. Exhibits

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

|          |                                                                                                     |
|----------|-----------------------------------------------------------------------------------------------------|
| 31.1*    | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2*    | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1*    | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2*    | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document.                                                                             |
| 101.SCH* | XBRL Taxonomy Extension Schema Document.                                                            |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document.                                              |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document.                                               |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document.                                                    |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document.                                             |

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\* Filed or furnished herewith.

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SIGNATURES

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

ROWAN COMPANIES PLC  
(Registrant)

Date: November 8, 2013

/s/ J. KEVIN BARTOL  
J. Kevin Bartol  
Executive Vice President,  
Chief Financial Officer and  
Treasurer

Date: November 8, 2013

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