



Rowan Partners with Saudi Aramco to Create a New Offshore Drilling Company Master Announcement Q&A

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A. Company Scope, Rationale and Benefits for the Partners

- 1. What is the scope of the new company?**
 - Ownership and operation of offshore drilling rigs to help meet Saudi Aramco's offshore drilling requirements in the Kingdom.
- 2. Will the new company only operate in Saudi Arabia or can it tender for contracts outside of the Kingdom?**
 - The core focus for the new company is to operate as a major offshore drilling contractor in Saudi Arabia and meet the drilling requirements of Saudi Aramco as a "customer." At an appropriate time in the future, the new company may consider expanding outside the Kingdom.
- 3. What is the rationale behind Rowan and Saudi Aramco establishing the new company?**
 - There are important benefits and strategic merits associated with the creation of the new company for both Rowan and Saudi Aramco.
 - For Rowan this represents a unique opportunity to consolidate its position in one of the most important jack-up markets worldwide and continue to build a long-term platform for growth. This new company will help it strengthen its long-standing relationship with one of its largest customers, Saudi Aramco, the world's largest oil and gas company.
 - Provides the certainty of sustained high asset utilization levels, as well as better visibility into long-term cash flows and earnings.
 - Rowan is fully committed to helping Saudi Aramco achieve its objectives for (1) improved localization and Saudization of the drilling industry in Saudi Arabia, (2) increased efficiency and quality of drilling operations through closer collaboration and (3) the securing of a long term supply of fit-for-purpose jack-up rigs designed specifically for Saudi Aramco's drilling needs. Rowan meets Saudization levels in its current contracts and expects the new company to be able to continue such trends.

B. Company Operating Metrics and Growth Profile

- 1. What is the size of the new company at inception and the envisaged growth profile for the next 5 to 10 years?**
 - The new company is expected to commence operations in the second quarter of 2017 with a total of five owned jack-ups (three rigs contributed from Rowan and two from Saudi Aramco) with a further two rigs being contributed by Rowan in late 2018. The subsequent growth target of the new company will be based on satisfying a portion of current expected demand for jack-ups by Saudi Aramco, and is expected to include purchase of up to 20 new rigs. In addition to the contributed rigs, Rowan's jack-ups currently working for Saudi Aramco that are not contributed at inception will be managed by the new company until the expiration of their current contracts, following which each rig may be contributed or leased to the new company or be released and relocated outside the Kingdom.
- 2. Where is the new company sourcing the newly built rigs estimated to come into operation in the coming years?**
 - As some of you may have noted in the press, Saudi Aramco is in the process of setting up a manufacturing facility in the Kingdom (under the Maritime Yard Initiative) that will be responsible for supplying the new rigs for the new company.
- 3. What is the funding strategy for the newly built rigs?**
 - The partners anticipate that future rig purchases will be self-funded from the cash flow generated from operations as well as local and international debt financing. The new company has a long-term business plan (with guaranteed contracts from Aramco) and low risk profile which in our view provides a good platform to access the debt capital markets.

C. Contracts and Rig Economics

- 1. How will the new company win new contracts?**
 - The new company partners are committed to purchase an average of two new jack-ups per year for a total of 20 jack-ups from the manufacturing facility within the Maritime Yard Initiative which Saudi Aramco is setting up. The first rig delivery is expected in 2021.
 - Saudi Aramco in its capacity as a "customer" will provide the new company with contracts to support the new acquisitions.
- 2. What is the utilization commitment of Saudi Aramco "customer" towards the contributed and newbuild rigs?**
 - Saudi Aramco and Rowan anticipate that the new company's rigs shall continue to be contracted for their remaining useful lives to meet Saudi Aramco's drilling needs, provided that the rigs continue to meet the technical and operational requirements of Saudi Aramco customer.
- 3. Will Saudi Aramco customer prioritise the new company operated rigs over competitors' rigs? Will the new company be able to participate in tenders for new contracts?**
 - The new company will not be permitted to take part in the competitive bidding process that Saudi Aramco "customer" runs for other offshore drilling services requirements. As described, Saudi Aramco "customer" will utilize the new company's seven contributed rigs, as well as up to 20 newbuild rigs and may elect to use additional rigs leased by the new company in the future. The competitive market will continue to be a separate and important part of Saudi Aramco's rig contracting portfolio and will continue to meet incremental demand over and above this amount.
- 4. How would market volatility affect the utilization and pricing of the new company owned rigs?**
 - Considering the low breakeven development costs in Saudi Arabia and the fact that the new company will benefit from increased visibility for the type and number of rigs required, we would expect the impact of a reduction in demand to be relatively low.

D. Main Financials and Returns

1. What are the expected returns for Rowan in this new company?

- Considering Rowan's larger non-cash contributions to the new company, the intent and ability of the new company to utilize internally generated funds and leverage for newbuild contracts, we expect the new company will create value for Rowan and be beneficial to Rowan's liquidity in both the near and long term.

2. Could you please elaborate on the main drivers identified for the new company to achieve efficiency increases?

- It is the aim of the new company to continuously optimize its operations mainly through economies of scale, fleet standardisation, closer collaboration on drilling requirements, and progressive implementation of best practices from both partners' experience. To reduce overhead, the new company will benefit from the provision of centralized back office services by Rowan at its cost.

3. What will be the dividend policy for the new company?

- Excess cash will be available for distribution to shareholders, after all contributions are completed.

E. Company Structure and Governance

1. What is the ownership structure of the new company?

- Saudi Aramco and Rowan will form a 50/50 jointly controlled company with voting rights and Board representation proportional to the equity stakes. This we believe is the appropriate structure to ensure incentives are aligned and to provide a platform for long term success and partnership.

2. Could you please provide additional details on the management of the new company, including who would appoint the key executives?

- Rowan will nominate both the CEO and head of operations, while Saudi Aramco will nominate both the Chairman and the CFO for the new company, ultimately subject to the new company's Board approval. All existing Rowan personnel working in Saudi Arabia will continue working for the new company.

3. Does governance include protections to potential conflicts of interest with Saudi Aramco in its capacity as a "customer"?

- The new company will operate as an independent entity from Saudi Aramco in its capacity as a "customer" with a separate dedicated management team, ensuring an arm's length relationship.

4. Is the new company commercially viable on a standalone basis?

- Yes, the new company was designed and structured as a self-sustainable and commercial entity. However there will be an initial period where both partners will support the new company with certain management, operational and financial resources.

5. Would Saudi Aramco or Rowan be looking to exit and monetize their investment in the new company in the near future?

- Both Saudi Aramco and Rowan are committed to this new company as strategic long term partners. The new company has an attractive growth plan over the next 10 years, and we would not envisage at this stage any reason for either of the partners to divest. Any such decision would in any case require consent from the other partner.

F. Current and Future Activities of Rowan in the Region

1. What will be the relationship between the new company and Rowan?

- Rowan's business in Saudi Arabia will be exclusively conducted through the new company. Existing assets in the Kingdom will be either contributed to the new company, managed by the new company for a certain period of time before being contributed or leased to the new company on an ad-hoc basis. Rigs owned by Rowan for which the new company does not have a contract with Saudi Aramco would be free to operate outside of the Kingdom but cannot compete with the new company in Saudi Arabia.
- Certain Rowan personnel will be seconded to the new company, and others will be transferred to the new company. In addition, the new company will begin hiring and training additional workforce to meet the growth demand and assist in the new company becoming more independent from its partners.

G. Partners Contribution to the New Company

1. What will be the initial contribution from the new company partners?

- At inception, both partners will contribute some working capital funding. At the start of operations, Saudi Aramco will contribute two jack-ups and Rowan will contribute three jack-ups and its shore-based operations to the new company. Rowan will subsequently contribute two additional rigs in late 2018 at expiration of their current contracts.
- In order to maintain 50/50 ownership, Saudi Aramco will contribute additional cash to make up any difference in value of asset contributions between the partners. To the extent such cash contributions are in excess of the new company's requirements in the year of contribution, it is to be divided equally between the partners.

2. How have Saudi Aramco and Rowan agreed on the value of the contributed rigs from each party?

- Independent and reputable third party appraisers assessed and determined the fair value of each of the rigs to be contributed taking into account age, condition and technical capabilities.

2. How have the contributed rigs been selected?

- The rigs were selected by both Rowan and Saudi Aramco in order to best address the estimated future drilling requirements in the Kingdom and considering that jack-up demand will also be addressed through new rigs manufactured for the new company in Kingdom.

3. How will Rowan's non-contributed rigs in the Kingdom be treated?

- The jack-ups not contributed to the new company at inception will be managed by the new company until the expiration of their current contracts, following which they may be contributed to the new company, leased or released and relocated outside of the Kingdom.

H. Capital Structure

1. What is the funding strategy for the new company?

- The new company is expected to be independent both operationally and financially. Other than a possible reinvestment of the cash received by the partners upon the initial contributions planned and described, no additional equity injections are expected (although both Saudi Aramco and Rowan remain fully committed to the success of the new company).
- The new company has a long-term business plan and low risk profile which in our view provides a good platform to access the debt capital markets. The partners expect the new company will be self-funded from cash flow generated from operations as well as local and international debt financing.

2. What is the targeted capital structure for the new company?

- Saudi Aramco and Rowan aim to maintain a solid capital structure with an appropriate amount of leverage in line with industry standards.

I. Maritime Yard Initiative

1. What will be the new company's involvement in the manufacturing process?

- The new company and the Maritime Yard Initiative will cooperate closely at every stage of the design and manufacturing of the new offshore rigs to ensure standardization of the fleet and to build fit-for-purpose rigs for maximum efficiency.

2. What are the contemplated mitigating measures in case of delays / issues with the Maritime Yard Initiative?

- The new company aims to establish a close working relationship with the manufacturing facility of the Maritime Yard Initiative to mitigate any delays.

3. How will the new builds be priced by the manufacturing facility?

- The manufacturing facility within the Maritime Yard Initiative will have an arm's length agreement with the new company and is expected to be competitive to international jack-up costs. The Maritime Yard Initiative is still under negotiation, so further details are not available at this time.

J. Training and Human Resources

1. How will the new company recruit its employees?

- Initially contributed rigs from both Saudi Aramco and Rowan are to be contributed fully staffed with experienced personnel at all operational levels.
- In order to meet the growth of the new company, recruiting and training of additional Saudi personnel will occur quickly after start-up.

2. Would the new company aim for specific Saudization targets?

- The partners are fully aware of the benefits the oil and gas industry brings to Saudi society and are committed to help Saudi Aramco improve its Saudization levels with this new company at the forefront of this improvement.

3. Will the new company develop its own training/development program or will it rely on Rowan / third party?

- The new company aims to be fully independent and will indeed develop its own training/development program and facilities to support the skills development of the new company's personnel. Saudi Aramco recognizes that one of Rowan's important contributions to the new company is the high quality of its training programs and as a 50% shareholder, Rowan will provide the necessary support to ensure this objective is met.

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