

# Archer

## Second Quarter 2016 highlights

- Second quarter revenue was \$218.8 million.
- Second quarter EBITDA was \$17.4 million before net restructuring costs.
- Second quarter cash generated from underlying operations to financing activities and servicing of debt was \$32.0 million.
- Net interest-bearing debt of \$790.7 million at June 30, 2016.
- Wireline division was awarded a 5-year contract for provision of Mechanical Wireline Services for ConocoPhillips in Norway in April.
- Archer received \$75 million in subordinated debt from Seadrill during the quarter.
- John Lechner was appointed as CEO and Dag Skindlo was appointed as CFO.

## Financial Statements

The following discussions are based on a continuing operations basis. The results of the divested North American business, which have previously been reported in our North America Area, have been reclassified to discontinued operations for all periods presented and previously announced results have also been restated.

### *Comparison of the Three Months Ended June 30, 2016 to the Three Months ended March 31, 2016*

Revenue for second quarter 2016 was \$218.8 million compared to \$229.2 million for the first quarter 2016, a reduction of \$10.4 million or 4.5%, mainly following reduced activity for Platform Drilling in the North Sea. Earnings before Interest, Taxes, Depreciation and Amortization or EBITDA from continuing operations, was \$17.4 million before net restructuring costs. Net restructuring cost and other one-time costs recorded for second quarter was \$19.1 million, mainly related to restructuring of the land drilling business in Argentina. Restructuring cost recorded in second quarter includes a provision for cost related to personnel in Argentina idled as a result of reduction in client activity and that will need to be terminated. EBITDA after restructuring and one-time cost was a loss of \$1.6 million.

Net Financial Items were a net expense of \$22.9 million in the second quarter 2016 compared to an expense of \$20.3 million in the first quarter 2016. Interest expenses amounted to \$13.3 million compared to \$15.1 million in the first quarter 2016. Losses derived from results in associated companies amounted to \$13.3 million in the second quarter 2016 compared to \$19.5 million in the first quarter 2016 and represent predominantly the results of our 42% ownership interest in Quintana Energy Services LLP, which continues to suffer significant losses due to the continued weakness of the North American Land market. This was partly offset by other financial items, the majority of which is exchange gains, amounting to \$3.2 million income, compared to \$13.6 million income in the first quarter 2016.

Attached to this quarterly report is an appendix with the reconciliation between GAAP results and non-GAAP measures, as well as the EBITDA by segment for the last six quarters.

### Cash Flow

Cash and cash equivalents, excluding restricted cash, amounted to \$29.5 million at June 30, 2016 compared to \$23.1 million at March 31, 2016.

Cash generated from underlying operations to financing activities and servicing of debt for second quarter was \$32.0 million up from \$20.9 million in first quarter 2016, mainly related to strong improvement in working capital. Cash generated from underlying operations to financing activities and servicing of debt is calculated to be the EBITDA adjusted for changes in working capital and tax payments.

Disciplined capex spend totalling \$1.6 million in second quarter.

Net cash outflow from financing activities during the second quarter, including interest, was \$20.0 million, which consists of \$12.1 million reduction of debt and interest paid of \$7.9 million.

Total net interest-bearing debt at June 30, 2016 was \$790.7 million compared to \$809.0 million as of March 31, 2016. Total cash and committed undrawn credit lines amount to \$89.5 million at the end of June 30, 2016.

As agreed in December 2015 with the Lenders under our multicurrency revolving facility agreement, the amount available under this facility was reduced from \$687.5 million to \$625 million in May 2016. As furthermore agreed, Seadrill Limited has provided new financing to Archer amounting to \$75 million, which was contributed in form of subordinated debt during the second quarter.

### Share Capital

The total number of issued and fully paid shares of par value \$0.01 outstanding at June 30, 2016 was 58,164,966. A total of 1,845,585 options and restricted stock units ("RSU"s) were outstanding as of June 30, 2016.

### Second Quarter 2016 Operating Results by Area

The management discussions and analysis below represents results from continuing operations and excludes the divested North America Pressure Pumping, Pressure Control, Directional Drilling and Wireline divisions, which starting in the first quarter 2016 are reported as part of our investment in Quintana Energy Services LLP (QES) and as results in associated companies. Following this divestiture and starting on January 1, 2016, we reorganized our remaining business lines into two reporting segments; Eastern Hemisphere and Western Hemisphere and all operational comments are presented in line with this new organization below unless stated otherwise.

| <i>(In millions)</i> | Revenues        |                 |                  | EBITDA before net restructuring costs |                |                 |
|----------------------|-----------------|-----------------|------------------|---------------------------------------|----------------|-----------------|
|                      | <u>Q2 2016</u>  | <u>Q1 2016</u>  | <u>Variance</u>  | <u>Q2 2016</u>                        | <u>Q1 2016</u> | <u>Variance</u> |
| Eastern Hemisphere   | \$ 113.1        | \$ 126.1        | \$ (13.0)        | \$ 12.3                               | \$ 14.9        | \$ (2.6)        |
| Western Hemisphere   | 105.7           | 103.1           | 2.6              | 7.6                                   | 14.4           | (6.8)           |
| Corporate            | <u>0.0</u>      | <u>0.0</u>      | <u>0.0</u>       | <u>(2.5)</u>                          | <u>(3.0)</u>   | <u>0.5</u>      |
|                      | <u>\$ 218.8</u> | <u>\$ 229.2</u> | <u>\$ (10.4)</u> | <u>\$ 17.4</u>                        | <u>\$ 26.4</u> | <u>\$ (8.9)</u> |

*Note: The EBITDA numbers shown above are before net restructuring costs; net restructuring costs incurred during second quarter 2016 were \$19.1 million as compared to \$ 6.5 million during first quarter 2016*

### *Eastern Hemisphere*

Second quarter 2016 revenue was \$113.1 million, a decrease of \$12.9 million or 10.2% sequentially following reduced spending by our customers in line with the low oil price experienced during last part of Q1 and first part of Q2. Compared to the first quarter 2016, EBITDA before restructuring costs, decreased by \$2.6 million or 17.3% as a result of lower revenue. Despite the challenging market conditions Eastern Hemisphere segment managed to maintain the overall margins from operations, due to significant costs reductions implemented during this downturn.

Platform Drilling revenue for second quarter 2016 decreased by \$12.5 million or 14.4% as customers continued to shut down platforms and curtail drilling operations combined with demobilisation for the Archer Topaz during the quarter following project completion. For the same period EBITDA before restructuring decreased by \$2.6 million or 25.4%, reflecting the reduced revenue as well as margin dilution as a consequence of pricing concessions, partially offset by costs savings realised from headcount reductions in all areas.

Second quarter 2016 revenue for Engineering services increased by \$0.5 million or 5.7% sequentially, following higher onshore personnel utilization in Norway and increased offshore engineering and inspection activity in UK partially offset by lower inspection activity in Australia. Quarter on quarter EBITDA increased by \$0.2 million or 144.9% reflecting margin from incremental revenue and cost savings achieved from down-sizing initiatives completed earlier.

Wireline revenue for second quarter 2016 decreased by \$0.8 million or 4.8%, primarily due to lower logging and mechanical activities in Norway following bi-annual maintenance shut-down of operations by a major customer, partially offset by increased logging services in a number of other European, Asian and African markets. Despite higher revenue, EBITDA before restructuring remained flat as incremental margin from higher revenue was offset by absence of costs recharges accounted during first quarter 2016.

Compared to first quarter 2016, Oiltools revenue in second quarter decreased by \$0.7 million or 4.6% primarily driven by lower LOCK™ and TCP™ installations in the European markets and lower LOCK™ and Tornar™ activity in Australia. These downsides were partially offset by increased LOCK™ and C-Flex™ activity in North American markets for a number of major customers. Quarter on quarter EBITDA before restructuring decreased by \$0.5 million or 26.2% primarily as a consequence of lower revenue.

### *Western Hemisphere*

Second quarter 2016 revenue of \$105.7 million increased by \$2.5 million or 2.5% mainly related to Land Drilling services in Latin America where some new rigs started operations during the quarter, offset by absence of customer-requested vacation plans seen during first quarter 2016 and higher Mud Services activity. Despite increased activity, quarter on quarter EBITDA before restructuring cost decreased by \$6.8 million or 47 % mainly for Land Drilling. The reduction was largely due to increased start-up cost and additional operational costs during second quarter, compared to first quarter when some rigs were idle due to vacation.

Land Drilling revenue for the second quarter 2016 was \$103.1 million, \$2.3 million or 2.3% higher than first quarter 2016, mainly due to absence of customer-driven vacation plan which impacted first quarter activities and higher level of Drilling Fluid Services activity. These upsides were partially offset by impact of operational stoppage requested by a major customer for a number of rigs and pricing concessions. Land Drilling Rigs utilization during the quarter was 61.7% compared to 59.9% during first quarter 2016. Despite higher revenue, EBITDA before net restructuring costs decreased by \$ 7.3 million or 44.8% % due to the increased operational costs more than offsetting the increase in revenue from the rigs which were impacted by vacation plan during first quarter. Second quarter 2016 results were also adversely affected by lost margin on rigs impacted by customer requested operational stoppage as well as impact on margin resulting from pricing concessions. These adverse changes were partially offset by margin from incremental Mud Services activity as well as lower selling, general and administrative costs.

Revenue for Frac Valves in the second quarter 2016 increased by \$0.2 million following increased volume of new Valves sold and increased repairs activity partially offset by lower revenue from sale of parts. EBITDA before restructuring for the same period improved by \$0.5 million from incremental revenue and costs savings realised from various restructuring initiatives.

#### *Corporate Costs*

Corporate costs of \$2.4 million during the second quarter 2016 were \$0.7 million below the first quarter 2016 mainly on account of costs savings realised, partially offset by increased spending on legal and consulting fees incurred on business restructuring projects.

#### **Summary Outlook**

As global commodity prices remained under pressure and the price for oil hit a 12 year low in February 2016, many of our customers decided to further reduce their spending levels for the year 2016. However, in line with what our well services competitors have announced, we are starting to see signs of higher activity levels and expect activity to improve towards the end of the year. Furthermore, in fourth quarter we will commence the incremental Platform Drilling operations for Statoil which we were awarded earlier this year. However, in the short term, we expect third quarter 2016 revenue to be lower than second quarter following continued reduction in drilling activities impacted by platform shutdowns and summer vacation in some of the markets we operate in.

We continue to carefully review our capital expenditures and we expect total spending levels for 2016 to be between \$6 and \$10 million. The variation in the capital expenditure forecast is reflecting the uncertainty of tendering activity for the remainder of 2016.

## Risks and uncertainties

Our largest uncertainty in activity going forward is related to drilling operations in Argentina as the country moves towards market based prices for oil and gas which is expected to be implemented by January 1, 2017. In line with reduction in activity level in second half of 2016, we plan to reduce the headcount further in the third quarter.

We have not identified any other additional risk exposure beyond the risks disclosed in our report contained in Archer Limited's 2015 Annual report published at OSE.

## Responsibility Statement

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period January 1, to June 30, 2016 has been prepared in accordance with United States Generally Accepted Accounting Principles, or "USGAAP" and gives a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements. We have disclosed all major related parties transactions. A detailed description of the principal risks and uncertainties facing the group is provided in our annual statement for the year ended December 31, 2015, and remain was for the remaining materially unchanged for the remaining six months of the financial year 2016.

July 2016  
The Board of Archer Limited

Ørjan Svanevik  
Chairman

Kate Blankenship  
Director

Alf Ragnar Løvdal  
Director

Giovanni Dell Orto  
Director

John Reynolds  
Director

Harald Thorstein  
Director

Dag Skindlo  
Director

John Lechner  
CEO

## **Cautionary Statement Regarding Forward-Looking Statements**

In addition to historical information, this press release contains statements relating to our future business and/or results. These statements include certain projections and business trends that are “forward-looking.” All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including statements preceded by, followed by or that include the words “estimate,” “plan,” “project,” “forecast,” “intend,” “expect,” “predict,” “anticipate,” “believe,” “think,” “view,” “seek,” “target,” “goal” or similar expressions; any projections of earnings, revenues, expenses, synergies, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations, including integration and any potential restructuring plans; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results as a result of certain risks and uncertainties. Further information about these risks and uncertainties are set forth in our most recent annual report for the year ending December 31, 2015. These forward-looking statements are made only as of the date of this press release. We do not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from Second parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies, which are impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

# Archer

## ARCHER LIMITED

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**ARCHER LIMITED**  
Consolidated Statements of Operations  
(Unaudited)

(In millions, except per share data)

|  |      | Three Months Ended<br>June 30 |                  | Six Months Ended<br>June 30 |                  |
|--|------|-------------------------------|------------------|-----------------------------|------------------|
|  | Note | 2016                          | 2015             | 2016                        | 2015             |
| <b>Revenues</b>  |      |                               |                  |                             |                  |
| Operating revenues   |      | \$ 201.3                      | \$ 296.0         | \$ 412.2                    | \$ 670.6         |
| Reimbursable revenues                                      |      | 17.5                          | 24.3             | 38.5                        | 46.1             |
| <b>Total revenues</b>                                      |      | <b>218.8</b>                  | <b>320.8</b>     | <b>448.0</b>                | <b>716.7</b>     |
| <b>Expenses</b>  |      |                               |                  |                             |                  |
| Operating expenses   |      | 194.4                         | 275.5            | 376.8                       | 568.8            |
| Reimbursable expenses                                      |      | 15.8                          | 22.0             | 31.5                        | 42.9             |
| Depreciation and amortization                              |      | 19.1                          | 20.1             | 37.0                        | 39.5             |
| Impairments  |      | 0.2                           | -                | 5.7                         | -                |
| Loss/(Gain on sale of assets)                              |      | 1.5                           | 1.1              | 1.4                         | (3.3)            |
| General and administrative expenses                        |      | 10.3                          | 15.2             | 21.5                        | 31.5             |
| <b>Total expenses</b>                                      |      | <b>241.3</b>                  | <b>334.0</b>     | <b>473.9</b>                | <b>679.6</b>     |
| <b>Operating (loss) / income</b>                           |      | <b>(22.5)</b>                 | <b>(13.2)</b>    | <b>(25.9)</b>               | <b>37.1</b>      |
| <b>Financial items</b>                                     |      |                               |                  |                             |                  |
| Interest income  |      | 0.5                           | 0.6              | 1.2                         | 1.2              |
| Interest expenses  |      | (13.3)                        | (12.7)           | (28.4)                      | (25.1)           |
| Share of results in associated company                     |      | (13.3)                        | (0.9)            | (32.8)                      | (2.1)            |
| Other financial items                                      | 2    | 3.2                           | (0.5)            | 16.8                        | (23.5)           |
| <b>Total financial items</b>                               |      | <b>(22.9)</b>                 | <b>(13.6)</b>    | <b>(43.2)</b>               | <b>(49.5)</b>    |
| <b>Loss from continuing operations before income taxes</b> |      | <b>(45.4)</b>                 | <b>(26.7)</b>    | <b>(69.1)</b>               | <b>(12.4)</b>    |
| Income tax benefit / (expense)                             | 3    | -                             | 5.8              | (2.9)                       | 2.4              |
| <b>Loss from continuing operations</b>                     |      | <b>(45.4)</b>                 | <b>(20.9)</b>    | <b>(72.0)</b>               | <b>(10.0)</b>    |
| Income/(loss) from discontinued operations, net of tax     |      | 0.2                           | (26.8)           | (1.0)                       | (52.6)           |
| <b>Net loss</b>  |      | <b>\$ (45.2)</b>              | <b>\$ (47.7)</b> | <b>\$ (73.0)</b>            | <b>\$ (62.6)</b> |
| <b>Loss per share-basic</b>                                |      |                               |                  |                             |                  |
| Loss from continuing operations                            |      | \$ (0.78)                     | \$ (0.35)        | \$ (1.23)                   | \$ (0.17)        |
| Loss from discontinued operations                          |      | -                             | (0.45)           | (0.02)                      | (0.91)           |
| <b>Loss per share</b>                                      |      | <b>\$(0.78)</b>               | <b>\$(0.80)</b>  | <b>\$ (1.25)</b>            | <b>\$ (1.08)</b> |
| <b>Loss per share-diluted</b>                              |      |                               |                  |                             |                  |
| Loss from continuing operations                            |      | \$ (0.78)                     | \$ (0.35)        | \$ (1.23)                   | \$ (0.17)        |
| Loss from discontinued operations                          |      | -                             | (0.45)           | (0.02)                      | (0.91)           |
| <b>Loss per share</b>                                      |      | <b>\$ (0.78)</b>              | <b>\$(0.80)</b>  | <b>\$ (1.25)</b>            | <b>\$ (1.08)</b> |
| <b>Weighted average number of shares outstanding</b>       |      |                               |                  |                             |                  |
| Basic  | 5    | 58.2                          | 57.9             | 58.1                        | 57.9             |
| Diluted  | 5    | 58.2                          | 57.9             | 58.1                        | 57.9             |

See accompanying notes that are an integral part of these Consolidated Financial Statements.



**ARCHER LIMITED**  
Consolidated Statements of Comprehensive (Loss)  
(Unaudited)

| <i>(In millions)</i>                       | <b>Three Months Ended June 30</b> |                 | <b>Six Months Ended June 30</b> |                  |
|--|-----------------------------------|-----------------|---------------------------------|------------------|
|  | <b>2016</b>                       | <b>2015</b>     | <b>2016</b>                     | <b>2015</b>      |
| <b>Net loss</b>                            | <b>\$(45.2)</b>                   | <b>\$(47.7)</b> | <b>\$ (73.0)</b>                | <b>\$ (62.6)</b> |
| <b>Other comprehensive (loss) / income</b> |                                   |                 |                                 |                  |
| Currency translation differences           | -                                 | 6.4             | (12.5)                          | 6.3              |
| <b>Other comprehensive (loss) / income</b> | -                                 | 6.4             | (12.5)                          | 6.3              |
| <b>Total comprehensive loss</b>            | <b>\$(45.2)</b>                   | <b>\$(41.3)</b> | <b>\$ (85.5)</b>                | <b>\$ (56.3)</b> |

**Accumulated Other Comprehensive Loss**  
(Unaudited)

| <i>(In millions)</i>                | <b>Pension –<br/>Unrecognized<br/>Losses</b> | <b>Currency<br/>Exchange<br/>Differences</b> | <b>Total</b>     |
|-------------------------------------|--|--|------------------|
| <b>Balance at December 31, 2015</b> | <b>\$ (23.1)</b>                             | <b>\$ 17.6</b>                               | <b>\$ (5.5)</b>  |
| Currency exchange differences       | -  | (12.5)                                       | (12.5)           |
| <b>Balance at June 30, 2016</b>     | <b>\$ (23.1)</b>                             | <b>\$ 5.1</b>                                | <b>\$ (18.0)</b> |

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

## ARCHER LIMITED

### Consolidated Balance Sheets

(In millions)

|  | Note | <u>June 30 2016</u><br>(Unaudited) | <u>December 31 2015</u><br>(Audited) |
|--|------|------------------------------------|--------------------------------------|
| <b>ASSETS</b>  |      |                                    |                                      |
| <b>Current assets</b>  |      |                                    |                                      |
| Cash and cash equivalents  |      | \$ 29.5                            | \$ 20.5                              |
| Restricted cash  |      | 8.7                                | 8.0                                  |
| Accounts receivables   |      | 151.8                              | 193.3                                |
| Inventories  | 6    | 73.4                               | 83.5                                 |
| Other current assets   |      | 51.6                               | 57.6                                 |
| <b>Total current assets</b>  |      | <u>315.0</u>                       | <u>362.9</u>                         |
| <b>Noncurrent assets</b>   |      |                                    |                                      |
| Investments in associates  | 7    | 130.0                              | 148.1                                |
| Loans to associates  | 7    | 5.6                                | 4.7                                  |
| Property plant and equipment, net  |      | 522.7                              | 554.5                                |
| Deferred income tax asset  |      | 12.1                               | 13.3                                 |
| Goodwill   | 8    | 178.8                              | 174.2                                |
| Other intangible assets, net   | 9    | 4.2                                | 4.8                                  |
| Deferred charges and other current assets  |      | 2.8                                | 4.9                                  |
| <b>Total noncurrent assets</b>   |      | <u>856.2</u>                       | <u>904.5</u>                         |
| <b>Total assets</b>  |      | <u>\$ 1,171.2</u>                  | <u>\$1,267.4</u>                     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |      |                                    |                                      |
| <b>Current liabilities</b>   |      |                                    |                                      |
| Current portion of interest-bearing debt   | 10   | \$ 72.0                            | \$ 95.0                              |
| Accounts payable   |      | 48.5                               | 59.1                                 |
| Other current liabilities  |      | 144.7                              | 165.2                                |
| <b>Total current liabilities</b>   |      | <u>265.2</u>                       | <u>319.3</u>                         |
| <b>Noncurrent liabilities</b>  |      |                                    |                                      |
| Long-term interest-bearing debt  | 10   | 623.2                              | 657.6                                |
| Subordinated related party loan  |      | 125.0                              | 50.0                                 |
| Deferred taxes   |      | 9.8                                | 9.3                                  |
| Other noncurrent liabilities   |      | 36.0                               | 33.9                                 |
| <b>Total noncurrent liabilities</b>  |      | <u>794.0</u>                       | <u>750.8</u>                         |
| <b>Shareholders' equity</b>  |      |                                    |                                      |
| Common shares of par value \$0.01 per share: 1.0 billion shares<br>authorized: 58,164,966 outstanding shares at June 30, 2016<br>(December 31, 2015: 57,915,716) |      | 0.6                                | 0.6                                  |
| Additional paid in capital   |      | 823.5                              | 823.3                                |
| Accumulated deficit  |      | (1,434.2)                          | (1,361.2)                            |
| Accumulated other comprehensive loss   |      | (18.0)                             | (5.5)                                |
| Contributed surplus  |      | 740.1                              | 740.1                                |
| <b>Total shareholders' equity</b>  |      | <u>112.0</u>                       | <u>197.3</u>                         |
| <b>Total liabilities and shareholders' equity</b>  |      | <u>\$ 1,171.2</u>                  | <u>\$ 1,267.4</u>                    |

See accompanying notes that are an integral part of these Consolidated Financial Statements.

**ARCHER LIMITED**  
**Consolidated Statements of Cash Flow**  
**(Unaudited)**

(In millions)

|  | <b>Six Months Ended June 30</b> |               |
|--|---------------------------------|---------------|
|  | <b>2016</b>                     | <b>2015</b>   |
| <b>Cash Flows from Operating Activities</b>  |                                 |               |
| Net loss   | \$ (73.0)                       | \$ (62.6)     |
| Net loss from discontinued operations  | 1.0                             | 52.6          |
| Net loss from continuing operations  | (72.0)                          | (10.0)        |
| <u>Adjustment to reconcile net loss to net cash provided by operating activities</u> |                                 |               |
| Depreciation and amortization  | 37.0                            | 39.5          |
| Write-down of inventory  | 5.5                             | -             |
| Share-based compensation expenses  | 0.2                             | 1.4           |
| Loss/(Gain) on property, plant and equipment disposals                               | 1.4                             | (3.3)         |
| Share of losses of unconsolidated affiliates   | 32.8                            | 2.1           |
| Amortization of loan fees  | 3.0                             | 1.6           |
| Deferred income taxes  | 0.7                             | (6.4)         |
| Foreign currency gain  | (18.3)                          | 21.4          |
| <i>Changes in operating assets and liabilities</i>                                   |                                 |               |
| Decrease in accounts receivable and other current assets                             | 52.4                            | 31.7          |
| Decrease / (Increase) in inventories   | 4.2                             | (12.4)        |
| Decrease in accounts payable and other current liabilities                           | (12.1)                          | (30.8)        |
| Other, net   | (2.2)                           | (8.5)         |
| Net cash (used) / provided by discontinued operations                                | (1.0)                           | 22.0          |
| <b>Net cash provided by operating activities</b>                                     | <b>31.6</b>                     | <b>48.3</b>   |
| <b>Cash Flows from Investing Activities</b>  |                                 |               |
| Capital expenditures   | (3.4)                           | (74.1)        |
| Proceeds from disposal of property, plant and equipment                              | 1.0                             | 7.7           |
| Loans to / investment in associates  | (15.3)                          | (2.3)         |
| Net change in restricted cash  | (0.2)                           | (1.7)         |
| Net cash used in investing activities of discontinued operations                     | -                               | (5.6)         |
| <b>Net cash used investing activities</b>  | <b>(17.9)</b>                   | <b>(76.0)</b> |
| <b>Cash Flows from Financing Activities</b>  |                                 |               |
| Borrowings under revolving facilities  | 107.7                           | 36.8          |
| Repayments under revolving facilities  | (162.2)                         | (4.2)         |
| Proceeds from related party subordinated debt  | 75.0                            | -             |
| Proceeds from long-term debt   | -                               | 3.7           |
| Repayment of long-term debt  | (10.5)                          | (11.6)        |
| Debt issuance costs  | (2.0)                           | -             |
| Cash used in financing activities of discontinued operations                         | -                               | (0.1)         |
| <b>Net cash provided/(used)by financing activities</b>                               | <b>7.7</b>                      | <b>24.6</b>   |
| Effect of exchange rate changes on cash and cash equivalents                         | (12.4)                          | 1.6           |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                          | <b>9.0</b>                      | <b>(1.5)</b>  |
| Cash and cash equivalents at beginning of the period                                 | 20.5                            | 28.9          |
| <b>Cash and cash equivalents at the end of the period</b>                            | <b>29.5</b>                     | <b>27.4</b>   |
| Interest paid  | \$ 20.1                         | \$ 20.8       |
| Taxes paid   | \$ 6.7                          | \$ 12.7       |

See accompanying notes that are an integral part of these Consolidated Financial Statements.

**ARCHER LIMITED**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**(Unaudited)**

*(In millions)*

|                                     | <u>Share<br/>Capital</u> | <u>Additional<br/>Paid In<br/>Capital</u> | <u>Accumulated<br/>Deficit</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income/(Loss)</u> | <u>Contributed<br/>Surplus</u> | <u>Total<br/>Shareholders'<br/>Equity</u> |
|-------------------------------------|--------------------------|---|--------------------------------|--|--------------------------------|---|
| <b>Balance at December 31, 2015</b> | \$ 0.6                   | \$ 823.3                                  | \$ (1,361.2)                   | \$ (5.5)   | \$ 740.1                       | \$ 197.3                                  |
| Translation differences             | —                        | —   | —                              | (12.5)   | —                              | (12.5)                                    |
| Net loss                            | —                        | —   | (73.0)                         | —  | —                              | (73.0)                                    |
| Share based compensation            | —                        | 0.2                                       | —                              | —  | —                              | 0.2                                       |
| <b>Balance at June 30, 2016</b>     | <b>\$ 0.6</b>            | <b>\$ 823.5</b>                           | <b>\$ (1,434.2)</b>            | <b>\$ (18.0)</b>   | <b>\$ 740.1</b>                | <b>\$ 112.0</b>                           |

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

# ARCHER LIMITED

## Notes to Unaudited Consolidated Financial Statements

### Note 1 – Summary of Business and Significant Accounting Policies

#### *Description of business*

Archer Limited is an international oilfield service company providing a variety of oilfield products and services through its Area organization. Services include platform drilling, land drilling, directional drilling, modular rigs, engineering services, equipment rentals, wireline services, pressure control, pressure pumping, production monitoring, well imaging and integrity management tools.

As used herein, unless otherwise required by the context, the term "Archer" refers to Archer Limited and the terms "Company," "we," "Group," "our" and words of similar import refer to Archer and its consolidated subsidiaries. The use herein of such terms as "group", "organization", "we", "us", "our" and "its" or references to specific entities is not intended to be a precise description of corporate relationships.

We employed approximately 5,150 skilled and experienced people at June 30, 2016.

Archer was incorporated in Bermuda on August 31, 2007 and conducted operations as Seawell Ltd. until May 16, 2011 when shareholders approved a resolution to change the name to Archer Limited.

#### *Basis of presentation*

The unaudited second quarter 2016 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited second quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These second quarter financial statements should be read in conjunction with our financial statements as of December 31, 2015. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

#### *Use of estimates*

In accordance with accounting principles generally accepted in the United States of America, the preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be perceived with certainty. Accordingly, our accounting estimates require the exercise of judgment. While management believes that the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts, recoverability of long-lived assets, goodwill and intangibles, useful lives used in depreciation and amortization, income taxes, valuation allowances and purchase price allocations. The accounting estimates used in the preparation of the consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes.

#### *Significant accounting policies*

The accounting policies utilized in the preparation of the unaudited first quarter financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2015. For ease of reference we have stated some specific policies, which have a significant impact on this quarters result.

## *Goodwill*

We allocate the cost of acquired businesses to the identifiable tangible and intangible assets and liabilities acquired, with any remaining amount being capitalized as goodwill. Goodwill is not amortized but is tested for impairment at least annually. We test goodwill, by reporting unit, for impairment on an annual basis, and between annual tests if an event occurs, or circumstances change, that would more likely than not, reduce the fair value of a reporting unit below its carrying amount. The reporting units have been identified in accordance with Accounting Standards codification 350-20 “Intangible Assets – Goodwill” as the business components one level below the reporting segments each of which we identified as

- constituting a business,
- for which discrete financial information is available, and
- whose operating results are reviewed regularly by segment management

We aggregated components with similar economic characteristics.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if a reporting unit's fair value is less than its carrying value, an impairment of goodwill may exist, requiring a second step to measure the amount of impairment loss.

We estimate the fair value of each reporting unit using the income approach. The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal values for each reporting unit are discounted to a present value. Cash flow projections are based on management's estimates of economic and market conditions that drive key assumptions of revenue growth rates, operating margins, capital expenditures and working capital requirements. The discount rate is based on our specific risk characteristics, our weighted average cost of capital and our underlying forecasts. There are inherent risks and uncertainties involved in the estimation process, such as determining growth and discount rates.

## *Impairment of long-lived assets and intangible assets*

The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment at least once a year during the fourth quarter. As prescribed by USGAAP, for step one of the impairment test, we assess our major assets/asset groups for recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposal. If the future net cash flows are less than the carrying value of the asset, an impairment is required. We use various methods to estimate the fair value of our assets, using all and best available relevant data, including estimated discounted cashflow forecasts, relevant market data where available, and independent broker valuations for our land rigs. Once the fair value has been determined, the potential impairment is recorded equal to the difference between the asset's carrying value and fair value.

## *Reclassifications*

We have made certain reclassifications to prior period amounts to conform with the current period's presentation, including certain reclassifications to present discontinued operations. Other reclassifications did not have a material effect on our consolidated financial statements.

## *Recently issued accounting pronouncements*

Since December 31, 2015, the Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) which may be relevant to Archer's financial statements:

**ASU 2016-02 Leases (Topic 842)** This update creates new topic 842, containing new guidance for lease accounting which is effective for fiscal years beginning after December 15, 2018. Early application is

permitted. The new GAAP requires the recognition of lease assets and liabilities by lessees, for leases previously classified as operating leases.

For leases for a period of 12 months or less, an election is available by class of underlying asset, not to recognise lease assets and liabilities. Instead, a lease expense may be recognised, generally on a straight line basis, over the lease term.

The distinction between finance and operating leases is maintained under the new GAAP, and the effect of leases in the statement of comprehensive income and statement of cash flows is largely unchanged from previous GAAP.

Under the new GAAP a lease is defined as a contract (or part of a contract) that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration.

We expect that the application of the new GAAP will bring some additional assets and liabilities on to our future balance sheets. We have not yet analysed and quantified the amounts involved.

**ASU 2016-08 Revenue from contracts with customers (Topic 606) Principal versus Agent considerations.** The update clarifies the guidance on whether revenues should be recognised gross or net, in cases where a third party intermediary is involved in the transaction. The provisions are more directly relevant to intermediaries involved in some of our sales, however we shall apply the provisions to ensure our revenues are recorded correctly. We do not expect this update to have a material effect on our financial statements.

**ASU 2016-09 Stock compensation (Topic 718) – Improvements to employee share based payment accounting.** The update is part of the FASB’s simplification initiative. We do not expect the provisions in this guidance to have a material effect on our financial statements.

**ASU 2016-10 revenue from Contracts with customers (Topic 606) Identifying performance obligations and Licensing.** The new revenue recognition guidance (Topic 606) is applicable for fiscal periods beginning after December 15, 2017. We are still assessing the impact of the new provisions on our financial statements.

**Note 2 – Other Financial Items**

|                                    | Three Months Ended |                 | Six Months Ended |                 |
|------------------------------------|--------------------|-----------------|------------------|-----------------|
|                                    | June 30            |                 | June 30          |                 |
| <i>(In millions)</i>               | 2016               | 2015            | 2016             | 2015            |
| Foreign exchange gains / (losses)  | \$ 4.0             | \$ -            | \$ 18.3          | \$(21.4)        |
| Other items                        | (0.8)              | (0.5)           | (1.5)            | (2.1)           |
| <b>Total other financial items</b> | <b>\$ 3.2</b>      | <b>\$ (0.5)</b> | <b>\$(16.8)</b>  | <b>\$(23.5)</b> |

Other financial items represent predominantly foreign exchange gains on an intercompany loan balance denominated in Norwegian Kroner. The intercompany loan is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of the entity with Norwegian Kroner functional currency is classified as other comprehensive income.

### Note 3 – Income Taxes

Tax expense (benefit) can be split in the following geographical areas:

| <i>(In millions)</i> | Three Months Ended<br>June 30 |                 | Six Months Ended<br>June 30 |                 |
|----------------------|-------------------------------|-----------------|-----------------------------|-----------------|
|                      | 2016                          | 2015            | 2016                        | 2015            |
| United States        | \$ -                          | \$ -            | \$ 0.3                      | \$ -            |
| South America        | 0.8                           | (6.3)           | 1.4                         | (6.3)           |
| Europe               | (1.3)                         | 2.5             | 0.3                         | 2.5             |
| Others               | 0.5                           | 1.4             | 0.9                         | 1.4             |
| <b>Total</b>         | <b>\$ -</b>                   | <b>\$ (2.4)</b> | <b>\$ 2.9</b>               | <b>\$ (2.4)</b> |

Archer is operating in many jurisdictions and our income tax expense is generated by earnings, which are taxed at the respective country's corporate income tax rate.

The Group's net tax position for the first six months of 2016 is \$2.9 million. In Europe there is a net tax expense of \$0.3 million of which \$1.8 million was incurred in the United Kingdom, while \$(1.5) million incurred in Norway due to operational losses. Others represent mainly adjustments to previous years in Australia. In South America there are tax expenses of \$1.4 million. Those relate to a gain on internal restructuring following a sale of shares of an entity in Argentina \$0.6 million. Bolivia has incurred a tax expense of \$0.4 million. Eventually a valuation allowance of \$0.4 million has been booked against tax assets in DLS Argentina.

We have deferred tax assets which have arisen in Argentina \$21 million and Norway \$12.5 million. In Argentina we have made a full valuation allowance against the deferred tax assets.

### Note 4 – Discontinued Operations

On December 31, 2015, we completed a contribution agreement with Quintana Energy Services LLP ("QES") to contribute our Pressure Pumping, Directional Drilling, Pressure Control and Wireline divisions ("Well Services Entities") which have previously been reported within our North American (NAM) segment.

The aggregate consideration paid by QES in exchange for the contribution of the Well Services Entities consists of QES Common Units constituting 42% of the total Common Units in QES pursuant to closing of the transaction on a fully diluted basis.

Our interest in the combined company is reported as an equity investment with our share of QES results being reported within share of results of affiliates. This investment, as well as the North American Frac Valve division will be reported under the new reporting segment, Western Hemisphere as discussed in Note 11, Segmental information.

During the first half of 2016 we have reported costs of \$1.0 million as discontinued operations. These costs relate to the closure of an office facility which previously serviced the business contributed to QES.



## Note 5 – Earnings Per Share

The computation of basic EPS is based on the weighted average number of shares outstanding during the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments. The denominator used for the computation of basic and diluted earnings was computed as follows:

| <i>(In thousands)</i>  | <b>Three Months Ended June 30</b> |               | <b>Six Months Ended June 30</b> |               |
|--|-----------------------------------|---------------|---------------------------------|---------------|
|  | <b>2016</b>                       | <b>2015</b>   | <b>2016</b>                     | <b>2015</b>   |
| <b>Denominator</b>   |                                   |               |                                 |               |
| Weighted-average common shares outstanding                         | 58,165                            | 57,916        | 58,077                          | 57,916        |
| Effect of potentially dilutive common shares                       | —                                 | —             | —                               | —             |
| Share-based compensation shares                                    | —                                 | —             | —                               | —             |
| Weighted-average common shares outstanding and assumed conversions | <u>58,165</u>                     | <u>57,916</u> | <u>58,077</u>                   | <u>57,916</u> |

Share-based compensation of approximately 1,490 and 83,759 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2016, and 22,590 and 70,729 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2015, respectively, as the effect would have been antidilutive due to the net loss for the period.

## Note 6 – Inventories

| <i>(In millions)</i>     | <b>June 30</b> | <b>December 31</b> |
|--------------------------|----------------|--------------------|
|                          | <b>2016</b>    | <b>2015</b>        |
| Manufactured             |                |                    |
| Finished goods           | \$ 18.4        | \$ 22.8            |
| Work in progress         | 0.5            | 0.8                |
| Raw materials            | -              | 2.2                |
| Total manufactured       | 18.9           | 25.8               |
| Drilling supplies        | 26.7           | 27.3               |
| Chemicals                | 6.8            | 7.5                |
| Other items and spares   | 21.0           | 22.9               |
| <b>Total inventories</b> | <b>\$ 73.4</b> | <b>\$ 83.5</b>     |

## Note 7 — Investments in Associates

We have the following participation in investments that are recorded using the equity method:

|   | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|--------------------------|------------------------------|
| C6 Technologies AS  | 50.00%                   | 50.00%                       |
| Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.) | 50.00%                   | 50.00%                       |
| Quintana Energy Services LLP  | 42.00%                   | 42.00%                       |
| TAQA Archer Services LLC  | 51.00%                   | -                            |

We invested \$12.2 million into TAQA Archer Services LLC, (“TAQA”), a Saudi resident joint venture entity, which was registered during the second quarter 2016, together with TAQA Industrialisation & Energy Services Company, (“TAQA Co”). The joint venture is governed by a shareholders agreement between Archer and TAQA Co. We have determined that the shareholders agreement provides TAQA Co, with substantive participating rights in the joint venture, by virtue of their representation on the board of the joint venture. Unanimous resolution by the board is required for some decisions which we consider have a significant influence on the financial and operational activities of the joint venture.

Although we own a majority of the voting shares of the joint venture, as a result of the above evaluation, we are not fully consolidating the entity. Instead we are accounting for the joint venture as using the equity method of consolidation.

The carrying amounts of our investments in our equity method investment are as follows:

| <i>(in millions)</i>         | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|------------------------------|--------------------------|------------------------------|
| C6 Technologies AS           | —                        | —                            |
| Rawabi Archer Company        | —                        | —                            |
| Quintana Energy Services LLP | 118.6                    | 148.1                        |
| TAQA Energy Services LLC     | 11.4                     | —                            |

The components of investments in associates are as follows:

| <i>(\$ in millions)</i>                           | <b>2016</b>  |           |               |             | <b>2015</b>  |           |               |
|---|--------------|-----------|---------------|-------------|--------------|-----------|---------------|
|   | <b>QES</b>   | <b>C6</b> | <b>Rawabi</b> | <b>TAQA</b> | <b>QES</b>   | <b>C6</b> | <b>Rawabi</b> |
| Net book balance at beginning of year             | 148.1        | -         | -             | -           | -            | -         | -             |
| Additional capital investment*                    | -            | 2.4       | -             | 12.2        | 148.1        | 2.0       | -             |
| Share in results of associates                    | (29.5)       | (2.4)     | -             | (0.9)       | -            | (2.0)     | -             |
| Rounding adjustment                               | -            | -         | -             | 0.1         | -            | -         | -             |
| <b>Net book balance at June 30, / December 31</b> | <b>118.6</b> | <b>-</b>  | <b>-</b>      | <b>11.4</b> | <b>148.1</b> | <b>-</b>  | <b>-</b>      |

Quoted market prices for C6 Technologies AS, Rawabi Archer Company, Quintana Energy Services LLP and Archer TAQA Services LLC, are not available because the shares are not publicly traded.

\*In addition to our capital investment in C6, we have made additional investment by way of a loan which, at June 30, 2016, amounted to \$5.6 million (2015 \$4.7 million) and is repayable in 2021 when we expect the developed technology to have generated sufficient funds. We have applied our share of the expenses incurred by C6 as a reduction in the value of our loan due from the entity.

The share in results related to our investment in QES reflects our 42% portion of the total losses estimated by the entity for the first half of 2016. The loss is a result of the deterioration of the North American land market during the first quarter, combined with one-time costs incurred to adjust the cost structure and to integrate Archer’s North American Well Service entities into QES. We continue to closely monitor the performance and estimated valuation of our investment. At June 30, 2016, we do not consider that there is a permanent reduction in the carrying value of this investment as we expect the market to improve in the medium term. We continue to monitor this investment and we shall record an impairment immediately if we determine that any losses in value have become other than temporary.

## Note 8 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. All of our remaining goodwill relates to our Eastern Hemisphere reporting segment – see also note 11.

(In millions)

|  |                 |
|--|-----------------|
| <b>Net book balance at December 31, 2015</b> | <b>\$ 174.2</b> |
| Currency adjustments                         | 4.6             |
| <b>Net book balance at June 30, 2016</b>     | <b>\$178.8</b>  |

We test goodwill for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The testing of the valuation of goodwill involves significant judgement and assumptions to be made in connection with the future performance of the various components of our business operations, including assumptions about future cash flows of each reporting unit, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates, gross profit performance, and other assumptions used to estimate our reporting units' fair value, future reductions in our expected cash flows, should current market conditions worsen or persist for an extended period of time, could lead to future a material non-cash impairment charge of in relation to our remaining goodwill.

## Note 9 – Other Intangible Assets

(In millions)

|                                     | <b>Cost</b>    | <b>Accumulated<br/>Amortization</b> | <b>Net</b>    |
|-------------------------------------|----------------|-------------------------------------|---------------|
| <b>Balance at December 31, 2015</b> | <b>\$ 25.5</b> | <b>\$ (20.7)</b>                    | <b>\$ 4.8</b> |
| Amortization                        | -              | (0.7)                               | (0.7)         |
| Currency adjustments                | 0.7            | (0.6)                               | 0.1           |
| <b>Balance at June 30, 2016</b>     | <b>\$ 26.2</b> | <b>\$ (22.0)</b>                    | <b>\$ 4.2</b> |

The net book value at June 30, 2016, consisted of customer relationships of \$1.0 million, identified technology of \$1.3 million, and patents of \$1.9 million.

## Note 10 – Long-term, Interest-Bearing Debt

June 30, 2016

December 31 2015

(In millions)

|   | Loan<br>balance | Unamortized<br>debt<br>issuance<br>costs | Long-term debt<br>less unamortized<br>debt issuance<br>costs | Loan<br>balance | Unamortized<br>debt<br>issuance<br>costs | Long-term debt<br>less unamortized<br>debt issuance<br>costs |
|---|-----------------|--|--|-----------------|--|--|
| Multicurrency term and revolving facility         | 625.0           | (6.1)                                    | 618.9  | 638.7           | (6.8)                                    | 631.9  |
| Related party subordinated loan                   | 125.0           | -  | 125.0  | 50.0            | -  | 50.0   |
| Hermes-covered term loans                         | 38.2            | (1.2)                                    | 37.0   | 46.0            | (1.5)                                    | 44.5   |
| Other loans and capital lease liability           | 39.3            | -  | 39.3   | 76.2            | -  | 76.2   |
| <b>Total loans and capital lease liability</b>    | <b>827.5</b>    | <b>(7.3)</b>                             | <b>820.2</b>   | <b>810.9</b>    | <b>(8.3)</b>                             | <b>802.6</b>   |
| Less: current portion                             | (75.8)          | 3.8                                      | (72.0)   | (99.7)          | 4.7                                      | (95.0)   |
| <b>Long-term portion of interest bearing debt</b> | <b>751.7</b>    | <b>(3.5)</b>                             | <b>748.2</b>   | <b>711.2</b>    | <b>(3.6)</b>                             | <b>707.6</b>   |

At December 31, 2015 we adopted ASU 2015-03 which required that debt issuance costs are deducted from the carrying value of the financial liability and not recorded as separate assets.

#### *Multicurrency term and revolving facility*

On December 22, 2015, we signed a fifth amendment and restatement agreement relating to our multicurrency revolving facility agreement, which matures in May 2018.

The total amount available under the multicurrency revolving facility is \$625 million. In May 2017 quarterly instalments of \$25 million commence. The interest payable on the facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA.

As of June 30, 2016, a total of \$625.0 million was drawn under the revolving facility. The facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries. In addition, Seadrill Limited, a related party, has granted on-demand guarantees of \$250 million in favour of the lenders under the revolving facility and the lenders of the overdraft facilities, securing our obligations under these facilities.

The revolving facility contains certain financial covenants, including, among others:

- We shall ensure that the 12 months rolling EBITDA of the group is at least \$30 million for the financial quarters up to and including Q2 2016 and \$45 million thereafter up to and including Q1 2017. The ratio of net interest bearing debt to 12 months rolling EBITDA shall not exceed 3.75x as of June 30, 2017 with subsequent quarterly reductions of 0.25x until it reaches 3.0x.
- We shall ensure that the total equity of the group at all time is at least \$100 million for the financial quarters up to and including Q1 2017. For the financial quarter Q2 2017 and onwards, we shall ensure that the ratio of equity, including subordinated debt and adjusted for certain revaluation effects related to exchange rate movements, to total assets is at least 30.0%.
- We are to maintain the higher of \$30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).
- We shall ensure that the capital expenditures, on a consolidated basis, shall not exceed \$70 million in per year.

The revolving facility contains events of default which include payment defaults, breach of financial covenants, breach of other obligations, breach of representations and warranties, insolvency, illegality, unenforceability, curtailment of business, claims against an obligor's assets, appropriation of an obligor's assets, failure to maintain exchange listing, material adverse effect, repudiation and material litigation. In addition there are cross default clauses in the event of the obligor defaulting on other issued debt.

As of June 30, 2016, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility. We continue to address our longer term capital structure, and maintain the close dialogue with key stakeholders.

#### *Related party subordinated loan*

On October 24, 2014, Archer entered into a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to \$50.0 million. The loan was drawn in full as at December 31, 2014 and is repayable in full at the maturity date. Interest of 7.5% per year, is being accrued over the term of the loan and is payable on the maturity date. The loan matures on June 30, 2018.

On March 6, 2015 Metrogas Holdings Inc. transferred the \$50 million facility to Seadrill Limited. All terms and conditions under the facility remain unchanged.

In May 2016, Seadrill Limited provided new financing to Archer in an aggregate amount of up to \$ 75 million, which was contributed in form of subordinated debt. The loan was drawn in full as at May 31,

2016 as is repayable in full at the maturity date. Interest of 10% per year is being accrued over the term of the loan and is payable on the maturity date. The loan matures on June 30 2018.

#### *Hermes-covered term loans*

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. The facility is repayable in 10 semi-annual instalments. The interest rate is 1.45% above EURIBOR. At June 30, 2016 the equivalent of \$31.6 million was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favour of the lender securing our obligations under this facility.

On January 18, 2012 Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €29.5 million Hermes covered term loan agreement for the financing of the modular rig, Archer Emerald. The facility is repayable in semi-annual instalments in March and September through March 2017. The interest rate is 1.55% above EURIBOR. At June 30, 2016, the equivalent of \$6.5 million was outstanding under this facility.

#### *Other loans and capital leases*

We have two \$41.7 million overdraft facilities and at June 30, 2016, net borrowings under these facilities amounted to a total of \$21.8 million.

We have borrowed \$8.0 million under short term facilities in Argentina as at June 30, 2016. We also have capital leases relating to equipment leased by the Oil Tools division. At June 30, 2016, the net balance due under these arrangements was \$9.2 million

#### *Interest rate swap agreement*

We have two interest rate swap agreements, one securing the interest rate on NOK 500 million until May 2019, and a USD interest rate swap agreement securing the interest rate on \$150 million until October 2017. The fair value of the swaps as at June 30, 2016 was a liability of \$4.2 million and is included within other liabilities. We are not currently applying hedge accounting to any of our financial instruments.

#### *Capitalized Interest*

During the three months ended March 31, 2015, we capitalized approximately \$0.2 million of interest costs related to the construction of the new-build land rigs being constructed for deployment in Argentina. No further interest has been capitalised as the construction of the rigs has been completed.

### **Note 11 – Segment Information**

The split of our organization and aggregation of our business into segments is based on differences in management structure and reporting, location of regional management and assets, economic characteristics, customer base, asset class and contract structure.

Following the contribution of our North American well services businesses to QES on December 31, 2015, and a re-organisation of our management and reporting structure, with effect from January 1, 2016, we are presenting our business under two reporting segments;

- Eastern Hemisphere
- Western Hemisphere

Western Hemisphere comprises our operations previously reported under Latin America, being land drilling operations in Latin America, plus our Frac. Valve producing facility in North America and our 42% interest in QES.

The Eastern Hemisphere segment contains the business previously reported under North Sea, plus our global Oil Tools and Wireline Service divisions (previously reported within the Emerging Markets & Technologies segment). In addition we report corporate costs, and assets as separate line items.

The accounting principles for the segments are the same as for our consolidated financial statements. Presented below and on the following page are the revenues, depreciation and amortization, operating income, capital expenditures, goodwill and total assets by segment after treating our divested North America well service businesses, as discontinued operations and not as part of our continuing operations by segment.

| (In millions)                             | Three Months Ended<br>June 30 |                  | Six Months<br>June 30 |                  |
|---|-------------------------------|------------------|-----------------------|------------------|
|   | 2016                          | 2015             | 2016                  | 2015             |
| <b>Revenues from external customers</b>   |                               |                  |                       |                  |
| Eastern Hemisphere                        | \$ 113.1                      | \$ 155.0         | \$ 293.2              | \$ 376.1         |
| Western Hemisphere                        | 105.7                         | 165.8            | 208.8                 | 340.6            |
| <b>Total</b>                              | <b>\$ 218.8</b>               | <b>\$ 320.8</b>  | <b>\$ 448.0</b>       | <b>\$ 716.7</b>  |
| <b>Depreciation and amortization</b>      |                               |                  |                       |                  |
| Eastern Hemisphere                        | \$ 7.9                        | \$ 9.4           | \$ 15.8               | \$ 18.8          |
| Western Hemisphere                        | 11.2                          | 10.7             | 21.2                  | 20.6             |
| <b>Total</b>                              | <b>\$ 19.1</b>                | <b>\$ 20.1</b>   | <b>\$ 37.0</b>        | <b>\$ 39.5</b>   |
| <b>Operating (loss)/income – net loss</b> |                               |                  |                       |                  |
| Eastern Hemisphere                        | \$ 2.8                        | \$ 2.7           | \$ 8.9                | \$ 50.4          |
| Western Hemisphere                        | (22.1)                        | (12.1)           | (28.6)                | (5.8)            |
| Corporate costs                           | (3.4)                         | (3.1)            | (6.0)                 | (6.1)            |
| Stock compensation costs                  | 0.2                           | (0.7)            | (0.2)                 | (1.4)            |
| <b>Operating (loss)/income</b>            | <b>(22.5)</b>                 | <b>(13.2)</b>    | <b>(25.9)</b>         | <b>37.1</b>      |
| Total financial items                     | (25.3)                        | (13.6)           | (45.6)                | (49.5)           |
| Income taxes                              | -                             | 5.8              | (2.9)                 | 2.4              |
| Discontinued operations, net of taxes     | 0.2                           | (26.7)           | (1.0)                 | (52.6)           |
| <b>Net loss</b>                           | <b>\$ (47.6)</b>              | <b>\$ (47.7)</b> | <b>\$ (75.4)</b>      | <b>\$ (62.6)</b> |
| <b>Capital expenditures</b>               |                               |                  |                       |                  |
| Eastern Hemisphere                        | \$ 0.7                        | \$ 3.8           | \$ 1.3                | \$ 6.7           |
| Western Hemisphere                        | 0.9                           | 12.5             | 2.1                   | 76.1             |
| <b>Total</b>                              | <b>\$ 1.6</b>                 | <b>\$ 16.3</b>   | <b>\$ 3.4</b>         | <b>\$ 82.8</b>   |

|                                     |                           |                           |                 |
|-------------------------------------|---------------------------|---------------------------|-----------------|
| <i>(In millions)</i>                |                           |                           |                 |
|                                     | <b>Eastern Hemisphere</b> | <b>Western Hemisphere</b> | <b>Total</b>    |
| <b>Goodwill</b>                     |                           |                           |                 |
| <b>Balance at December 31, 2015</b> | <b>\$ 174.2</b>           | <b>\$ -</b>               | <b>\$ 174.2</b> |
| Currency adjustments                | 4.6                       | -                         | 4.6             |
| <b>Balance at June 30, 2016</b>     | <b>\$ 178.8</b>           | <b>\$ -</b>               | <b>\$ 178.8</b> |

|                      |                   |                    |
|----------------------|-------------------|--------------------|
|                      | <b>June 30</b>    | <b>December 31</b> |
| <i>(In millions)</i> | <b>2016</b>       | <b>2015</b>        |
| <b>Total assets</b>  |                   |                    |
| Western Hemisphere   | \$ 485.3          | \$ 513.9           |
| Western Hemisphere   | 681.5             | 750.4              |
| Corporate            | 2.0               | 3.1                |
| <b>Total</b>         | <b>\$ 1,168.8</b> | <b>\$ 1,267.4</b>  |

#### **Note 12 – Fair Value of Financial Instruments**

The estimated fair value and the carrying value of our financial instruments are as follows:

|                                   |                      |                       |                          |                       |
|-----------------------------------|----------------------|-----------------------|--------------------------|-----------------------|
|                                   | <b>June 30, 2016</b> |                       | <b>December 31, 2015</b> |                       |
| <i>(In millions)</i>              | <b>Fair Value</b>    | <b>Carrying Value</b> | <b>Fair Value</b>        | <b>Carrying Value</b> |
| <b>Non-derivatives</b>            |                      |                       |                          |                       |
| Cash and cash equivalents         | \$ 29.5              | \$ 29.5               | \$ 20.5                  | \$ 20.5               |
| Restricted cash                   | 8.7                  | 8.7                   | 0.8                      | 0.8                   |
| Current portion of long-term debt | 72.0                 | 72.0                  | 95.0                     | 95.0                  |
| Long-term, interest-bearing debt  | 748.2                | 748.2                 | 707.6                    | 707.6                 |
| <b>Derivatives</b>                |                      |                       |                          |                       |
| Interest rate swap agreements     | (4.2)                | (4.2)                 | (3.4)                    | (3.4)                 |

The aforementioned financial assets are measured at fair value on a recurring basis as follows:

| <i>(In millions)</i>  | <u>June 30,<br/>2016</u> | <u>Fair Value Measurements at<br/>Reporting Date Using</u> |                |                |
|---|--------------------------|--|----------------|----------------|
|   | <u>Fair Value</u>        | <u>Level 1</u>   | <u>Level 2</u> | <u>Level 3</u> |
| <b>Assets</b>   |                          |  |                |                |
| Cash and cash equivalents   | \$ 29.5                  | \$ 29.5  | —              | —              |
| Restricted cash   | 8.7                      | 8.7  | —              | —              |
| <b>Liabilities</b>  |                          |  |                |                |
| Interest rate swap agreements   | (4.2)                    | —  | (4.2)          | —              |
| Multicurrency term and revolving facility,<br>excluding current portion | 597.0                    | —  | 597.0          | —              |
| Other loans and capital leases, excluding<br>current portion            | 151.2                    | —  | 151.2          | —              |
| Interest rate swap agreements   |                          |  |                |                |

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

We used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of our financial instruments. For certain instruments, including cash and cash equivalents, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

The fair values of interest rate swaps are calculated using well-established independent market valuation techniques applied to contracted cash flows and NIBOR interest rates.

The fair value of the current portion of long-term debt is estimated to be equal to the carrying value, since it is repayable within twelve months. The fair value of the long-term portion of floating rate debt is estimated to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis. This debt is not freely tradable and we cannot purchase them at prices other than the outstanding balance plus accrued interest.

### **Note 13 – Legal Proceedings**

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of June 30, 2016, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

Two of our subsidiaries are the plaintiffs in the case of Archer Drilling LLC and Rig Inspection Services (US) LLC vs. Buccaneer Energy Limited et al., wherein we claim \$8.0 million from the defendants for the defendants' failure to pay for services provided. In response, the defendants raised counterclaims alleging that they are owed more than the amount we claimed in damages. On May 31, 2015, all but one of the defendants filed for Chapter 11 bankruptcy and in August 2015, the Archer parties removed the case to U.S. Bankruptcy Court where the claims are currently stayed pending further action by the court. Litigation is inherently uncertain and while we cannot determine the amount of our ultimate



recovery or loss, we believe in the merits of the claim and that the alleged counterclaims are highly defensible.

Other than the above, we are not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had in the recent past, significant effects on our financial position or profitability.

#### **Note 14 – Related Parties**

In the normal course of business we transact business with related parties conducted at arm's length.

##### Transactions with Seadrill:

We were established at the end of the third quarter of 2007, as a spin-off of Seadrill Limited's Well Service division. We acquired the shares in the Seadrill Well Service division entities on October 1, 2007 for \$449.1 million. The acquisition has been accounted for as a common control transaction with the assets and liabilities acquired recorded by us at the historical carrying value of Seadrill Limited, or Seadrill. The excess consideration over the net assets and liabilities acquired has been recorded as adjustment to equity of \$205.1 million. Seadrill currently owns 39.9% of our stock.

During the six months ended June 30, 2016, we supplied Seadrill Limited and affiliates with services amounting to \$0.5 million, including the provision of reimbursable material. This amount has been included in operating revenues. At June 30, 2016, Seadrill owed us \$0.1 million related to these services.

On October 24, 2015, we signed a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to \$50 million. In March 2016 the loan, and any accrued interest/fees, was sold to Seadrill Limited. The loan was drawn in full as at June 30, 2016. Interest of 7.5% per annum on the \$50 million principle amount, is being accrued and added to the outstanding balance, and will be paid when the loan matures on June 30, 2018.

In May 2016, Seadrill Limited provided new financing to Archer in an aggregate amount of up to \$ 75 million, which was contributed in form of subordinated debt. The loan was drawn in full as at May 31, 2016 as is repayable in full at the maturity date. Interest of 10% per year is being accrued over the term of the loan and is payable on the maturity date. The loan matures on June 30 2018.

Seadrill has provided a guarantee of €38 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 10). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

Seadrill also provided a guarantee of \$250.0 million to the lenders of our revolving facility (see Note 10). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

A NOK 66 million (equivalent to \$7.9 million) performance guarantee is provided to Conoco Phillips by Seadrill on behalf of Archer AS

In addition, Seadrill provided Archer Norge AS with a guarantee of a maximum of \$20 million to support Archer Norge AS's guarantee facility. As at June 30, 2016 a total of \$10.7 million of guarantees was issued under the guarantee facility. The guarantee fee is 1.25% per annum of the guaranteed amount.

As of June 30, 2016, we have accrued total guarantee fees of \$10.5 million which are due at the end of the guarantee period. The guarantee fees are being accrued over the guarantee period, and the cost of the fees are reported within Other Financial Items.

##### Transactions with C6 Technologies AS:

We own 50% of C6 Technologies AS, an Oilfield Technology Company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results using the equity method of accounting since its creation in 2010. During 2015 we sold our fully owned subsidiary Wellbore Solutions AS for an amount of 25 million Norwegian Kroner. The settlement of the purchase price was through a loan agreement amounting to 10

million Norwegian Kroner and the balance will be settled in the form of royalties contingent on the successful commercialisation of the of tools being developed by C6 Technologies AS.

In the six months ended June 30, 2016 we have advanced \$3.0 million as additional loan to C6.

Transactions with Rawabi Allis-Chalmers Company Limited:

We own 50% of Rawabi Allis-Chalmers Company Limited "Rawabi", a Saudi Arabia based joint venture that provides rental of oilfield products. During the six months ended June 30, 2016, we supplied Rawabi with services amounting to \$0.5 million. We have a receivable balance of \$0.4 million owed by Rawabi reported in our trade accounts receivable as at June 30, 2016

Transactions with other related parties

The following are related parties, being companies in which Archer's principal shareholders, Seadrill, Lime Rock Partners LLP and or Hemen Holding Ltd have a significant interest:

- Frontline Management (Bermuda) Limited, or Frontline
- North Atlantic Drilling Ltd, or NADL
- Sevan Marine Servicos de Perfuracao Ltda, or Sevan
- Enermech Services Inc

Frontline provides management support and administrative services to us, and we have recorded fees of \$0.3 million for these services in the six months ended June 30, 2016. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At June 30, 2016, Archer owed Frontline \$0.1 million related to these services.

During the six months ended June 30, 2016, we supplied NADL with services amounting to \$0.6 million, including reimbursable material. This amount has been included in operating revenues.

During the six months ended June 30, 2016, we supplied Sevan with services amounting to \$0.3 million, including reimbursable material. This amount was paid in full and has been included in operating revenues.

Enermech Services Inc. provided products and services to the company totalling \$0.2 million during the six months June 30, 2016. These amounts were included in operating expenses. At June 30, 2016,

Since our acquisition of our 42% holding in QES in return for the contribution of our North American pressure pumping and Wireline businesses, we have been providing transitional services to QES. In addition we have invoiced QES for items which we have paid on their behalf following the sale, such as benefits and insurance claims. We have invoiced QES a total of \$2.3 million. This amount is reported as a receivable balance in our trade accounts receivable at as June 30. 2016.

**Note 15 – Subsequent Events**

None.

**Appendix to Archer Second Quarter Report 2016**

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, Archer's management believes that certain non-GAAP performance measures and ratios may provide users of this financial information additional meaningful comparison between current results and results in prior operating periods. One such non-GAAP financial measure we use is earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table that follows for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended June 30, 2016, March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015. Non-GAAP financial

measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

## ARCHER LIMITED

### Condensed Consolidated Statements of Operations (Unaudited)

| <i>(In millions)</i>  | Three Months Ended |                  |                     |                      |                 |                  |
|---|--------------------|------------------|---------------------|----------------------|-----------------|------------------|
|   | June 30<br>2016    | March 31<br>2016 | December 31<br>2015 | September 30<br>2015 | June 30<br>2015 | March 31<br>2015 |
| <b>Revenue</b>  | 218.8              | 229.2            | 282.5               | 321.9                | 320.8           | 395.8            |
| <b>Cost and expenses</b>  |                    |                  |                     |                      |                 |                  |
| Operational costs   | (241.3)            | (232.6)          | (289.5)             | (314.3)              | (334.0)         | (345.5)          |
| Impairments   | —                  | —                | (50.2)              | —                    | —               | —                |
| Net financial items   | (25.3)             | (20.3)           | (24.1)              | (33.4)               | (13.6)          | (36.0)           |
| <b>(Loss)/income from continuing operations before income taxes</b> | <b>(47.8)</b>      | <b>(23.7)</b>    | <b>(81.3)</b>       | <b>(25.8)</b>        | <b>(26.7)</b>   | <b>14.3</b>      |
| Income tax (expense) benefit  | —                  | (2.9)            | (4.9)               | (1.2)                | 5.8             | (3.4)            |
| <b>Loss from continuing operations</b>                              | <b>(47.8)</b>      | <b>(26.6)</b>    | <b>(86.2)</b>       | <b>(27.0)</b>        | <b>(20.9)</b>   | <b>10.9</b>      |
| Income/(Loss) from discontinued operations, net of tax              | 0.2                | (1.2)            | (157.9)             | (25.6)               | (26.8)          | (25.8)           |
| <b>Net loss</b>   | <b>(47.6)</b>      | <b>(27.8)</b>    | <b>(244.1)</b>      | <b>(52.6)</b>        | <b>(47.7)</b>   | <b>(14.9)</b>    |

## ARCHER LIMITED

### Reconciliation of GAAP to non-GAAP Measures (Unaudited)

| <i>(In millions)</i>                                   | Three Months Ended |                  |                     |                      |                 |                  |
|--|--------------------|------------------|---------------------|----------------------|-----------------|------------------|
|  | June 30<br>2016    | March 31<br>2016 | December 31<br>2015 | September 30<br>2015 | June 30<br>2015 | March 31<br>2015 |
| Net loss   | (47.6)             | (27.8)           | (244.1)             | (52.6)               | (47.7)          | (14.9)           |
| Depreciation, amortization and impairments             | 20.8               | 23.3             | 68.9                | 20.1                 | 21.2            | 15.0             |
| Net financial items                                    | 25.3               | 20.3             | 24.1                | 33.4                 | 13.6            | 35.9             |
| Taxes on income  | -                  | 2.9              | 4.9                 | 1.2                  | (5.8)           | 3.4              |
| Income/(loss) from discontinued operations, net of tax | (0.2)              | 1.2              | 157.9               | 25.6                 | 26.8            | 25.8             |
| <b>EBITDA</b>  | <b>(1.7)</b>       | <b>19.9</b>      | <b>11.7</b>         | <b>27.7</b>          | <b>8.1</b>      | <b>65.2</b>      |
| Restructuring costs                                    | 19.1               | 6.5              | 9.1                 | 2.4                  | 5.1             | 0.1              |
| <b>EBITDA before restructuring costs</b>               | <b>17.4</b>        | <b>26.4</b>      | <b>20.8</b>         | <b>30.1</b>          | <b>13.2</b>     | <b>65.3</b>      |

**ARCHER LIMITED**  
**EBITDA by Geographic and Strategic Areas**  
**(Unaudited)**

| <i>(In millions)</i>                            | <b>Three Months Ended</b> |                  |                     |                      |                 |                  |
|---|---------------------------|------------------|---------------------|----------------------|-----------------|------------------|
|   | June 30<br>2016           | March 31<br>2016 | December 31<br>2015 | September 30<br>2015 | June 30<br>2015 | March 31<br>2015 |
| Eastern Hemisphere                              | 12.1                      | 14.0             | 21.7                | 22.0                 | 12.9            | 56.4             |
| Western Hemisphere                              | (10.6)                    | 8.8              | (6.5)               | 9.5                  | (1.0)           | 12.5             |
| Corporate costs and stock<br>compensation costs | (3.2)                     | (2.9)            | (3.5)               | (3.8)                | (3.8)           | (3.7)            |
| <b>EBITDA</b>                                   | <b>(1.7)</b>              | <b>19.9</b>      | <b>11.7</b>         | <b>27.7</b>          | <b>8.1</b>      | <b>65.2</b>      |