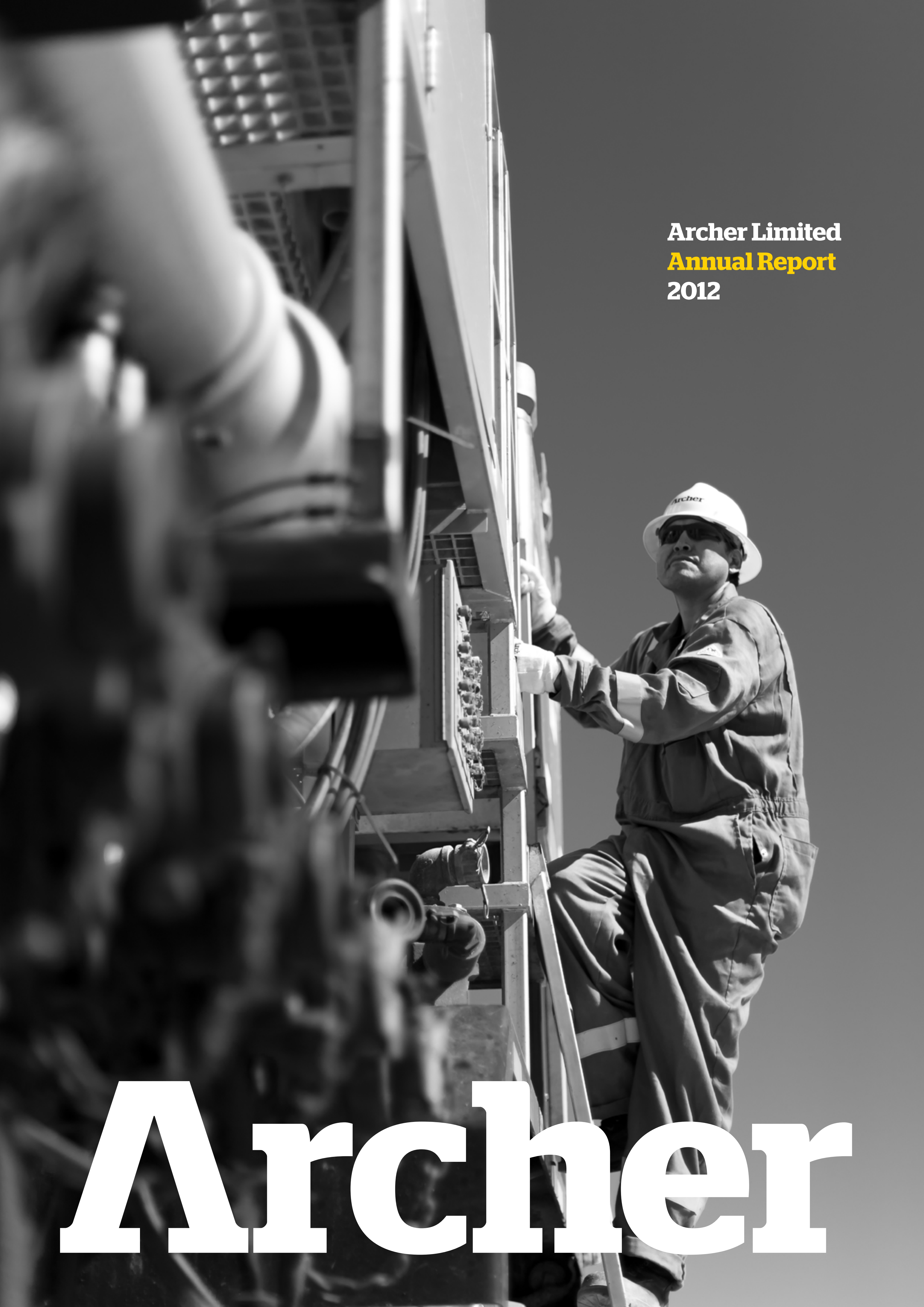

Archer Limited
Annual Report
2012

Archer

We have assembled a comprehensive portfolio of technology, services, products and processes alongside people with exceptional capabilities.

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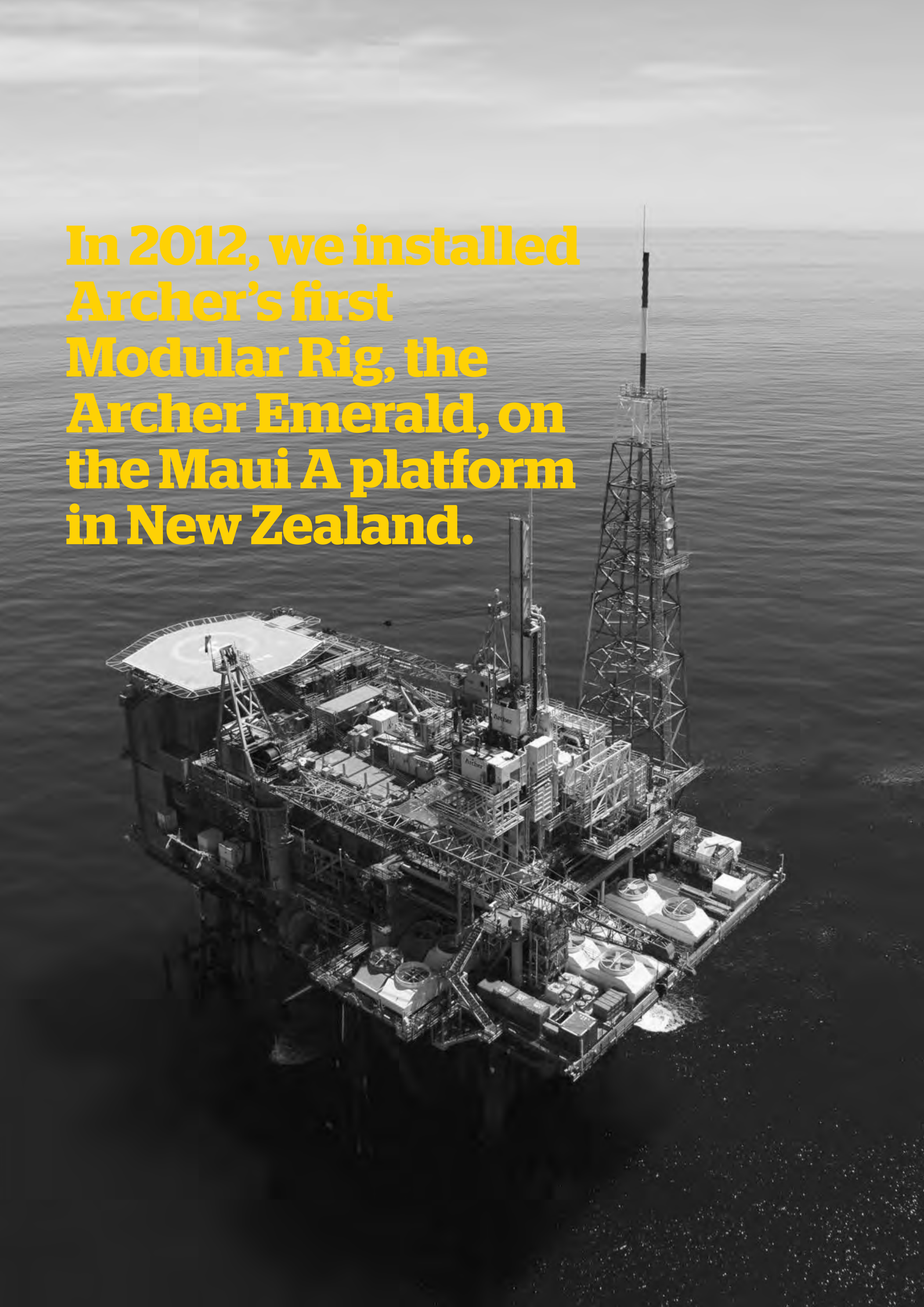
In 2012, we installed Archer's first Modular Rig, the Archer Emerald, on the Maui A platform in New Zealand.



Letter to Shareholders

Archer experienced a challenging and disappointing 2012. In North America, the rapid activity shift from natural gas to oil and the oversupply of many services had significant negative impact on utilization of our equipment and the pricing for our products and services. The changing environment was amplified by several operating challenges in both our Pressure Pumping and Pressure Control Divisions. While we have significantly improved the operational performance in 2012, we do not expect the underlying market in the United States to improve short term.

In Latin America, we were impacted by several large-scale strikes in Southern Argentina, which resulted in 19 of our rigs being on standby during the third quarter, out of which 15 rigs eventually were without a contract in the fourth quarter. As labor relations normalized and the Argentinian Government took several steps to improve the economic conditions for E&P companies in the country, we have seen increased demand for our services and, as a result, all rigs previously idled now are back on contract.

Our North Sea operations were impacted by the loss of a platform drilling contract in Norway and, as a consequence, we closed the related facility in Bergen, Norway. On a positive note, the market for our services on the UK Continental Shelf remained strong during the year and we were awarded several new contracts for plug-and-abandonment and platform drilling services.

During the year, we also installed Archer's first Modular Rig, the Archer Emerald, on the Maui A platform in New Zealand. At the start of 2013, we were awarded a second Modular Rig contract for the Heimdal platform in the North Sea and we are pleased that this rig concept is gaining customer acceptance.

Within our Emerging Markets and Technologies segment, we have seen strong growth for our well integrity products, such as the LOCK™ series for well suspension and the multistage cementing tool Cflex. We will continue to make significant investments in both geographic expansion and the development of new technologies in 2013.

From a financial perspective, revenue grew from $1.9 billion in 2011 to $2.2 billion in 2012, while EBITDA deteriorated from $258 million to $217 million. The Company reported a net loss of $376 million in 2012, mainly as a result of a large impairment of goodwill and intangible assets, compared to a net loss of $77 million in 2011.

In hindsight, we clearly underestimated the negative effect of the market changes in the United States and the timeline to recover from operational challenges.

We have learned important lessons from 2012 and have taken a number of additional steps to adapt the Company to the volatility of the oilfield services market and to better address our internal challenges. The recent issue of new additional equity, helping to reduce the debt level of the Company, was one of the steps, with several others to follow, which will set the foundation of a more focused Company going forward.

Fredrik Halvorsen

Fredrik Halvorsen
Chief Executive Officer & Vice Chairman

Board of Director's Report
Company overview and history

We are a global oilfield services company helping customers produce more oil and gas by delivering better wells. In doing so, we work with our customers to produce oil and gas safely and profitably with no harm to people or the environment for the longest possible time frame.

Our experienced drilling teams secure the production of more than 30 offshore platforms globally and operate over 70 mobile land rigs in Latin America. Our comprehensive drilling and workover services include platform drilling, land drilling, directional drilling, modular rigs, fluids, drill bits, engineering and equipment rentals, as well as a select range of well delivery support services and products.

Our well services capabilities include wireline well intervention, tractors and coiled tubing, pressure control and pressure pumping, production monitoring, well imaging and integrity management tools and other services aimed at improving well performance and extending well life.

Employing over 8,000 people across 118 global locations, we primarily operate in the North Sea and the major basins in the United States and in Argentina. We are in the process of expanding our operations in the Asia Pacific region, Latin America, the Middle East and in West Africa.

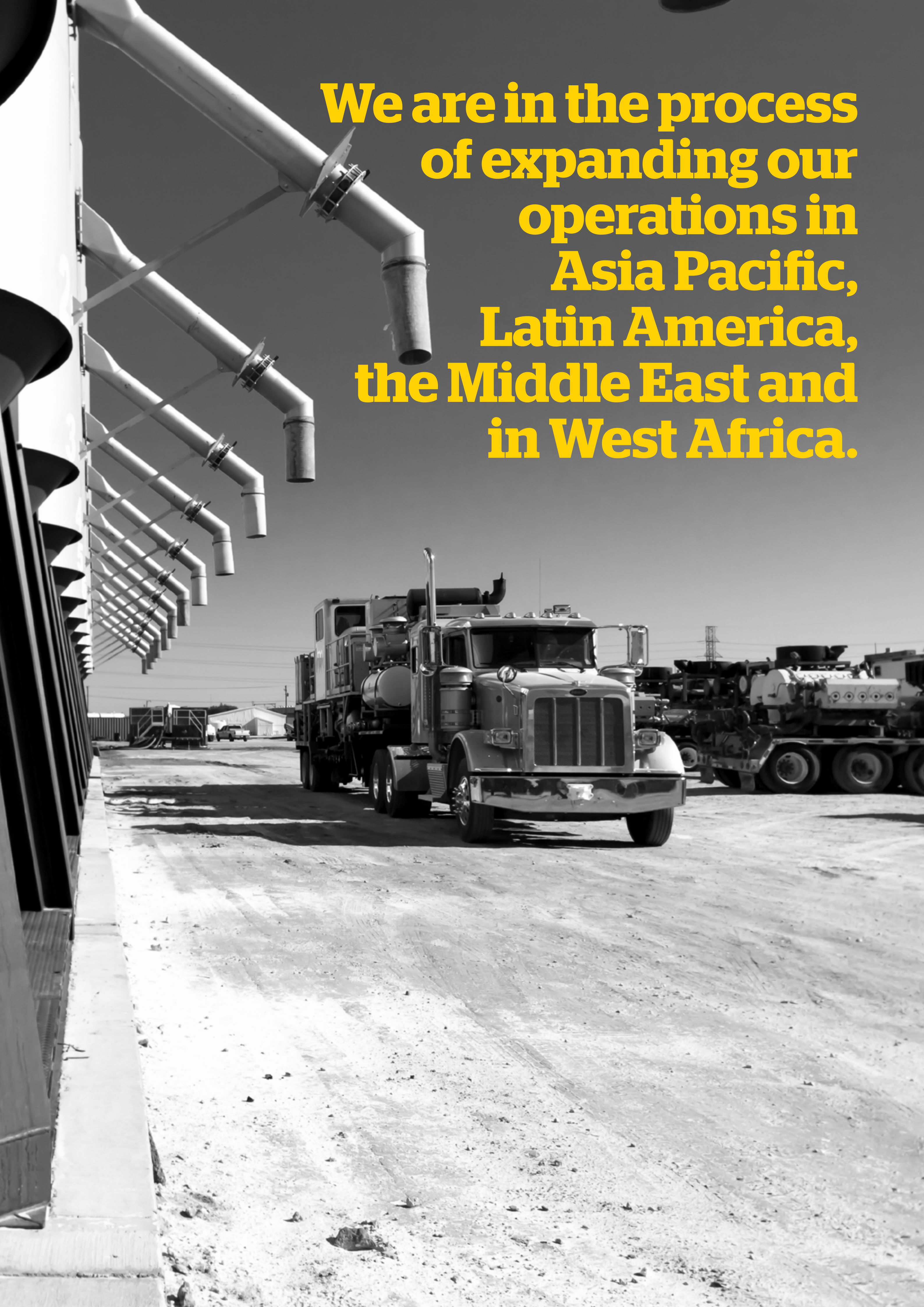
Archer is comprised of several well specialist companies, including Seawell Ltd, Allis-Chalmers Energy, Inc. ("Allis-Chalmers"), the operating companies of Great White Energy Services ("Great White"), Gray Wireline Services Inc. ("Gray Wireline"), TecWel AS ("TecWel"), Peak Well Solutions AS (changed name to Archer Oil Tools AS) ("Oil Tools") and other complementary businesses.

The company conducted operations as Seawell Ltd until May 16, 2011 when shareholders approved a resolution to change the name to Archer Limited. Archer was incorporated in Bermuda on August 31, 2007, with registration number 40612, as an exempted, limited company and is organized and exists under the Laws of Bermuda.

We are a global oilfield services company helping customers produce more oil and gas.

Archer Limited's registered office is at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda and the office of Archer Management Limited (UK) is in 556 Chiswick High Road, Chiswick Park, Building 11, 2nd Floor, London W45YA, telephone +44 207 590 1590. Archer Limited is listed on the Oslo Stock Exchange under the ticker symbol ARCHER.NO and our web site is www.archerwell.com.

We are in the process of expanding our operations in Asia Pacific, Latin America, the Middle East and in West Africa.



Board of Director's Report
Business overview

Service and product offering
We recognize that our customers' most vital assets are their reservoirs and their wells. Our primary business focus is the well system itself. Our services, technologies and capabilities each come into play at various phases during the life of a well.

Our services include platform drilling, where we supply experienced personnel and processes for drilling and other technical operations on more than 30 offshore platforms in the North Sea; land drilling, through our fleet of 77 rigs, including 30 drilling rigs and 47 service rigs; engineering services covering detailed design, construction, commissioning and maintenance of drilling facilities; directional and underbalanced drilling operations; tubular services; rental equipment for both onshore and offshore operations; hammer drill bits; a variety of wireline logging and intervention services, including supporting customers with our proprietary technology to complete and maintain their wells; pressure control products and services, including coiled tubing, snubbing, and nitrogen services and frac valve products; pressure pumping services featuring hydraulic fracturing, a service used to enable production of hydrocarbons from unconventional reservoirs such as shale; and we built our first modular, offshore drilling unit, the Archer Emerald, which was mobilized to New Zealand in 2012.

Our primary objectives in the short term are to consolidate the various businesses, improve our operational performance and asset utilization and expand our services throughout a selected list of countries within our existing footprint.

Principal markets
As part of the growth over the past few years, we now operate in Angola, Argentina, Australia, Bolivia, Brazil, China, Denmark, Egypt, Malaysia, Norway, Qatar, Saudi Arabia, Singapore, Thailand, United Arab Emirates, United Kingdom and the United States.

We have facilities and offices in Argentina, Australia, Bolivia, Brazil, Malaysia, Norway, Singapore, the United Arab Emirates, the United Kingdom and the United States.

The demand for our products and services is driven by the price for hydrocarbons in the countries where we operate. As such, we believe the long-term fundamentals for the services we provide are sound and give us a good basis to grow. The immediate prospects in 2013 continue to remain uncertain mainly due to the low price for natural gas and the oversupply of services in the United States.

Strategy
We are in the early phase of becoming a mid-sized oilfield service company with a presence around the world. Following the completion of several acquisitions, our primary objectives in the short term are to consolidate the various businesses, improve our operational performance and asset utilization and expand our services throughout a selected list of countries within our existing footprint. We will continue to invest in our services business with specific focus on international expansion, as well as enhancing our technology portfolio.

We will continue to invest in our services business with specific focus on international expansion, as well as enhancing our technology portfolio.

Board of Director's Report
Financial review

2012 Operating results
Our total operating revenue and reimbursables for the year ended December 31, 2012 amounted to $2,188.7 million, an increase of 18.0% compared to $1,854.6 million for the year ended December 31, 2011. The additional revenue primarily is attributable to the acquired activities of Allis-Chalmers, Great White and growth in our Oil Tools division.

Our total operating expenses for the year ended December 31, 2012 amounted to $1,726.3 million, an increase of 25.3% compared to $1,377.7 million for the year ended December 31, 2011. Operating expenses increased primarily due to acquired operations of Allis-Chalmers, Great White and growth in our Oil Tools division.

Our depreciation and amortization expenses for the year ended December 31, 2012 amounted to $205.0 million, an increase of 39.4% compared to $147.1 million for the year ended December 31, 2011. The increase is due to additional fixed assets and intangibles attributable to the acquisitions of Allis-Chalmers, Great White and substantial investments in fixed assets over the last two years. In addition, depreciation and amortization expense for the year ended December 31, 2011 included $4.1 million in impairment on tangible fixed assets.

Impairments resulted in a noncash charge of $338.7 million in the year ended December 31, 2012, compared to $126.6 million in the year ended December 31, 2011. During the third quarter of 2012, the level of our stock price, the loss of several large customers in North America, as well as the significant decline in our 2012 forecasted results compared to forecasts prepared at the time of the 2011 goodwill impairment testing, were considered to be circumstances, which more likely than not, would reduce the fair value of a reporting unit below its carrying amount. As a consequence, we prepared a comprehensive impairment test for long-lived assets, including intangibles and goodwill, which resulted in the following impairments: An impairment of goodwill of $207.6 million, an impairment of fixed assets of $65.8 million, an impairment of intangibles of $57.5 million, an impairment of investments in associates of $4.9 million and an impairment of inventory of $2.9 million. The annual impairment testing of goodwill and intangibles in 2011 resulted in impairment of goodwill by $99.0 million and an impairment of intangibles of $21.7 million. In addition, we recorded $6.0 million of impairments on acquired trade names we decided to discontinue.

Our general and administrative expense for the year ended December 31, 2012 amounted to $132.5 million, an increase of 43.9% compared to $92.1 million for the year ended December 31, 2011. The growth in the Company and the diversity in product offerings resulted in the increase. In addition, general and administrative expenses for the year ended December 31, 2011 included $15.2 million of acquisition costs related primarily to the acquisitions of Allis-Chalmers and Great White. General and administrative expenses as a percentage of total revenues was 6.1% for the year ended December 31, 2012 and 5.0% for the year ended December 31, 2011.

Results were negatively impacted by the noncash charge for impairments of $338.7 million.

Our interest expense for the year ended December 31, 2012 amounted to $61.5 million, an increase of 32.5% compared to $46.4 million for the year ended December 31, 2011. Interest-bearing debt was $1.2 billion at December 31, 2012, compared to $1.1 billion at December 31, 2011. The increase in debt is primarily related to cash overdraft borrowings and the financing of the Archer Emerald modular rig.

Our other financial items for the year ended December 31, 2012 amounted to $17.5 million of gain, compared to $1.0 million of expenses for the year ended December 31, 2011. Other financial items consist mainly of foreign exchange gains/(losses) arising on settlement of transaction loans denominated in currencies other than the functional currency.

Our total income tax charges for 2012 amounted to $6.3 million, mainly related to operations in Europe and Latin America, compared to $14.5 million for 2011.

Our net loss for the year ended December 31, 2012 amounted to $375.8 million, compared to a net loss of $77.0 million for the year ended December 31, 2011.

We have proposed no dividends for the year ending December 31, 2012.

Balance sheet

Our total current assets were $642.3 million at December 31, 2012 and consisted primarily of trade accounts receivables.

Our total noncurrent assets were $1.9 billion at December 31, 2012 and consisted primarily of fixed assets used in our operations, goodwill and other intangibles.

As of December 31, 2012, our total assets amounted to $2.6 billion compared to $2.8 billion at December 31, 2011. The decrease in assets primarily is attributable to the impairments recorded in 2012.

Our total current liabilities were $692.8 million at December 31, 2012 and consisted primarily of current portion of interest-bearing debt, accounts payable and accrued expenses

The net current liability position of $50.5 million at December 31, 2012 is the result of long-term debt of $95 million reclassified to current debt as a result of the refinancing completed in March 2013, which was funded by the issuance of equity.

Our total noncurrent liabilities were $968.3 million at December 31, 2012 and consisted primarily of long-term interest-bearing debt.

Our total equity has decreased to $926.2 million at December 31, 2012, compared to $1.3 billion at December 31, 2011. The decrease in equity is primarily attributable to the net loss for 2012.

Cash flow

Our cash and cash equivalents, excluding restricted cash, amounted to $58.2 million as of December 31, 2012, compared to $37.3 million as of December 31, 2011.

Our cash extended for capital expenditures amounted to $266.2 million for 2012, representing predominantly investments in new drilling, pressure pumping and pressure control equipment.

On March 6, 2013, we entered into a third-amended and restated multicurrency term and revolving facility agreement with a syndicate of banks. The purpose of the facility was to replace the then existing second-amended and restated term and revolving facility entered into December 22, 2011. The facility is split into two tranches and has a maturity in November 2015.

Parent company results 2012

Net loss for the year was $375.8 million, corresponding to a net loss per share of $1.03.

Going concern

Our Board of Directors confirms their assumption of the Company as a going concern. This assumption is based on the market outlook for the oil service sector as per December 31, 2012, as well as the subsequent amendments to the debt facility, the equity placement in February 2013 and the support of our major shareholders. The Board believes the annual report provides a correct outline of the Company's assets and debt, financial position and financial performance.

Key figures

	2012	2011
Revenue *In $ millions*	2,189	1,855
EBITDA[1] *In $ millions*	217	258
Net / (loss) *In $ millions*	(376)	(77)
Net interest-bearing debt *In $ millions*	1,161	1,055
Employees at December 31	8,300	8,500

[1]EBITDA, as defined by management, is earnings before interest, taxes, depreciation, amortization and impairments.

Board of Director's Report
Health, safety and environment

We conduct business in accordance with a well-defined set of processes. Our Health, Safety and Environmental, or HSE, philosophy is to establish and maintain a culture where there are no accidents, injuries or losses.

All employees are committed to operating within a safe working environment and recognize that each individual has a responsibility to ensure we reach the goal of no accidents, injuries or losses.

We have implemented targeted programs in each area of operation to encourage and stress each individual's responsibility for and commitment to HSE matters. This program includes seminars, on-the-job training, best practice campaigns and a focus on leadership.

As a result of Archer's safety management program, improvements have been shown in particular in the number of injuries in the North Sea and in Latin America. In recognition of our efforts in the North Sea, we have received several awards from both customers and industry organizations. The implementation of a new policy in Latin America, which allowed all employees and contractors to stop unsafe operations, had a positive effect compared to the previous year.

As part of our program to improve our safety performance and avoid incidents to the maximum extent possible, we encourage employees and contractors to proactively report and participate in the improvement of our safety. As part of this program we collected and analyzed over 354,000 observations in 2012.

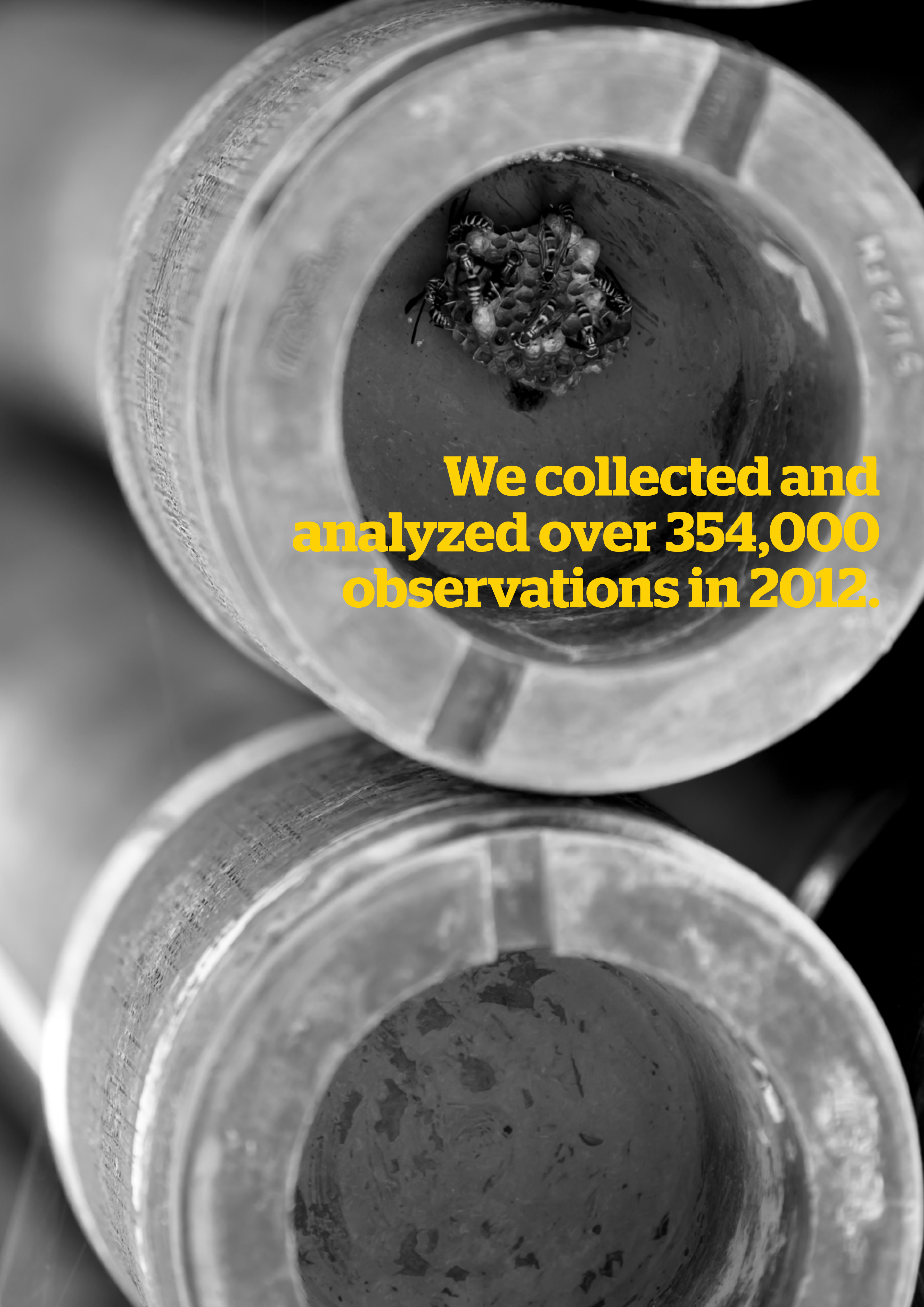
Tragically, and despite our efforts, two of our employees in the United States lost their lives in 2012 on the job site in two different incidents. In addition, we regrettably experienced thirty, lost-time injuries in 2012 throughout the Company during a total of 18.3 million man-hours worked in the field. The statistics by geographic area are as follows:

The recorded sick leave for the entire company was 2.4% in 2012 compared to 3.2% in 2011. The measurement might not always be consistent as rules and regulations differ from country to country. Following the implementation of a specific program to reduce sick leave of Archer's operations in the North Sea, including Norway, the statistic shows a significant improvement compared to last year. In 2012, the highest amount of sick leave has been reported in our Latin American operations, in particular, in Argentina. Based on the positive experience in the North Sea in 2012, a specific program tailored to the environment in Argentina is being implemented and we expect to reduce sick leave as a result of this program.

In relation to the environment, despite our efforts, we unfortunately encountered one minor environmental spill, which was addressed and resolved immediately. We take any incident, no matter how minor, very seriously and we actively work to prevent damage to the environment as a result of our operations. This includes the systematic registration of emissions and discharges and preemptive action in selecting chemicals that cause minimal harm to the environment.

In the North Sea, our management system has been certified according to ISO 9001:2008, Quality Management. In addition, the North Sea management system has met the requirements of ISO 14001:2006, Environmental Management Standards, for several years and we recently have received the ISO certification of our frac valve manufacturing operation in the United States. Local authorities such as the Petroleum Safety Authority in Norway and the UK Health & Safety Executive have accepted Archer's North Sea management system through the Acknowledgement of Compliance and the Safety Case certification, respectively.

	2012		2011	
Area	**Injuries**	**Incidents**	**Injuries**	**Incidents**
North Sea	1	13	5	9
North America	25	85	16	45
Latin America	6	47	7	37
Emerging Markets & Technologies	0	3	0	2
Archer Total	**32**	**148**	**28**	**93**



We collected and analyzed over 354,000 observations in 2012.

Board of Director's Report
Employees and diversity

The year of 2012 was both a challenging and exciting year for Archer. At the beginning of the year, we restructured our organization along four geographic and strategic areas, which allowed us to increase the focus on our specific businesses and geographies.

On the positive side, we staffed and deployed our first modular rig, we organically grew our pressure pumping capability during the year from three to five crews and we continued our growth in our Emerging Markets & Technologies footprint, particularly in the Oil Tools division.

The lowlights of the year included the loss of the Gullfaks platform drilling contract and the related closing of our Bergen office for engineering, the closing of our Alaska office for platform drilling, the idling of several rigs in Argentina and significant reductions in pricing and utilization in North America.

Throughout the year we optimized our workforce to address the challenges of our business and we employed over 8,000 employees at the end of December 2012.

Throughout the year we optimized our workforce to address the challenges of our business.

Being a service company means we rely on the quality of our employees and the work they perform for our customers. It is primarily our employees who differentiate us from our competition and, as such, having a diverse workforce means we will be more competitive.

In Archer, there are equal employment opportunities and fair treatment to all individuals regardless of race, color, religion, gender, national origin, age, disability or any other status protected by law. This commitment applies to all employment decisions in all the countries we operate.

We rely on the quality of our employees.

Board of Director's Report
Risk factors

Market risk

The level of activity of oil and natural gas exploration, development and production could negatively impact our business.

Our business depends on the level of activity of oil and natural gas exploration, development and production and the level of exploration, development and production expenditures of our customers. Demand for our services is adversely affected by declines in exploration, development and production activity associated with depressed oil and natural gas prices. Even the perceived risk of a decline in oil or natural gas prices often causes exploration and production companies to reduce their spending. As an example for the adverse effect is the worldwide deterioration in the financial and credit markets, which began in the second half of 2008, resulted in diminished demand for oil and natural gas and significantly lower oil and natural gas prices. As a consequence of this significant decline in oil and natural gas prices, many of our customers reduced their activities and spending in 2009. Similarly, the reduction of prices for natural gas in the United States in 2011 had a significant impact on the levels of activity and spending, resulting in a reduction of drilling rigs exposed to natural gas of over fifty percent. This trend continued through 2012 and into 2013 and will continue unless there is a meaningful change in the price of natural gas in 2013 and beyond. In addition, higher prices do not necessarily translate into increased drilling activity since our client's expectations about future commodity prices typically drive demand for our services. Oil and natural gas prices are extremely volatile. On July 2, 2008, natural gas prices were $14.31 per million British thermal unit, or MMBtu, at the Henry Hub. They subsequently declined sharply, reaching a low of $1.88 per MMBtu at the Henry Hub on September 4, 2009. As of December 31, 2012, the closing price of natural gas at the Henry Hub was $3.43 per MMBtu. The spot price for West Texas intermediate crude has, in the last few years, ranged from a high of $145.29 per barrel as of July 3, 2008, to a low of $33.87 per barrel as of December 19, 2008, with a closing price of $91.83 per barrel as of December 31, 2012.

Oil and natural gas prices are affected by numerous factors, including the following:

- the demand for oil and natural gas in Europe, the United States and elsewhere;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- political, economic and weather conditions in Europe, the United States and elsewhere;
- advances in exploration, development and production technology;
- the ability of the Organization of Petroleum Exporting Countries, commonly called OPEC, to set and maintain oil production levels and pricing;
- the level of production in non-OPEC countries;
- domestic and international tax policies and governmental regulations;
- the development and exploitation of alternative fuels and the competitive, social and political position of natural gas as a source of energy compared with other energy sources;
- the policies of various governments regarding exploration and development of their oil and natural gas reserves;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East, West Africa and other significant oil and natural gas-producing regions; and
- acts of terrorism or piracy that affect oil- and natural gas-producing regions, especially in Nigeria, where armed conflict, civil unrest and acts of terrorism have recently increased.

Legal requirements, conservation measures and technological advances could reduce demand for oil and natural gas, which may adversely affect our business.

Environmental and energy matters have been the focus of increased scientific and political scrutiny and are subject to various legal requirements. International agreements, national laws, state laws and various regulatory schemes limit or otherwise regulate energy-related activities, such as emissions of greenhouse gasses, and additional restrictions are under consideration by governmental entities. These legal requirements, as well as fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, technological advances in fuel economy and energy generation devices, could reduce demand for oil and natural gas. We cannot predict the impact of the changing demand for oil and natural gas services and products and any major changes may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Global political, economic and market conditions could negatively impact our business.

A worldwide economic downturn could reduce the availability of liquidity and credit to fund business operations worldwide. This could adversely affect the operations of our customers, suppliers and lenders that, in turn, could affect demand for and delivery of our services. In addition, an economic downturn could reduce demand for our services, negatively impact activity levels and pricing of our services and, thus, adversely affect our financial condition and results of operations. A decline in energy consumption following an economic downturn would materially and adversely affect our operating results. Continued hostilities in the Middle East and West Africa and the occurrence or threat of terrorist attacks against the United States or other countries could contribute to a downturn in the economies of countries in which we operate. A sustained or deep recession could further limit economic activity and, thus, result in an additional decrease in energy consumption which, in turn, could cause our revenues and margins to decline and limit our future growth prospects.

We do business in jurisdictions whose political and regulatory environments and compliance regimes differ.

Risks associated with our operations in foreign areas include, but are not limited to:

- political, social and economic instability, war and acts of terrorism;
- potential seizure, expropriation or nationalization of assets;
- damage to our equipment or violence directed at our employees, including kidnappings and piracy;
- increased operating costs;
- complications associated with repairing and replacing equipment in remote locations;
- repudiation, modification or renegotiation of contracts, disputes and legal proceedings in international jurisdictions;
- limitations on insurance coverage, such as war-risk coverage in certain areas;
- import-export quotas;
- confiscatory taxation;
- work stoppages or strikes;
- unexpected changes in regulatory requirements;
- wage and price controls;
- imposition of trade barriers;
- imposition or changes in enforcement of local content laws;
- the inability to collect or repatriate currency, income, capital or assets;
- foreign currency fluctuations and devaluation; and
- other forms of government regulation and economic conditions that are beyond our control.

Part of our strategy is to prudently and opportunistically acquire businesses and assets that complement our existing products and services and to expand our geographic footprint. If we make acquisitions in other countries, we may increase our exposure to the risks discussed above.

Our operations are subject to various laws and regulations in countries in which we operate including, but not limited to:

- laws and regulations relating to currency conversions and repatriation;
- oil and natural gas exploration and development;
- taxation of offshore earnings and earnings of expatriate personnel;
- the use of local employees and suppliers by foreign contractors; and
- duties on the importation and exportation of supplies and equipment.

Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions regarding the exploration for oil and natural gas and other aspects of the oil and natural gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and natural gas companies and may continue to do so. Operations in developing countries can be subject to legal systems which are not as predictable as those in more developed countries, which can lead to greater risk and uncertainty in legal matters and proceedings.

In some jurisdictions we are subject to foreign governmental regulations favoring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These regulations may adversely affect our ability to compete. Additionally, our operations in some jurisdictions may be significantly affected by union activity and general labor unrest. In Argentina and Brazil, where we have increased operations as a result of the merger with Allis-Chalmers, labor organizations have substantial support and have considerable political influence. The demands of labor organizations in Argentina have increased in recent years as a result of the general labor unrest and dissatisfaction resulting from the disparity between the cost of living and salaries in Argentina as a result of the devaluation of the Argentine Peso. There can be no assurance that our operations in Argentina will not face labor disruptions in the future or that any such disruptions will not have a material adverse effect on our financial condition or results of operations. Additionally, unionization efforts have been made from time to time within the industry in the United States, to varying degrees of success. Any such unionization could increase our costs or limit the flexibility in that market.

Board of Director's Report
Risk factors

Our industry is highly competitive with intense price competition. Our inability to compete successfully may reduce our profitability.
Our contracts are traditionally awarded on a competitive-bid basis, with pricing often being the primary factor in determining which qualified contractor is awarded a job, although each contractor's technical capability, product and service quality and availability, responsiveness, experience, safety performance record and reputation for quality also can be key factors in the determination.

Several other oilfield service companies are larger than us and have resources that are significantly greater than our own. Furthermore, we compete with several smaller companies capable of competing more effectively on a regional or local basis. These competitors may be able to better withstand industry downturns, compete on the basis of price and acquire new equipment and technologies, all of which could affect our revenues and profitability. These competitors compete with us both for customers and for acquisitions of other businesses. This competition may cause our business to suffer. Our management believes competition for contracts will continue to be intense in the foreseeable future.

In addition, some exploration and production companies have begun performing hydraulic fracturing and directional drilling on their wells using their own equipment and personnel. Any increase in the development and utilization of in-house fracturing and directional drilling capabilities by our customers could decrease the demand for our services and have a material adverse impact on our business.

A terrorist attack or armed conflict could harm our business.
Terrorist activities, anti-terrorist efforts and other armed conflicts in, or involving any region of our activities or other oil producing nation may adversely affect local and global economies and could prevent us from meeting our financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for our services and causing a reduction in our revenues. Oil and natural gas related facilities could be direct targets of terrorist attacks, and our operations could be adversely impacted if infrastructure integral to our customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

A significant portion of our business is conducted in the North Sea. The mature nature of this region could result in less drilling activity in the area, thereby reducing demand for our services.
The North Sea is a mature oil and natural gas production region that has experienced substantial seismic survey and exploration activity for many years. Because a large number of oil and natural gas prospects in this region have already been drilled, additional prospects of sufficient size and quality could be more difficult to identify. Oil and natural gas companies may be unable to obtain financing necessary to drill prospects in this region. The decrease in the size of oil and natural gas prospects, the decrease in production or the failure to obtain such financing may result in reduced drilling activity in the North Sea and reduced demand for our services.

The macroeconomic and political situation in Argentina and changes to regulations affecting our Argentinian business could have a material adverse effect on our business, financial condition and results of operations.
In April 2012, the Argentinian Government took control over of Yacimientos Petroliferos Fiscales, or YPF, Argentina's largest oil company, and previously a subsidiary of Madrid-based Spanish energy company Repsol YPF S.A., by seizing a 51% stake of the company without providing immediate monetary compensation. The Argentinian Government claimed the seizure was effected as YPF did not invest enough in Argentina and thus let oil production and exploration in the country decline. Any perceived failure by Archer to "adequately" assist in the production of oil and gas in Argentina, failure to reinvest enough profit into operations and breach of contracts with various Argentine provinces could lead to the Argentinian state seizing our assets in Argentina.

Furthermore, we cannot predict whether the Argentinian state will implement new legislation affecting the possibilities of operating in Argentina as a foreign company, which could have a material adverse effect on our business, financial condition and results of operations.

Argentina has implemented a strict currency control regulation, which makes it difficult to have access to foreign currency. This imposes difficulties in settling invoices from foreign suppliers, whether third party or intercompany or to pay dividend to its shareholder outside the country.

The oilfield service industry is highly cyclical and lower demand and pricing could result in further declines in our profitability.

Historically, the oilfield service industry has been highly cyclical with periods of high demand and favorable pricing often followed by periods of low demand and sharp reduction in pricing power. Periods of decreased demand or increased supply intensify the competition in the industry. As a result of the cyclicality of the industry in which we operate, management expects our results of operations to be volatile and to decrease during market declines.

Operational risk

We are subject to numerous governmental laws and regulations, some of which may impose significant liability on us for environmental and natural resource damages.

We are subject to various federal, state, local and foreign laws and regulations, including those relating to the energy industry in general and the environment, in particular, and may be required to make significant, capital expenditures to comply with laws and the applicable regulations and standards of governmental authorities and organizations. Moreover, the cost of compliance could be higher than anticipated. Our operations are subject to compliance with international conventions and the laws, regulations and standards of other countries in which we operate, including anti-bribery regulations. It also is possible that existing and proposed governmental conventions, laws, regulations and standards, including those related to climate and emissions of "greenhouse gases" may, in the future, add significantly to our operating costs or limit our activities or the activities and levels of capital spending by our customers.

In addition, many aspects of our operations are subject to laws and regulations that relate, directly or indirectly, to the oilfield services industry, including laws requiring us to control the discharge of oil and other contaminants into the environment or otherwise relating to environmental protection. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and even criminal penalties, the imposition of remedial obligations and the issuance of injunctions that may limit or prohibit our operations. Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault on our part. These laws and regulations may expose us to liability for the conduct of, or conditions caused by, others or for acts that were in compliance with all applicable laws at the time the acts were performed. The application of these requirements, the modification of existing laws or regulations or the adoption of new laws or regulations curtailing exploration and production activity could materially limit our future contract opportunities, materially increase our costs or both.

Furthermore, new environmental laws or regulations may prevent or limit us from carrying out our business in our current manner. For example, some states in the United States have adopted, or are considering adopting, regulations that could restrict hydraulic fracturing (a method used in the completion of oil and natural gas wells) in certain circumstances and/or require the disclosure of the composition of hydraulic fracturing fluids, which generally contain hazardous substances. If new laws or regulations that significantly restrict hydraulic fracturing, or other equipment or procedures, are adopted, such laws could make it more difficult or costly for us to perform our services at a competitive price. Such legislative changes also could cause us to incur substantial compliance costs, and the compliance or the consequences of any failure to comply could have a material adverse effect on our financial condition and results of operations.

Our business depends upon their ability to obtain specialized equipment and parts from third-party suppliers and we may be vulnerable to delayed deliveries and future price increases.

We purchase specialized equipment and parts from third-party suppliers and affiliates. Currently, there is a high demand for hydraulic fracturing, coiled tubing and other oilfield services and extended lead times to obtain equipment needed to provide these services. Further, there are a limited number of suppliers that manufacture the equipment we use. Should our current suppliers be unable or unwilling to provide the necessary equipment and parts or otherwise fail to deliver the products timely and in the quantities required, any resulting delays in the provision of our services could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, future price increases for this type of equipment and parts could negatively impact our ability to purchase new equipment to update or expand the existing fleet or to timely repair equipment in the existing fleet.

The loss of or interruption in operations of one or more of our key raw material suppliers and shortages of water could have a material adverse effect on our operations.

Our reliance on outside suppliers for some of the key raw materials we use in providing our services involves several risks, including limited control over the price, timely delivery and quality of such materials or equipment. We rely on a limited number of suppliers for certain raw materials, particularly sand and other

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proppants, which are critical for certain of our operations. In the past, we have experienced a shortage of sand and if we were to again have a problem sourcing this or other raw materials or transporting these materials from these suppliers, our ability to provide services would be limited. We do not have commitments with our suppliers to ensure the continued supply of raw materials. Historically, we have placed orders with our suppliers that meet our expected raw material demands for short periods of time. Any changes in our suppliers could cause material delays in our operations and increase our costs. In addition, our suppliers may not be able to meet our future demands as to volume, quality or timeliness. Our inability to obtain timely delivery of key raw materials of acceptable quality or any significant increases in prices of such materials could result in material operational delays, increase our operating costs, limit our ability to service our customers' wells or otherwise materially and adversely affect our business and operating results. Further, our hydraulic fracturing operations require significant amounts of water and may be negatively impacted by shortages of water, due to droughts or otherwise, in the areas in which we operate. Our fracturing operations in certain shales are more water intensive due to the peculiar geology of such shales, and competition for water in such shales is growing.

We can provide no assurance that our current backlog will be ultimately realized.

As of December 31, 2012, our total backlog was approximately $1.4 billion. The amount of our backlog does not necessarily indicate actual future revenue or earnings related to the performance of that work. Management calculates its contract revenue backlog, or future contracted revenue, as the contract day rate multiplied by the number of days remaining on the contract, assuming full utilization and excluding revenues for contract preparation and customer reimbursable. We may not be able to perform under our contracts due to various operational factors, including unscheduled repairs, maintenance, operational delays, health, safety and environmental incidents, weather events in the North Sea and elsewhere and other factors (some of which are beyond our control), and our customers may seek to cancel or renegotiate our contracts for various reasons, including a financial downturn or falling commodity prices. In some of the contracts, our customer has the right to terminate the contract without penalty and, in certain instances, with little or no notice. Our inability or the inability of our customers to perform their respective contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

We will experience reduced profitability if our customers reduce activity levels or terminate or seek to renegotiate their contracts or if we experience downtime, operational difficulties, or safety-related issues.

Currently, our service contracts with major customers are both day-rate contracts, pursuant to which we charge a fixed charge per day regardless of the number of days needed to drill the well, and footage-based contracts, where a fixed rate per foot drilled is charged regardless of the time it takes to drill. During depressed market conditions, a customer may no longer need services that are currently under contract or may be able to obtain comparable services at a lower daily rate. As a result, customers may seek to renegotiate the terms of their existing contracts or avoid their obligations under those contracts. In addition, our customers may have the right to terminate or may seek to renegotiate existing contracts if we experience downtime, operational problems above the contractual limit or safety-related issues or in other specified circumstances, which include events beyond the control of either party.

Some of our contracts with our customers include terms allowing the customer to terminate the contracts without cause, with little or no prior notice and without penalty or early termination payments. In addition, under some of our existing contracts, we could be required to pay penalties if such contracts are terminated due to downtime, operational problems or failure to perform. Some of our other contracts with customers may be cancellable at the option of the customer upon payment of a penalty, which may not fully compensate us for the loss of the contract. Early termination of a contract may result in our employees being idle for an extended period of time. The likelihood that a customer may seek to terminate a contract is increased during periods of market weakness. If our customers cancel or require us to renegotiate some of our significant contracts and we are unable to secure new contracts on substantially similar terms or if contracts are suspended for an extended period of time, our revenues and profitability would be materially reduced.

In addition to day rate-based contracts, we also perform footage or turnkey-based land drilling operations in Argentina. Such contracts carry operational risks of not drilling the wells in the anticipated time, risks of redrilling and risks related to losses of drilling mud.

If we are unable to renew or obtain new and favorable contracts for rigs whose contracts are expiring or are terminated, our revenues and profitability could be materially reduced.

We have a number of contracts that will expire. Our ability to renew these contracts or obtain new contracts and the terms of any such contracts will depend on market conditions. We may be unable to renew our expiring contracts or obtain new contracts for the rigs and the day rates under any new contracts may be substantially below the existing day rates, which could materially reduce our revenues and profitability.

An oversupply of comparable rigs in the geographic markets in which we compete could depress the utilization rates and day rates for our rigs and materially reduce our revenues and profitability.

Utilization rates, which are the number of days a rig actually works divided by the number of days the rig is available for work, and day rates, which are the contract prices customers pay for rigs per day, also are affected by the total supply of comparable rigs available for service in the geographic markets in which we compete. Improvements in demand in a geographic market may cause ours competitors to respond by moving competing rigs into the market, thus intensifying price competition. Significant new rig construction could also intensify price competition. In the past, there have been prolonged periods of rig oversupply with correspondingly depressed utilization rates and day rates largely due to earlier, speculative construction of new rigs. Improvements in day rates and expectations of longer-term, sustained improvements in utilization rates and day rates for drilling rigs may lead to construction of new rigs. These increases in the supply of rigs could depress the utilization rates and day rates for the rigs and materially reduce our revenues and profitability.

Our failure to attract and retain key personnel and skilled workers could hurt our operations.

We are dependent upon the efforts and skills of our directors and executives to manage our business, identify and consummate additional acquisitions and to provide an environment where we can attract and retain customers. Furthermore, we are dependent upon our ability to retain key personnel employed in the daily operations of our business.

We are dependent upon the available labor pool of skilled employees. Our development and expansion will require additional experienced management and operations personnel. No assurance can be given that we will be able to identify and retain these employees. We compete with other oilfield services businesses and other employers to attract and retain qualified personnel with the technical skills and experience required to provide our customers with the highest quality service. A shortage of skilled workers, increases in wage rates or changes in applicable laws and regulations could make it more difficult for us to attract and retain personnel and could require us to enhance our wage and benefits packages. There can be no assurance that labor costs will not increase. Any increase in our operating costs could cause our business to suffer.

Severe weather could have a material adverse impact on our business.

Our business could be materially and adversely affected by severe weather. Repercussions of severe weather conditions may include:

- curtailment of services;
- weather-related damage to facilities and equipment resulting in suspension of operations;
- inability to deliver materials to job sites in accordance with contract schedules; and
- loss of productivity.

A substantial portion of our revenue from operations is generated from work performed in the North Sea. Adverse weather conditions during the winter months in the North Sea usually result in low levels of offshore activity. Further, in Brazil, where we also generate a significant portion of revenue from operations, adverse weather conditions affect our results of operations. Optimal weather conditions offshore Brazil normally exist only from October to April and most offshore operations in this region are scheduled for that period. In the United States, winter weather conditions can impact our operations in Oklahoma, North Texas and in the northeastern states, such as Pennsylvania and Ohio. Additionally, during certain periods of the year, we may encounter adverse weather conditions such as tropical storms. Adverse seasonal weather conditions limit our access to job sites and our ability to service wells in affected areas. These constraints and the resulting shortages or high costs could delay our operations and materially increase our operating and capital costs in general or for the affected regions.

We may be subject to litigation if another party claims that we have infringed upon their intellectual property rights.

Third parties could assert that the tools, techniques, methodologies, programs and components we use to provide our services infringe upon the intellectual property rights' of others. Infringement claims generally result in significant legal and other costs and may distract management from running our core

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business. Additionally, if any of these claims were to be successful, developing noninfringing technologies and/or making royalty payments under licenses from third parties, if available, would increase our costs. If a license were not available we might not be able to continue to provide a particular service or product, which could adversely affect our financial condition, results of operations and cash flows.

We could be adversely affected if we fail to keep pace with technological changes and changes in technology could have a negative result on our market share.
We provide services in increasingly challenging onshore and offshore environments. To meet our clients' needs, we must continually develop new and update existing technology for the services we provide. In addition, rapid and frequent technology and market demand changes can render existing technologies obsolete, requiring substantial new capital expenditures and could have a negative impact on our market share. Any failure by us to anticipate or to respond adequately to changing technology, market demands and client requirements could adversely affect our business and financial results.

We may be subject to claims for personal injury and property damage, which could materially adversely affect our financial condition and results of operations.
Substantially, all of our operations are subject to hazards that are customary for exploration and production activity including blowouts, reservoir damage, loss of well control, cratering, oil and gas well fires and explosions, natural disasters, pollution, and mechanical failure. Any of these risks could result in damage to or destruction of drilling equipment, personal injury and property damage and suspension of operations or environmental damage. We also may be subject to property, environmental and other damage claims by oil and natural gas companies and other businesses operating offshore and in coastal areas. Litigation arising from an accident at a location where our products or services are used or provided may cause us to be named as a defendant in lawsuits asserting potentially large claims. Generally, our contracts provide for the division of responsibilities between us and our customers and consistent with standard industry practice, our clients generally assume and indemnify us against some of these risks. In particular, contract terms generally provide that our customer, the operator, will retain liability and indemnify us for (i) environmental pollution caused by any oil, gas, water or other fluids and pollutants originating from below the surface or seabed, as applicable; (ii) damage to customer and third-party equipment and property including any damage to the subsurface and reservoir; and (iii) personal injury to or death of customer personnel. There can be no assurance, however, that these clients will necessarily be financially able to indemnify us against all risks. Also, we may be effectively prevented from enforcing these indemnities because of the nature of our relationship with some of our larger clients. Additionally, from time to time, we may not be able to obtain agreement from our customers to indemnify us for such damages and risks.

To the extent we are unable to transfer such risks to customers by contract or indemnification agreements, we generally seek protection through customary insurance to protect our business against these potential losses. However, we have a significant amount of self-insured retention or deductible for certain losses relating to general liability and property damage. There is no assurance that such insurance or indemnification agreements will adequately protect us against liability from all of the consequences of the hazards and risks described above. The occurrence of an event for which we are not fully insured or indemnified against or the failure of a customer or insurer to meet our indemnification or insurance obligations could result in substantial losses.

Our insurance coverage may become more expensive, may become unavailable in the future, and may be inadequate to cover our losses.
Our insurance coverage is subject to certain significant deductibles and levels of self-insurance does not cover all types of losses and, in some situations, may not provide full coverage for losses or liabilities resulting from our operations. In addition, we are likely to continue experiencing increased costs for available insurance coverage, which may impose higher deductibles and limit maximum aggregated recoveries. Insurers may not continue to offer the type and level of coverage that we currently maintain and our costs may increase substantially as a result of increased premiums, potentially to the point where coverage is not available on economically manageable terms. Should liability limits be increased via legislative or regulatory action, it is possible that we may not be able to insure certain activities to a desirable level. If liability limits are increased and/or the insurance market becomes more restricted, our business, financial condition and results of operations could be materially adversely affected.

Insurance costs may also increase in the event of ongoing patterns of adverse changes in weather or climate. We may not be able to obtain customary insurance coverage in the future, thus, putting ourselves at a greater risk of loss due to severe weather conditions and other hazards. Moreover, we may not be able to maintain adequate insurance in the future at rates management considers reasonable or be able to obtain insurance against certain risks.

Our reputation and our ability to do business may be impaired by corrupt behavior by our employees or agents or those of our affiliates.

We operate in countries known to experience governmental corruption. While we are committed to conducting business in a legal and ethical manner, there is a risk that our employees or agents or those of our affiliates may take actions that violate legislation promulgated by a number of countries pursuant to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions or other applicable anti-corruption regulations. These actions could result in monetary penalties against us or our affiliates and could damage our reputation and, therefore, our ability to do business.

In addition to the risks that arise in countries that have experienced governmental corruption, there also is a risk that we will not be able to ensure that our internal control policies and procedures will protect us from fraud or other criminal acts committed by our employees or agents or those of our affiliates.

We are subject to litigation that could have an adverse effect on us.

We are, from time to time, involved in litigation. The numerous operating hazards inherent in our business increase our exposure to litigation, which may involve, among other things, contract disputes, personal injury, environmental, employment, tax and securities litigation, and litigation that arises in the ordinary course of business. Management cannot predict with certainty the outcome or effect of any claim or other litigation matter. Litigation may have an adverse effect on us because of potential negative outcomes, the costs associated with defending the lawsuits, the diversion of our management's resources and other factors.

Financial risk

A small number of customers account for a significant portion of our operating revenues and the loss of, or a decline in the creditworthiness of, one or more of these customers could adversely affect our financial condition and results of operations.

During the year ended December 31, 2012, contracts from Statoil, Pan American Energy and ConocoPhillips accounted for 15%, 12% and 8% of our total operating revenues, respectively. In the year ended December 31, 2011, Statoil, Pan American Energy and ConocoPhillips accounted for approximately 19%, 15% and 10% of our total operating revenues, respectively. Our financial condition and results of operations will be materially adversely affected if these customers interrupt or curtail their activities, terminate their contracts with us, fail to renew their existing contracts or refuse to award new contracts to us, and we are unable to enter into contracts with new customers at comparable day rates. The loss of any significant customer could adversely affect our financial condition and results of operations.

Additionally, this concentration of customers may increase our overall exposure to credit risk.

Many of our customers' activity levels, spending for our services and payment patterns have been and may continue to be impacted by the credit markets.

Many of our customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. During 2008, there was a significant decline in the credit and equity markets, adversely impacting the availability of capital. We believe that since March 2009, the credit and equity markets have improved. However, uncertainty regarding any continued improvement or the actual deterioration of these markets could have a material adverse impact on our customers' willingness or ability to spend for our services. Such reduction in spending could have a material adverse effect on our operations.

In addition, while historically our customer base has not presented significant credit risks, the same factors that may lead to a reduction in our customers' spending also may increase our exposure to the risks of nonpayment and nonperformance by our customers. A significant reduction in our customers' liquidity may result in a decrease in their ability to pay or otherwise perform on their obligations to us. Any increase in the nonpayment of and nonperformance by our counterparties, either as a result of recent changes in financial and economic conditions or otherwise, could have an adverse impact on our operating results and could adversely affect our liquidity.

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We have recorded substantial goodwill as the result of acquisitions and, as such, goodwill is subject to periodic reviews of impairment.
We perform purchase price allocations to intangible assets when accounting for a business combination. The excess of the purchase price after allocation of fair values to tangible assets is allocated to identifiable intangibles and, thereafter, to goodwill. Periodic reviews of goodwill for impairment in value are conducted at least annually. Any impairments would result in a noncash charge against earnings in the period reviewed, which may or may not create a tax benefit, and would have a corresponding decrease in stockholders' equity.

We reviewed goodwill in 2012 and in 2011 and recorded impairments of $207.6 million and $99.0 million, respectively. The testing of the valuation of goodwill involves significant judgment and assumptions to be made in connection with the future performance of the various components of our business operations. In the event that market conditions deteriorate or other circumstances arise which result in changes to these estimates and assumptions, we may be required to record an additional impairment of goodwill and such impairment could be material.

Our results of operations may be adversely affected by currency fluctuations.
Due to our international operations, we may experience currency exchange losses when revenues are received and expenses are paid in nonconvertible currencies or when we do not hedge an exposure to a foreign currency. We also may incur losses as a result of an inability to collect revenues because of a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital. We attempt to limit the risks of currency fluctuation and restrictions on currency repatriation where possible by obtaining contracts providing for payment of a percentage of the contract indexed to the U.S. dollar exchange rate. To the extent possible, we seek to limit its exposure to local currencies by matching the acceptance of local currencies to our local expense requirements in those currencies.
We may not be able to take these actions in the future, thereby, exposing us to foreign currency fluctuations that could cause our results of operations, financial condition and cash flows to deteriorate materially.

Archer is a holding company, and as a result is dependent on dividends from its subsidiaries to meet its obligations.
Archer is a holding company and does not conduct any business operations of its own. Archer's principal assets are the equity interests it owns in its operating subsidiaries, either directly or indirectly. As a result, Archer is dependent upon cash dividends, distributions or other transfers it receives from its subsidiaries to repay any debt it may incur and to meet its other obligations. The ability of Archer's subsidiaries to pay dividends and make payments to Archer will depend on their operating results and may be restricted by, among other things, applicable corporate, tax and other laws and regulations and agreements of those subsidiaries. For example, the corporate laws of some jurisdictions prohibit the payment of dividends by any subsidiary unless the subsidiary has a capital surplus or net profits in the current or immediately preceding fiscal year. Payments or distributions from Archer's subsidiaries also could be subject to restrictions on dividends or repatriation of earnings under applicable local law, and monetary transfer restrictions in the jurisdictions in which Archer's subsidiaries operate. Archer's subsidiaries are separate and distinct legal entities. Any right that Archer has to receive any assets of or distributions from any subsidiary upon the bankruptcy, dissolution, liquidation or reorganization of such subsidiary, or to realize proceeds from the sale of the assets of any subsidiary, will be junior to the claims of that subsidiary's creditors, including trade creditors.

We have a significant level of debt and could incur additional debt in the future, which could have significant consequences for our business and future prospects.
As of December 31, 2012, we had total outstanding interest-bearing debt of approximately $1,219.3 million. This debt represented approximately 47.1% of our total book capitalization. Our debt and the limitations imposed on us by our existing or future debt agreements could have significant consequences for our business and future prospects, including the following:

- we may not be able to obtain necessary financing in the future for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;
- we will be required to dedicate a substantial portion of our cash flow from operations to payments of principal and interest on our debt;
- we could be more vulnerable during downturns in our business and be less able to take advantage of significant business opportunities and to react to changes in our business and in market or industry conditions; and
- we may have a competitive disadvantage relative to our competitors that have less debt.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our earnings and cash flow may vary significantly from year to year due to the cyclical nature of the oilfield services industry. As a result, our future cash flows may be insufficient to meet all of our debt obligations and other commitments and any insufficiency could negatively impact our business. To the extent we are unable to repay our indebtedness as it becomes due or at maturity with cash on hand, we will need to refinance our debt, sell assets or repay the debt with the proceeds from equity offerings. Additional indebtedness or equity financing may not be available to us in the future for the refinancing or repayment of existing indebtedness, and we may not be able to complete asset sales in a timely manner sufficient to make such repayments.

We will need to make an installment of $100.0 million by November 2014 on our syndicated facility and will further need to refinance the remaining debt from our syndicated facility before November 11, 2015.

As per our current financing obligations, we will need to make an installment of $100.0 million by November 2014 on our syndicated facility and will further need to refinance the remaining debt from our syndicated facility before November 11, 2015, if not otherwise refinanced.

The amounts referred to above currently have not been refinanced and we are at risk of not being able to secure funding, which could adversely affect our business.

Our credit facility imposes restrictions on us that may limit the discretion of management in operating our business and that, in turn, could impair our ability to meet our obligations.

Our credit facility contains various restrictive covenants that limit management's discretion in operating its business. In particular, these covenants limit our ability to, among other things:

- make certain types of loans and investments;
- incur or guarantee additional indebtedness;
- pay dividends, redeem or repurchase stock, prepay, redeem or repurchase other debt or make other restricted payments;
- use proceeds from asset sales, new indebtedness or equity issuances for general corporate purposes or investment into our business;
- place restrictions on our subsidiaries' ability to make dividends or other payments;
- invest in joint ventures;
- create or incur liens;
- enter into transactions with affiliates;
- sell assets or consolidate or merge with or into other companies; and
- enter into new lines of business.

The credit facility also imposes additional covenants and restrictions, including the imposition of a requirement to maintain a minimum equity ratio at all times. Our ability to comply with these financial covenants and restrictions may be affected by events beyond our control. Our credit facility requires that we meet certain financial ratios and tests. Although the financial covenants are less restrictive under the terms of the February 2013 amendment, there can be no assurance that we will be able to comply with the financial covenants. Reduced activity levels in the exploration and production industry could adversely impact our ability to comply with such covenants in the future.

These covenants could materially and adversely affect our ability to finance our future operations or capital needs. Furthermore, they may restrict our ability to expand, to pursue our business strategies and otherwise to conduct our business. A breach of these covenants could result in a default under our credit facility. If there were to be an event of default under the credit facility, the affected creditors could cause all amounts borrowed under the facility to be due and payable immediately. Additionally, if we fail to repay indebtedness under our credit facility when it becomes due, the lender could proceed against our assets which we have pledged as security. Our assets and cash flow might not be sufficient to repay our outstanding debt in the event of a default.

Our tax liabilities could increase as a result of adverse tax audits, inquiries or settlements.

Our operations are, and may in the future become, subject to audit, inquiry and possible reassessment by different tax authorities. In accordance with applicable accounting rules relating to contingencies, management provides for taxes in the amounts that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. Management also separately considers if taxes payable in relation to filings not yet subject to audit may be higher than the amounts stated in our filed tax return and makes additional provisions for probable risks, if appropriate. As forecasting the ultimate outcome includes some uncertainty, the risk exists that adjustments will be recognized to our tax provisions in later years as and when these and other matters are finalized with the appropriate tax authorities.

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Our operations are subject to a significant number of tax regimes and changes in legislation or regulations in any one of the countries in which we operate could negatively and adversely affect our results of operations.
Our operations are carried out in several countries across the world and our tax filings are, therefore, subject to the jurisdiction of a significant number of tax authorities and tax regimes, as well as cross-border tax treaties between governments. Furthermore, the nature of our operations means that we routinely have to deal with complex tax issues (such as transfer pricing, permanent establishment or similar issues), as well as competing and developing tax systems where tax treaties may not exist or where the legislative framework is unclear. In addition, our international operations are taxed on different bases that vary from country to country, including net profit, deemed net profit (generally based on turnover) and revenue-based withholding taxes based on turnover.

Our management determines our tax provision based on our interpretation of enacted local tax laws and existing practices and uses assumptions regarding the tax deductibility of items and recognition of revenue. Changes in these assumptions and practices could impact the amount of income taxes that we provide for in any given year and could negatively and adversely affect the result of our operations.

Risks related to shares

Archer common shares may trade at low volumes that could have an adverse effect on the resale price.
An active trading market may not prevail on Oslo Børs. Active and liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an active trading market for Archer common shares does not prevail, the price of the shares may be more volatile and it may be more difficult to complete a buy or sell order for Archer common shares.

Even if an active public trading market prevails, there may be little or no market demand for our common shares, making it difficult or impossible to resell the shares, which would have an adverse effect on the resale price. We cannot predict the price at which Archer common shares will trade.

The price of Archer common shares has been, and may continue to be, volatile.
The trading price of Archer common shares as registered on Oslo Børs has historically fluctuated. The volatility of the price of Archer common shares depends upon many factors including:

- decreases in prices for oil and natural gas resulting in decreased demand for our services;
- variations in our operating results and failure to meet expectations of investors and analysts;
- increases in interest rates;
- illiquidity of the market for Archer common shares;
- sales of common shares by existing shareholders;
- our substantial indebtedness; and
- other developments affecting us or the financial markets.

A reduced share price may result in a loss to investors and will adversely affect our ability to issue common shares to fund our activities.

Archer is a Bermuda company and being a shareholder of a Bermuda company involves different rights and privileges than being a stockholder of a corporation registered in Norway.
The rights of our shareholders are governed by the laws of Bermuda, our memorandum of association and our amended and restated by-laws. Bermuda law extends to shareholders' certain rights and privileges that may not exist under Norwegian law, conversely, does not extend rights and privileges extended by Norwegian law.

Because Archer is organized under the laws of Bermuda, investors may face difficulties in protecting their interests and their ability to protect their rights through courts may be limited.
It may be difficult to bring and enforce suits against Archer because Archer is organized under the laws of Bermuda. Some of Archer's directors reside in various jurisdictions outside Norway. As a result, it may be difficult for investors to affect service of process within Norway upon Archer's non-Norwegian directors or within other jurisdictions outside the relevant director's country of residence. Equally, it may be difficult for investors to enforce judgments obtained in the Norwegian courts or courts of other jurisdictions outside Bermuda or the relevant director's country of residence against Archer or Archer's non-Norwegian directors. In addition, there is some doubt as to whether the courts of Bermuda and other countries would recognize or enforce judgments of foreign courts obtained against Archer or Archer's directors or officers or would hear actions against us or those persons based on foreign laws. We have been advised by our legal advisors in Bermuda that Norway and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Some remedies available under the laws of Norway may not be allowed in Bermuda courts as contrary to that jurisdiction's public

policy. Therefore, a final judgment for the payment of money rendered by any federal or state court in Norway based on civil liability would not automatically be enforceable in Bermuda.

We may not have sufficient capital in the future to meet our needs. Future financings to provide this capital may dilute Archer's shareholders' ownership.

We may raise additional capital in the future through public or private debt or equity financings by issuing additional Archer common shares or other preferred financing shares, debt or equity securities convertible into common or preferred shares, or rights to acquire these securities. We may need to raise this additional capital in order to (among other things):

- take advantage of expansion or acquisition opportunities;
- acquire, form joint ventures with or make investments in complementary businesses, technologies or products;
- develop new products or services;
- respond to competitive pressures;
- repay debt; or
- respond to a difficult market climate.

Our Board may issue additional equity securities to fund the potential acquisition of additional businesses and pursuant to employee benefit plans. We also may issue additional equity securities for other purposes. These securities may have the same rights as Archer common shares or, alternatively, may have dividend, liquidation, or other preferences.
The issuance of additional equity securities will dilute the holdings of existing shareholders and may reduce the price of Archer common shares.

Seadrill Limited and Lime Rock Partners V L.P. currently control a substantial ownership stake in Archer and such interests could conflict with those of Archer's other shareholders.

Seadrill Limited, or Seadrill and Lime Rock Partners V L.P., or Lime Rock, held 231,053,239 and 63,351,525, respectively, of Archer's common shares as of March 1, 2013, which corresponds to 39.9% and 11.5% of the issued and fully paid shares.

As a result of these substantial ownership interests in Archer, Seadrill and Lime Rock have the ability to exert significant influence over certain actions requiring shareholder approval including, but not limited to, increasing or decreasing the authorized share capital of Archer (and disapplying preemptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. While transactions with a controlling shareholder could benefit Archer, the interests of these significant shareholders could, at times, conflict with the interests of other holders of Archer common shares. Although we have in the past sought and continue to seek to conclude all related party transactions on an arm's-length basis, and we have adopted procedures for entering into transactions with related parties, conflicts of interest may arise between us and Archer's principal shareholders or their respective affiliates, resulting in the conclusion of transactions on terms not determined by market forces. Any such conflicts of interest could adversely affect our business, financial condition and results of operations and, therefore, the value of Archer shares.

Board of Director's Report
Share capital issues

At December 31, 2012, our authorized share capital is $1,200,000,000, divided into 600,000,000 shares each with a par value of $2.00. All of our shares are of the same class.

A total of 366,397,622 shares were issued and outstanding at December 31, 2011.

A total of 249,998 shares were issued during 2012 in relation to exercise of options. An additional 11,500 shares were issued as a result of a ministerial error on the Allis-Chalmers merger share calculation.

At December 31, 2012, the number of shares issued is 366,659,120 corresponding to a share capital of $733,318,240. The issued shares are fully paid. There are no shares not representing the capital in the Company. The shares are equal in all respects and each share carries one vote at our General Meeting. None of our shareholders have different voting rights.

We reduced the par value of our stock from $2.00 to $1.00 and increased the number of authorized shares from 600 million to 1.2 billion at a Special General Meeting held on February 13, 2013.

In February 2013, we issued 208,334,000 new shares resulting in gross proceeds of $250.0 million.

All of our issued shares are listed on the Oslo Stock Exchange and the split of the shareholders was as per the table below.

Shareholder overview as of December 31, 2012

Seadrill	39.9%
Lime Rock	12.3%
Hemen Holdings	6.6%
Others	41.2%

Board of Director's Report
Corporate governance

The Board has reviewed our compliance with various rules and regulations, such as Norwegian Accounting Act, the Norwegian Code of Practice for Corporate Governance, as well as the respective Bermuda law. A detailed discussion of each item can be found in the compliance section of this annual report in Appendix A. The Board believes that we are in compliance with the rules and regulations except for certain sections where the reasons for this noncompliance are provided.

In February 2013, we issued 208,334,000 new shares resulting in gross proceeds of $250 million.

Board of Director's Report
Board of Directors

Composition of the Board
Overall responsibility for the management of the Company and its subsidiaries rests with the Board. Our by-laws provide that the Board shall consist of a minimum of two and a maximum of nine directors.

Our business address at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda, serves as c/o addresses for the members of the Board in relation to their directorships of the Company.

Mr. Alejandro P. Bulgheroni served as a Director from February 2011 up until his resignation on March 12, 2013.

Saad Bargach
Chairman
Mr. Bargach has served as Chairman of the Board since February 2011, following the merger with Allis-Chalmers. Prior to the merger, Mr. Bargach served as a director of Allis-Chalmers from June 2009 to February 2011. Mr. Bargach is a managing director at Lime Rock Partners. Prior to joining Lime Rock Partners, Mr. Bargach worked for more than 25 years at Schlumberger. Most recently, he served as Schlumberger's chief information officer and from July 2004 to March 2006, as president, well completions & productivity group, which included artificial lift, completions, testing, subsea and sand management services. During his career at Schlumberger, Mr. Bargach also served as president of consulting & systems integration for SchlumbergerSema in several European locations; the president of the drilling & measurements division with worldwide responsibility for drill bits, directional drilling, measurements-while-drilling, and logging-while-drilling services; and the Cairo-based president, oilfield services for Africa and Near East. He also is a member of the board of the American Productivity and Quality Center and currently serves on the board of directors of Artificial Lift Company (Chairman), a U.S.-based oil services company, Gas2 Limited, an Aberdeen-based oil service technology company, Tiway Oil, a Dubai-based oil and gas-producing company, Expert Petroleum, a Bucharest-based production enhancement company, DHS Oil (Chairman), a Dubai-based oil service company, OilSERV, an Iraq-based service company, Tercel Oilfield Products, a Dubai-based oilfield services technology company, TGT Oil and Gas Services (Chairman), a Dubai-based oil services company, and Xtreme Oil Drilling, an Alberta-based oil services technology provider. He previously served on the board of directors of ITS Energy Services.

Mr. Bargach has a bachelor's degree in electrical engineering and a masters degree in control systems. Mr. Bargach is a British citizen, resident in Dubai.

Fredrik Halvorsen
Deputy Chairman and CEO
Fredrik Halvorsen has served as a Director since October 2010 and was appointed Deputy Chairman of the Board in February 2011. Mr. Halvorsen is Chief Executive Officer and President of Seadrill. He also is a director of Deep Sea Supply Plc., where he has served since October 2010. Mr. Halvorsen's experience includes the position as chief executive officer of Tandberg ASA and, subsequently, senior vice president of Cisco Systems Inc. Prior to that he was the leader of McKinsey's South East Asia corporate finance practice. Mr. Halvorsen currently is employed by Frontline Corporate Services Ltd and holds a degree in Business Administration from The Norwegian School of Economics and Business Administration, with majors in finance and economics. The Finance major was obtained at the J.L. Kellogg Graduate School of Management. Mr. Halvorsen is a Norwegian citizen, resident in the UK.

Kate Blankenship
Director
Kate Blankenship has served as a Director since our incorporation in August 2007. Mrs. Blankenship also has served as a director of Seadrill since 2005, Frontline Ltd. since 2004, Ship Finance International Limited since October 2003, Independent Tankers Corporation Limited since February 2008, Golar LNG Limited since July 2003, Golden Ocean Group Limited since November 2004 and North Atlantic Drilling Ltd since 2011. Mrs. Blankenship also has served as chief accounting officer and secretary of Frontline Limited between 1994 and 2005, as chief financial officer of Knightsbridge Tankers Limited from April 2000 until September 2007 and was secretary of Knightsbridge Tankers Limited from December 2000 until March 2007.

Mrs. Blankenship is a member of the Institute of Chartered Accountants in England and Wales. Mrs. Blankenship is a British citizen, resident in France.

Giovanni Dell' Orto
Director
Giovanni Dell' Orto was appointed as a Director in February 2011. Mr. Dell' Orto was president and chief executive officer of DLS Drilling, Logistics and Services from 1994 to August 2006. He is a member of the board of Energy Developments and Investments Corporation (EDIC), supervising EDIC's gas marketing activities in Europe and other upstream projects in North Africa. He also is a nonexecutive member of the board of directors of Gas Plus S.p.A., an Italian company listed on the Milan Stock Exchange. Mr. Dell' Orto also has served as chairman and chief executive officer of Saipem and was a board member of Agip and Snam.

Mr. Dell' Orto is an Argentinian citizen, resident in Argentina.

Cecilie Fredriksen
Director
Cecilie Fredriksen has served as a Director since September 2008. Ms. Fredriksen has been employed by Frontline Corporate Services Limited in London since 2007 where she has served as an investment director. Ms. Fredriksen has been a director of Aktiv Kapital ASA since 2006, Golden Ocean Group Limited, since September 2008 and Ship Finance International Limited, since November 2008, Frontline Ltd since September 2010 and North Atlantic Drilling Ltd since 2011. Ms. Fredriksen also serves as a director of Marine Harvest ASA and Marine Harvest Ireland and has been a director of Northern Offshore Ltd. since February 2010. She received a BA in Business and Spanish from the London Metropolitan University in 2006.

Ms. Fredriksen is a Norwegian citizen, resident in the UK.

John Reynolds
Director
John Reynolds was appointed as a Director in February 2011. Mr. Reynolds cofounded Lime Rock Partners in 1998 and currently is a managing director of Lime Rock Partners. Mr. Reynolds remains an active member of the Lime Rock Partners investment team, investigating and executing primarily energy service investment opportunities worldwide. Prior to cofounding Lime Rock Partners, Mr. Reynolds worked at Goldman Sachs where he spent six years in the investment research department and had senior analyst responsibility for global oil service sector research and was one of the top-rated analysts in the sector.

Mr. Reynolds currently serves on the board of directors of Tesco Corporation, EnerMech Ltd., Revelation Energy Holdings LLC, Tercel Oilfield Products, and VEDCO Holdings Inc. Previously, he served on the board of directors of Hercules Offshore Inc., Eastern Drilling ASA, IPEC Ltd., Noble Rochford Drilling Ltd., Patriot Drilling, Roxar ASA, Sensa Ltd., and Torch Offshore Inc.

Mr. Reynolds is a U.S. citizen, resident in the United States.

Tor Olav Trøim
Director
Tor Olav Trøim has served as a Director since our incorporation in August 2007. Mr. Trøim is vice president and director of Seadrill, where he has served since May 2005. Mr. Trøim graduated as M.Sc. Naval Architect from the University of Trondheim, Norway in 1985. From 1987 to 1990, Mr. Trøim served as portfolio manager equity for Storebrand ASA and from 1992 to 1995 he was chief executive officer of Norwegian Oil Company DNO AS.

Mr. Trøim serves as a director of three companies listed on Oslo Børs: Golden Ocean Group Limited, Golar LNG Energy Limited, and Aktiv Kapital ASA, as well as being an alternate director in Marine Harvest ASA. In addition he currently is the chairman of Independent Tankers Corporation Limited. Mr. Trøim served as a director of Frontline Ltd from November 1997 until February 2008 and now serves as a consultant to the board of Frontline Ltd. He also has acted as chief executive officer for Knightsbridge Tankers Limited, a Bermuda company listed on the NASDAQ Global Select Market, until September 2007 and for Golar LNG Limited until April 2006.

Mr. Trøim is a Norwegian citizen, resident in the UK.

Board independence
Except for Mr. Halvorsen, all other directors are independent from the executive management team, all the directors are independent from the company's material business relations and two of the seven directors (Cecilie Fredriksen and Giovanni Dell' Orto) are independent from shareholders holding 10% or more of our shares.

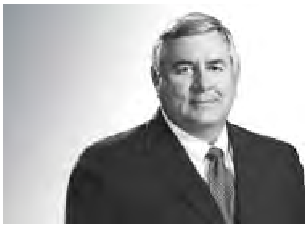
Thus, as a whole, the Board complies with the independency requirements of Oslo Børs listing rules and the Norwegian corporate governance code..

Board of Director's Report
Senior management

Kjetil Bjornson
President North Sea and Executive Vice President
Mr. Bjornson has been President North Sea since January 2012. Mr. Bjornson started working for Archer in July 2010, having previously held the role of Senior VP of Human Resources with Seadrill. He has held several senior positions with Schlumberger Limited, both in Europe and in the U.S. Mr. Bjornson also has held senior positions in the CHC Helicopter Services Company.

Prior to his career in the offshore industry, Mr. Bjørnson served for several years on submarines. He completed the Submarine Commanding Officers Training in 1987 and graduated from the Royal Norwegian Naval Academy in 1989.

Mr. Bjornson is a Norwegian citizen and resides in Sandnes, Norway.



Ronney Coleman
President North America and Executive Vice President
Mr. Coleman has been President North America since January 2012. Mr. Coleman came to Archer following a year with Select Energy Services where he served as Chief Operating Officer after a 33-year career at BJ Services where he established himself as a leader in the oil and gas industry. Mr. Coleman joined BJ Services in 1977 and, over the course of his career, he served in various capacities, beginning as an equipment operator and culminating as the Vice President for North America Pressure Pumping Services in 2007. Prior to being promoted to Vice President for North America, he was the Vice President for U.S./Mexico Operations from 1998 through 2007. He previously held various management positions within U.S./Mexico sales and operations groups.

Mr. Coleman graduated from the University of Texas–Permian Basin. He is a U.S. citizen, a native Texan and resides in Houston, Texas.

Carlos Etcheverry
President Latin America and Executive Vice President
Mr. Etcheverry has held the position of President, Latin America & Executive Vice President since April 2013. Prior to this, Mr. Etcheverry was the President of Land Drilling and joined Archer via the Allis-Chalmers Energy merger in February 2011.

Prior to joining Allis-Chalmers, Mr. Etcheverry was employed by the group Pride International & San Antonio for eight years where he held a number of line management positions, including President and CEO. Previous to that, Mr. Etcheverry worked for Halliburton Energy Services for 14 years in various technical, business development and line management positions throughout Latin America.

Mr. Etcheverry holds degrees in civil, construction and hydraulic engineering from the University de la Plata, Argentina and three MBAs in Marketing, Administration and Finance. Mr. Etcheverry holds Argentinian and Italian citizenships and resides in Buenos Aires, Argentina.

Olivier Muller
President Emerging Markets & Technologies and Executive Vice President

Mr. Muller has been President Emerging Markets & Technologies since January 2012. Before joining Archer, Mr. Muller was CEO for C6 Technologies, an Archer technology Joint Venture. His experience includes 18 years with Schlumberger Limited serving in a range of positions across Europe and Africa. Amongst others, he was Vice President of the global perforation business including R&E and Manufacturing, Vice President and Managing Director of oilfield operations in North Africa and General Manager for wireline operations in Scandinavia. He later served as Vice President and General Manager of the Areva mining business in Niger, Africa.

Mr. Muller holds a Masters degree in Mechanical Engineering from the Lille University in France. He is a French citizen and resides in Stavanger, Norway.

Fredrik Halvorsen
Vice Chairman and CEO

See Board of Directors section.

Christoph Bausch
Chief Financial Officer and Executive Vice President

Mr. Bausch has been our Executive Vice President and Chief Financial Officer since May 2011. Before joining Archer, Mr. Bausch was global director finance at Transocean. Prior to this, he had a 20-year career in Schlumberger, where he held various financial positions around the world. After several financial positions in Germany, he started his international career in 1996 as region controller for Sedco Forex Contract Drilling Services in South America. From 1998 until 2000, Mr. Bausch was responsible for the financial integration of Camco International Inc. into Schlumberger. Mr. Bausch also worked as financial controller responsible for Mexico & Central America and Middle East & Asia. From 2006 to 2010 he was based in Houston as the worldwide controller for research, engineering and manufacturing activities in Schlumberger.

Mr. Bausch studied at the University of Mannheim, where he obtained a degree in Masters of Business Administration. Mr. Bausch is a German citizen based in the UK.

Max L. Bouthillette
General Counsel and Executive Vice President

Mr. Bouthillette has been our Executive Vice President and General Counsel since August 2010. Mr. Bouthillette was previously employed for 16 years with BJ Services, Schlumberger Limited and the U.S. law firm of Baker Hostetler LLP. His professional experience includes serving as chief compliance officer and associate general counsel for BJ Services from 2006 to 2010, as a partner with Baker Hostetler LLP from January 2004 to 2006, and in several positions with Schlumberger in North America, Asia, and Europe from 1998 to December 2003.

Mr. Bouthillette holds a degree in accounting from Texas A&M University and a Juris Doctorate from the University of Houston Law Center. Mr. Bouthillette is a U.S. citizen and resides in Houston, Texas.

Board of Director's Report
Responsibility statement

We confirm, to the best of our knowledge, that the financial statements for the year ending December 31, 2012 have been prepared in accordance with accounting principles generally accepted in the United States or U.S. GAAP and give a true and fair view of the Company's consolidated assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the year-end Director's Report includes a fair review of important events that have occurred during the financial year and their impact on the set of consolidated financial statements and a description of the principal risks and uncertainties.

April 25, 2013
The Board of Archer Limited

Saad Bargach
(Chairman)

Fredrik Halvorsen
(Vice Chairman)

Kate Blankenship
(Director)

Cecilie Fredriksen
(Director)

Tor Olav Trøim
(Director)

Giovanni Dell' Orto
(Director)

John Reynolds
(Director)

Financial Statements 2012

Report of Independent Auditors

To the Board of Directors and Shareholders of Archer Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, cash flows and changes in shareholders' equity present fairly, in all material respects, the financial position of Archer Limited and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for the years then ended in accordance with the applicable law in Bermuda and in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit of these statements in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 90 of The Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent in writing.

PricewaterhouseCoopers LLP

London
United Kingdom
April 25, 2013

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, www.pwc.co.uk

Archer Limited and Subsidiaries
Consolidated statements of operations

(In millions of $, except share and per share data)	YEAR ENDED DECEMBER 31	
	2012	**2011**
Revenues		
Operating revenues	2,069.8	1,720.8
Reimbursable revenues	118.9	133.8
Total revenues	**2,188.7**	**1,854.6**
Expenses		
Operating expenses	1,726.3	1,377.7
Reimbursable expenses	113.2	127.0
Depreciation and amortization	205.0	147.1
Impairment of goodwill and intangible assets	338.7	126.6
General and administrative expenses	132.5	92.1
Total expenses	**2,515.7**	**1,870.5**
Operating loss	**(327.0)**	**(15.9)**
Financial items		
Interest income	1.7	3.7
Interest expenses	(61.5)	(46.4)
Share of results in associated company	(0.2)	(2.9)
Other financial items	17.5	(1.0)
Total financial items	**(42.5)**	**(46.6)**
Loss before income taxes	**(369.5)**	**(62.5)**
Income taxes	(6.3)	(14.5)
Net loss	**(375.8)**	**(77.0)**
Basic loss per share ($)	**(1.03)**	**(0.24)**
Diluted loss per share ($)	**(1.03)**	**(0.24)**
Weighted average number of shares outstanding		
Basic	366,572,200	322,420,262
Diluted	366,572,200	322,420,262

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

Archer Limited and Subsidiaries
Consolidated statements of comprehensive loss

(In millions of $)	YEAR ENDED DECEMBER 31	
	2012	**2011**
Net loss	**(375.8)**	**(77.0)**
Other comprehensive income/(loss) net of tax		
Change in unrealized gain/(loss) related to pension	14.4	(15.3)
Change in unrealized foreign exchange differences	(5.0)	(17.5)
Interest swap gain	1.2	0.7
Other comprehensive income/(loss)	**10.6**	**(32.1)**
Total comprehensive loss (net of tax)	**(365.2)**	**(109.1)**

Archer Limited and Subsidiaries
Accumulated other comprehensive income/(loss)

	PENSION – UNRECOGNIZED GAIN/(LOSS)	CHANGE IN UNREALIZED FOREIGN EXCHANGE DIFFERENCES	OTHER COMPREHENSIVE INCOME/(LOSS)	TOTAL
Balance at December 31, 2010	**(6.3)**	**31.7**	**(1.9)**	**23.5**
Net change in gains and losses and prior service cost	(15.3)	—	—	(15.3)
Interest swap gain	—	—	0.7	0.7
Foreign exchange differences	—	(17.5)	—	(17.5)
Balance at December 31, 2011	**(21.6)**	**14.2**	**(1.2)**	**(8.6)**
Net change in gains and losses and prior service cost	14.4	—	—	14.4
Interest swap gain	—	—	1.2	1.2
Foreign exchange differences	—	(5.0)	—	(5.0)
Balance at December 31, 2012	**(7.2)**	**9.2**	—	**2.0**

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

Archer Limited and Subsidiaries
Consolidated balance sheets

(In millions of $)	DECEMBER 31	
	2012	**2011**
ASSETS		
Current assets		
Cash and cash equivalents	58.2	37.3
Restricted cash	11.9	13.3
Accounts receivables, net of allowance for doubtful accounts of 6.2 and 3.4, respectively.	418.5	447.5
Inventories	64.3	58.2
Deferred income tax	8.4	1.7
Other current assets	81.0	80.4
Total current assets	**642.3**	**638.4**
Noncurrent assets		
Investments in associates	2.4	7.4
Property plant and equipment	1,059.4	1,044.1
Deferred income tax asset	29.1	10.3
Goodwill	706.1	898.9
Other intangible assets	129.6	203.3
Other noncurrent assets	18.4	12.3
Total noncurrent assets	**1,945.0**	**2,176.3**
Total assets	**2,587.3**	**2,814.7**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of interest-bearing debt	329.5	108.9
Other current liabilities	363.3	357.6
Total current liabilities	**692.8**	**466.5**
Noncurrent liabilities		
Long-term interest-bearing debt	889.8	983.7
Deferred taxes	38.3	16.3
Other noncurrent liabilities	40.2	61.4
Total noncurrent liabilities	**968.3**	**1,061.4**
Commitments and contingencies		
Shareholders' equity		
Common shares of par value $2.00 per share: 600,000,000 shares authorized: 366,659,120 outstanding shares at December 31, 2012 (December, 31 2011: 366,397,622)	733.3	732.8
Additional paid-in capital	779.6	775.5
Accumulated deficit	(383.6)	(7.8)
Accumulated other comprehensive income/(loss)	2.0	(8.6)
Contributed deficit	(205.1)	(205.1)
Total shareholders' equity	**926.2**	**1,286.8**
Total liabilities and shareholders' equity	**2,587.3**	**2,814.7**

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

Archer Limited and Subsidiaries
Consolidated statements of cash flows

(In millions of $)	YEAR ENDED DECEMBER 31	
	2012	**2011**
Cash Flows from Operating Activities		
Net loss	**(375.8)**	**(77.0)**
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	205.0	147.1
Share-based compensation expenses	4.1	4.9
Loss on property, plant and equipment disposals	3.3	—
Impairment charges	338.7	126.6
Equity in loss of unconsolidated affiliates	0.2	2.9
Gain on debt redemption	(4.7)	—
Amortization of loan fees and senior note premium	5.9	—
Deferred income taxes	(11.7)	(18.4)
Unrealized foreign currency gain	(13.7)	(6.1)
Changes in operating assets and liabilities, net of acquisitions		
Decrease/(increase) in trade accounts receivable and other short-term receivables	32.1	(55.6)
Increase/(decrease) in trade accounts payable and other short-term liabilities	6.5	(4.1)
Increase in inventories	(13.1)	(10.7)
Change in other operating assets and liabilities, net	(8.0)	(18.1)
Net cash provided by operating activities	**168.8**	**91.5**
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(266.2)	(166.2)
Sale of property, plant and equipment	15.1	3.4
Acquisition of subsidiaries, net of cash	(0.9)	(695.4)
Net change in restricted cash	2.3	3.1
Net cash used in investing activities	**(249.7)**	**(855.1)**
Cash Flows from Financing Activities		
Net borrowings under revolving facilities	55.2	—
Proceeds from related party debt	75.0	—
Repayment on related party debt	(20.0)	—
Proceeds from debt	434.8	903.3
Repayment of debt	(439.8)	(523.0)
Debt issuance costs	(4.3)	—
Proceeds from issuance of equity, net	0.4	247.3
Net cash provided by financing activities	**101.3**	**627.6**
Effect of exchange rate changes on cash and cash equivalents	0.5	(1.1)
Net increase/(decrease) in cash and cash equivalents	**20.9**	**(137.1)**
Cash and cash equivalents at beginning of the year	37.3	174.4
Cash and cash equivalents at the end of the year	**58.2**	**37.3**
Interest paid	(65.1)	(49.5)
Taxes paid	(38.8)	(25.2)

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

Archer Limited and Subsidiaries
Consolidated statements of changes in shareholders' equity

(In millions of $)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	(ACCUMULATED DEFICIT) RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	CONTRIBUTED DEFICIT	NON CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2010	**450.8**	**219.4**	**69.2**	**23.5**	**(205.1)**	**0.1**	**557.9**
Shares issued on Merger with Allis-Chalmers	194.6	389.6	—	—	—	—	584.2
Private placement	85.4	161.9	—	—	—	—	247.3
Foreign exchange differences	—	—	—	(17.5)	—	(0.1)	(17.6)
Interest swap gain	—	—	—	0.7	—	—	0.7
Pension – unrecognized loss	—	—	—	(15.3)	—	—	(15.3)
Options issued	2.0	4.6	—	—	—	—	6.6
Net loss	—	—	(77.0)	—	—	—	(77.0)
Balance at December 31, 2011	**732.8**	**775.5**	**(7.8)**	**(8.6)**	**(205.1)**	—	**1,286.8**
Foreign exchange differences	—	—	—	(5.0)	—	—	(5.0)
Interest swap gain	—	—	—	1.2	—	—	1.2
Pension – unrecognized gain	—	—	—	14.4	—	—	14.4
Options issued	0.5	—	—	—	—	—	0.5
Share-based compensation	—	4.1	—	—	—	—	4.1
Net loss	—	—	(375.8)	—	—	—	(375.8)
Balance at December 31, 2012	**733.3**	**779.6**	**(383.6)**	**2.0**	**(205.1)**	—	**926.2**

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

Note 1 — General Information

Archer 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, underbalanced 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.

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

Basis of presentation

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The amounts are presented in United States Dollars, or USD, or $ rounded to the nearest million, unless otherwise stated.

Until December 31, 2010, we historically presented our consolidated financial statements in Norwegian krone or “NOK.” In February 2011, we closed on our previously announced merger with Allis-Chalmers Energy, Inc., or Allis-Chalmers. The merger significantly increased the scale of our operations with the main expansion being in the United States. As a result of the significant increase in the proportion of our business being conducted in USD in 2011, our reporting currency was changed from the NOK to USD with effect from January 1, 2011.

In accordance with U.S. GAAP, our merger with Allis-Chalmers in 2011 and our acquisition of the Great White Energy Services group of companies, or Great White, in 2011, have been accounted for as purchases in accordance with Accounting Standards Codification (ASC) Topic 805 “Business Combinations.” The fair value of the assets acquired and liabilities assumed were included in our consolidated financial statements beginning on the date when control was achieved.

The accounting policies set out below have been applied consistently to all periods in these consolidated financial statements.

Basis of consolidation

Investments in companies in which we directly or indirectly hold more than 50% of the voting control are consolidated in our financial statements. In addition, we consolidated the financial statements of Wellbore Solutions AS in which Archer owned 42.6% of the voting shares prior to the acquisition of the remaining shares in April 2012. This entity was consolidated prior to us owning 100%, due to the fact that we were considered to have control over the company through a shareholder agreement which gives us the power to vote for 50.1% of the shares.

Entities in which we do not have a controlling interest but over which we have significant influence are accounted for under the equity method of accounting. Our share of after-tax earnings of equity method investees are reported under Share of results of associated companies.

A list of all significant consolidated subsidiaries is attached – see Appendix B.

Intercompany transactions and internal sales have been eliminated on consolidation.

Reclassifications

Certain amounts in prior years’ consolidated financial statements have been reclassified to conform to the current year presentation.

Note 2 — Accounting Policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 predicted with certainty. Accordingly, our accounting estimates require the exercise of judgment. While management believes 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 and 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.

Revenue recognition

We recognize revenue for services and products when purchase orders, contracts or other persuasive evidence of an arrangement with the customer exists, the price is fixed or determinable, collectability is reasonably assured and services have been performed or the product delivered. Contracts for equipment rental, drilling services or well services are provided to our customers at various contractual rates. Revenue from contract services performed on an hourly, daily or monthly rate basis is recognized as the service is performed based on the number of days completed at fixed rates stipulated by the contract. Revenues contracted on a per-job basis are recognized on a percentage completion basis, calculated with reference to time recorded against the project, budgeted total time for the project, and budgeted daily rates.

For certain contracts we receive lump-sum payments and other fees for equipment and mobilization costs. Mobilization fees and related costs are deferred and amortized over the contract term.

Reimbursements for the purchase of supplies, equipment, personnel services, and other services provided at the request of our customers in accordance with a contract or agreement are recorded as revenue when incurred. The related costs are recorded as reimbursable expenses when incurred.

All known or anticipated losses on contracts are provided for when they become evident.

Foreign currencies

As of December 31, 2012, most of our subsidiaries have functional currency in USD. For subsidiaries that have functional currencies other than USD, we use the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year-end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

Transactions in foreign currencies during the year are translated into functional currency at the specific entity at the rates of exchange in effect on the date of the transaction. Foreign currency assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

Current and noncurrent classification

Assets and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Assets and liabilities not maturing within one year are classified as long term, unless the facts or circumstances indicate that current classification is otherwise appropriate.

Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with maturity of three months or less and exclude restricted cash.

Restricted cash

Restricted cash consists of bank deposits arising from advance employee tax withholdings.

Receivables

Accounts receivable are recorded in the balance sheet at their full amount less allowance for doubtful receivables. We establish reserves for doubtful receivables on a case-by-case basis. In establishing these reserves, we consider changes in the financial position of the customer, as well as customer payment history. Uncollectible trade accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when they are considered unrecoverable.

Bad debt expense for 2012 was $4.3 million (2011: $1.7 million).

Inventories

Inventories are valued at the lower of first-in, first-out cost or market. On a regular basis we evaluate our inventory balances for excess quantities and obsolescence by analyzing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances are written down, if necessary.

Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation. The cost of these assets less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of our fixed assets are in the following ranges:

– Land and buildings	3 – 40 years
– Drilling and well service equipment	2 – 12 years
– Office furniture and fixtures	3 – 10 years
– Motor vehicles	3 – 7 years

We evaluate the remaining useful life of our property, plant and equipment on a periodic basis to determine whether events and circumstances warrant a revision.

Expenditures for replacements or improvements are capitalized. Maintenance and repairs are charged to operating expenses as incurred.

Fully depreciated assets are retained in property, plant and equipment and accumulated depreciation until disposal. Upon sale or retirement, the cost of property and equipment, related accumulated depreciation and write-downs are removed from the balance sheet and the net amount, less any proceeds from disposal, is charged or credited to the consolidated statement of operations.

Asset under construction

The carrying value of assets under construction represents the accumulated costs at the balance sheet date and is included in property, plant and equipment on the face of the balance sheet. Cost components include payments for installments and variation orders, construction supervision, equipment, spare parts, capitalized interest, costs related to first-time mobilization and commissioning costs. No charge for depreciation is made until commissioning of the new builds has been completed and it is ready for its intended use.

Capitalized interest

The amount of interest expense capitalized in an accounting period is determined by applying an interest rate or the capitalization rate to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period is based on the rates applicable to our borrowings outstanding during the period. We do not capitalize amounts beyond the actual interest expense incurred in the period. We capitalized interest of $1.0 million in the year ended December 31, 2012 (2011: $1.8 million).

If our financing plans associate a specific new borrowing with a qualifying asset, we use the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to our other borrowings.

Capital leases

We lease office space and equipment at various locations. Where we have substantially all the risks and rewards of ownership, the lease is classified as a capital lease. Capital leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the present value of the future minimum lease payments. Each lease payment is allocated between the corresponding capital lease liability and finance charges so as to achieve a constant rate on the liability outstanding. The interest element of the capital cost is charged to the Consolidated Statement of Operations over the lease period.

Depreciation of assets held under capital leases is reported within “Depreciation and amortization expense” in the Consolidated Statement of Operations. Capitalized leased assets are depreciated on a straight-line basis over the estimated useful economic lives of the assets or a straight-line basis over the lease term, whichever is shorter.

Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization. The cost of intangible assets is generally amortized on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of our intangible assets range from 1 year to 20 years. We evaluate the remaining useful life of our intangible assets on a periodic basis to determine whether events and circumstances warrant a revision of the remaining amortization period. Once fully amortized, the intangible’s cost and accumulated amortization are eliminated.

Trade names under which we intend to trade for the foreseeable future are not amortized. In circumstances where management decides to phase out the use of a trade name, the relevant cost is amortized to zero over the remaining estimated useful life of the asset.

Acquired technology is not amortized until ready for marketing.

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 certain 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, its weighted average cost of capital and its 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 asset

The carrying values of long-lived assets, including intangible assets, that are held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. We assess 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 loss is recorded equal to the difference between the asset's carrying value and fair value.

Research and development

All research and development ("R&D") expenditures are expensed as incurred. Under the provisions of ASC 805, 'Business Combinations' acquired in-process R&D that meet the definition of an intangible asset are capitalized and amortized.

Defined benefit pension plans

We have several defined benefit plans that provide retirement, death and termination benefits. Our net obligation is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their cumulative service.

The projected future benefit obligation is discounted to its present value and the fair value of any plan assets is deducted. The discount rate is the market yield at the balance sheet date on government bonds in the currency and based on terms consistent with the post-employment benefit obligations. The retirement benefits are generally a function of years of employment and amount of compensation. The plans primarily are funded through payments to insurance companies. We record our pension costs in the period during which the services are rendered by the employees. Actuarial gains and losses are recognized in the Consolidated Statement of Operations when the net cumulative unrecognized actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected remaining working lives of the employees participating in the plans. Otherwise, recognition of actuarial gains and losses is not recognized in the Consolidated Statement of Operations. We recognize the funded status of the plan in the Consolidated Balance Sheet with a corresponding adjustment to "Accumulated other comprehensive income/(loss)" and as net periodic pension cost. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in "Accumulated other comprehensive income/(loss)."

Income taxes

Archer is a Bermuda company. Under current Bermuda law, Archer is not required to pay taxes in Bermuda on either income or capital gains. We have received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, Archer will be exempted from taxation until year 2035.

Certain of our subsidiaries operate in other jurisdictions where taxes are imposed, mainly Norway, the United States, Argentina, Brazil and the United Kingdom. For legal entities operating in taxable jurisdictions, we compute tax on income in accordance with the tax rules and regulations of the taxing authority where the income is earned. The income tax rates imposed by these authorities vary. Taxable income may differ from pretax income for accounting purposes. To the extent that differences are due to revenues or expense items reported in one period for tax purposes and in another period for financial accounting purposes, an appropriate provision for deferred taxes is made. A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, we provide a valuation allowance against that deferred tax asset. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

The impact of changes to income tax rates or tax law is recognized in periods when the change is enacted.

Significant judgment is involved in determining the provision for income taxes. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. Our tax filings are subject to regular audit by the tax authorities in most of the jurisdictions in which we conduct our business. These audits may result in assessments for additional taxes which are resolved with the authorities or, potentially, through the courts. We recognize the impact of a tax position in our financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The level of judgment involved in estimating such potential liabilities and the uncertain and complex application of tax regulations, may result in liabilities on the resolution of such audits, which are materially different from our original estimates. In such an event, any additional tax expense or tax benefit will be recognized in the year in which the resolution occurs.

Earnings per share or EPS

Basic earnings per share is calculated based on the income/(loss) for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments which for we include share options.

Deferred charges

Loan-related costs, including debt arrangement fees, incurred on the initial arrangement are capitalized and amortized over the term of the related loan using the straight-line method, which approximates the interest method. Amortization of loan-related costs is included in interest expense. Subsequent loan costs in respect of existing loans, such as commitment fees, are recognized in the Consolidated Statement of Operations within “Interest expenses” in the period in which they are incurred.

Share-based compensation

We have established a stock option plan under which employees, directors and officers of the Group may be allocated options to subscribe for new shares in Archer.

The fair value of the share options issued under our employee share option plans is determined at grant date taking into account the terms and conditions upon which the options are granted and using a valuation technique that is consistent with generally accepted valuation methodologies for pricing financial instruments and that incorporates all factors and assumptions that knowledgeable, willing market participants would consider in determining fair value. The fair value of the share options is recognized as personnel expenses with a corresponding increase in equity over the period during which the employees become unconditionally entitled to the options.

Compensation cost is initially recognized based upon options expected to vest with appropriate adjustments to reflect actual forfeitures. National insurance contributions arising from such incentive programs are expensed when the options are exercised.

Financial instruments

From time to time, we enter into interest rate swaps in order to manage floating interest rates on debt. Interest rate swap agreements are recorded at fair value in the balance sheet when applicable. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability may be designated as a cash flow hedge.

When the interest swap qualifies for hedge accounting we formally designate the swap instrument as a hedge of cash flows to be paid on the underlying loan, and in so far as the hedge is effective, the change in the fair value of the swap each period are recognized in the “Accumulated other comprehensive income/(loss)” line of the Consolidated Balance Sheet. Changes in fair value of any ineffective portion of the hedges are charged to the Consolidated Statement of Operations in “Other financial items.” Changes in the fair value of interest rate swaps are otherwise recorded as a gain or loss under “Other financial items” in the Consolidated Statement of Operations where those hedges are not designated as cash flow hedges.

Segment reporting

A segment is a distinguishable component of the Company that is engaged in business activities from which it earns revenues and incurs expenses, whose operating results are regularly reviewed by the chief operating decision maker and which is subject to risks and rewards that are different from those of other segments.

The management structure of the group was reorganized in 2012 with focus on four geographic and strategic areas: North America, Latin America, North Sea and Emerging Markets and Technologies. We reviewed the presentation of our reporting segments during the first quarter of 2012 and determined that change in reporting segments was necessary to reflect the organizational changes. Our historical segment data previously reported for the year ended December 31, 2011, has been restated to conform to the new presentation.

Segmental data in Note 23 is presented under the four segments existing as of December 31, 2012.

Related party transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties also are related if they are subject to common control or common significant influence.

Recently issued accounting pronouncements

In July 2012 the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update ("ASU") No. 2012-02, "Intangibles – Goodwill and Other (Topic 350)." The amendments in this ASU allow an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The requirements of this ASU were adopted during our quarter ended September 30, 2012 and did not have a significant impact on our disclosures.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles–Goodwill and Other (Topic 350)." The amendments in this ASU allow an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the first step of the two-step impairment test. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity must perform additional impairment testing. Otherwise, performing the two-step impairment test is not necessary. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The requirements of this ASU were adopted during the year.

Note 3 — Acquisitions

Acquisitions in 2011:

Universal Wireline

On January 27, 2011, we announced the acquisition of Universal Wireline for $ 25.5 million on an interest-bearing debt and cash-free basis. Universal Wireline has been merged into our existing wireline operations, Gray Wireline Service Inc., expanding the capabilities of the largest pure-play, cased-hole wireline company in the U.S.

The purchase price has been allocated as follows:

($ in millions)	FINAL ALLOCATION OF PURCHASE PRICE
Noncurrent assets	
Drilling equipment and other fixed asset	19.1
Goodwill	6.4
Total noncurrent assets	**25.5**
Total purchase price (fair value)	**25.5**

Allis-Chalmers

On February 23, 2011, we completed the merger with Allis-Chalmers, which previously was announced in August 2010. Allis-Chalmers conducts land drilling operations in Argentina, Brazil and Bolivia and provides directional drilling, coiled tubing, underbalanced drilling, casing and tubing and rental services primarily in the U.S.. Allis-Chalmers also manufactures and sells frac valves in the U.S..

The purchase price comprised both cash and equity payments to the shareholders of Allis-Chalmers, which resulted in us acquiring 100% of the share capital in Allis-Chalmers in exchange for Archer shares, in a ratio of 1.15 shares to each Allis-Chalmers share or a cash settlement of $4.25 per share. 95.3% of Allis-Chalmers shareholders elected to take Archer stock in the above ratio as consideration with the remainder receiving cash. The total purchase price, which includes an adjustment pertaining to the exchange of Allis-Chalmers share options to Archer share options, was $600.9 million.

The purchase price has been allocated as follows:

($ in millions)	FINAL ALLOCATION OF PURCHASE PRICE
Current assets	232.5
Property and equipment	655.5
Intangible assets (excluding goodwill)	105.8
Goodwill	298.6
Total assets acquired	**1,292.4**
Current liabilities	148.4
Long-term debt, less current portion	460.8
Other long-term liabilities	82.3
Total liabilities acquired	**691.5**
Total purchase price (fair value)	**600.9**

We have applied the purchase method of accounting to this business combination (per ASC topic 805). The resulting acquired goodwill recognized in the combined balance sheet is attributable to the acquired workforce, expected synergies and other acquired intangible assets which cannot be separately identified. The allocation of the purchase price of Allis-Chalmers has been based upon fair values studies.

Great White

On August 24, 2011, we completed the acquisition of all the operating companies of Great White in a transaction valued at $630 million on a cash- and debt-free basis, which was changed to $673.5 million including agreed working capital adjustments at closing of the acquisition.

The purchase price has been allocated as follows:

($ in millions)	FAIR VALUE/ ALLOCATION OF PURCHASE PRICE AS OF DECEMBER 31, 2011	ADJUSTMENTS TO PRELIMINARY FAIR VALUES	FINAL ALLOCATION OF PURCHASE PRICE
Current assets	98.9	—	98.9
Property and equipment	192.5	1.0	193.5
Intangible assets (excluding goodwill)	92.1	0.2	92.3
Acquired goodwill	338.1	(6.4)	331.7
Total assets acquired	**721.6**	**(5.2)**	**716.4**
Current liabilities	41.4	—	41.4
Other long-term liabilities	6.7	—	6.7
Total liabilities acquired	**48.1**	—	48.1
Total purchase price (fair value)	**673.5**	**(5.2)**	**668.3**

We have applied the purchase method of accounting to this business combination (per ASC topic 805). The resulting acquired goodwill recognized in the consolidated balance sheet is attributable to the acquired workforce, expected synergies and other acquired intangible assets which cannot be separately identified. The allocation of the purchase price of Great White has been based upon fair values studies.

The preceding table summarizes the preliminary fair value of the assets acquired and liabilities assumed as of December 31, 2011 and changes to those preliminary valuations. The adjustments to preliminary fair values at December 31, 2011 resulted from agreed upon adjustments to the closing balance sheet of Great White. The resulting changes summarized above have decreased the value of goodwill acquired by $6.4 million and resulted in a return of $5.2 million in cash from the sellers.

ACQUISITIONS IN 2012

X-it Energy Services Limited

On April 4, 2012, we completed the acquisition of all of the outstanding stock of X-it Energy Services Limited, or X-it, for $6.0 million in cash. X-it specializes in the sales, service and rental of casing exit equipment.

The purchase price has been allocated as follows:

($ in millions)	PRELIMINARY ALLOCATION OF PURCHASE PRICE AT DECEMBER 31, 2012
Current assets	1.2
Intangible assets (excluding goodwill)	5.2
Goodwill	1.9
Total assets acquired	**8.3**
Current liabilities	0.9
Deferred tax liabilities	1.4
Total liabilities acquired	**2.3**
Total purchase price (fair value)	**6.0**

We have applied the purchase method of accounting to this business combination (per ASC topic 805). The resulting acquired goodwill recognized in the consolidated balance sheet is attributable to expected synergies and other acquired intangible assets which cannot be separately identified. Estimates and assumptions are subject to change upon management's review of the final valuations.

Wellbore Solutions

In April 2012, we acquired the remaining 57.4% of Wellbore Solutions, or Wellbore, for $397,520. Previously, we owned 42.6% of Wellbore but we had consolidated the financial statements of Wellbore as we had control over Wellbore through a shareholder agreement which gave us the power to vote for 50.1% of the shares.

The purchase price was allocated to goodwill.

Note 4 — Impairments

During the third quarter of 2012, the level of our stock price, the loss of several large customers in North America as well as the significant decline in our 2012 forecasted results compared to forecasts prepared at the time of the 2011 goodwill impairment testing, were considered to be circumstances, which more likely than not, would reduce the fair value of a reporting unit below its carrying amount. As consequence, we prepared a comprehensive impairment test for long lived assets, including intangibles and goodwill, which results in the following impairments: An impairment of goodwill, amounting to $207.6 million (See Note 12), an impairment of fixed assets amounting to $65.8 million (See Note 11), an impairment of intangibles amounting to $57.5 million (See Note 13), an impairment of investments in associates totalling $4.9 million (See Note 10) and an impairment of inventory of $2.9 million.

In the fourth quarter of 2011, as a result of our annual goodwill impairment test, we concluded that the fair value was below our carrying value for certain reporting units and we impaired $99.0 million of goodwill and $21.7 million of intangibles. In addition, we decided to discontinue the usage of the Great White Pressure Pumping brand name and therefore impaired $0.9 million for that asset during the fourth quarter of 2011. In the first quarter of 2011 an impairment of $5.1 million was made to certain of the acquired brand names in the Allis-Chalmers merger. We made the decision to discontinue certain brand names and replace with the Archer brand name.

Please refer to Note 12 for further details on the calculation of impairments.

Note 5 — Other Financial Income / (Expense)

	YEARS ENDED DECEMBER 31	
($ in millions)	**2012**	**2011**
Foreign exchange differences	13.7	6.1
Gain on redemption of debt	4.7	—
Other items	(0.9)	(7.1)
Total other financial items	**17.5**	**(1.0)**

The other financial items consist mainly of foreign exchange gains arising on settlement of transactions loans denominated in currencies other than USD. The redemption of the Allis-Chalmers senior notes in 2012 generated a gain of $4.7 million (See Note 15).

Note 6 — Income Taxes

Our income tax expense consists of the following:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2012**	**2011**
Current tax expense:	18.0	24.2
Deferred tax expense:	(11.7)	(9.7)
Total expense	**6.3**	**14.5**

The effective tax rate is impacted by the derecognition of some deferred tax assets as we do not expect to utilize these in the foreseeable future. Archer has booked valuation allowances against some net operating losses and foreign tax credits in United States and Brazil. The effective tax rate is also impacted by foreign exchange gains and losses in Bermuda where Archer has a tax exemption. In addition it is impacted by goodwill impairment which in some situations is a permanent difference for tax purposes.

Income tax expense/(benefit) can be split in the following geographical areas:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2012**	**2011**
United States	(9.1)	(1.9)
South America	6.6	4.7
Europe	8.5	11.7
Others	0.3	—
Total	**6.3**	**14.5**

The following table shows a reconciliation of the expected blended tax rate (the expected blended tax rate is the tax percentage of the net result before tax multiplied by the local enacted corporate tax rates) to an effective tax rate:

	YEARS ENDED DECEMBER 31	
	2012	**2011**
Expected blended tax rate	38.7%	26.8%
Goodwill impairment	-11.1%	-50.2%
Other nondeductible expenses	-1.0%	-3.9%
Tax exempted income and credits	0.5%	6.4%
Foreign tax rate differences	2.5%	10.4%
Valuation allowances	-31.3%	-12.8%
Effective tax rate	**-1.7%**	**-23.3%**

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The net deferred tax assets (liabilities) consist of the following:

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Pension	13.5	16.9
Tax loss carry forward	182.1	103.7
Impairments of tangible and intangible asset	126.9	—
Provisions	8.3	33.7
Other	2.9	2.4
Gross deferred tax asset	**333.7**	**156.7**
Drilling equipment and other fixed assets	73.1	67.7
Deferred tax on excess values	37.5	28.8
Other	10.1	0.4
Gross deferred tax liability	**120.7**	**96.9**
Gross deferred tax asset/(liability)	**213.0**	**59.8**
Valuation allowance	(213.8)	(66.0)
Net deferred tax liability	**(0.8)**	**(6.2)**

Gross tax losses of $379 million originate in the United States, and expire over a period of 20 years. Additional tax losses of $89 million originate from Brazil. These losses do not expire and can be carried forward ad infinitum.

The deferred tax liability in respect of the timing differences in the depreciation of fixed assets increased significantly in 2011, mainly due to the acquisitions of Allis-Chalmers and Great White both of which have significant assets in the form of land drilling rigs and pressure control equipment.

The deferred tax assets increased significantly in 2012 due to the impairment of tangible and intangibles assets in the United States and in South America and due to tax losses generated in the United States and Brazil.

The gross deferred tax liability for 2011 includes $28.8 million in respect of surplus values recognized in the purchase price allocations of the acquisitions of Allis-Chalmers and Great White in 2011 and previous purchases of Noble Corporation's North Sea Platform Division, Peak Well Solutions AS, TecWel AS, Rig Inspection Services Ltd., Romeg Holdings Pty Ltd and Gray Wireline.

The valuation allowance relates to tax operating losses and foreign tax credits, for which we do not, at the balance sheet date, have a sufficiently documented tax strategy for their realization.

Deferred taxes are classified as follows:

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Short-term deferred tax asset	8.4	1.7
Long-term deferred tax asset	29.1	10.3
Short-term deferred tax liability	—	(1.9)
Long-term deferred tax liability	(38.3)	(16.3)
Net deferred tax liability	**(0.8)**	**(6.2)**

Note 7 — Earnings Per Share, or EPS

The components for the calculation of basic EPS and diluted EPS and the resulting values are as follows:

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2012			
Basic loss per share	(375.8)	366,572,200	(1.03)
Effect of dilutive options*	—	—	—
Diluted loss per share	(375.8)	366,572,200	(1.03)

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2011			
Basic loss per share	(77.0)	322,420,262	(0.24)
Effect of dilutive options*	—	—	—
Diluted loss per share	(77.0)	322,420,262	(0.24)

**Loss per share not adjusted for dilutive in the money share options. Share-based compensation of approximately 151,022 and 760,000 shares were excluded from the computation of diluted earnings per share for the years ended December 31, 2012 and 2011, respectively, as the effect would have been anti-dilutive due to the net loss for the period.*

Note 8 — Inventories

Our inventories include the following:

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Manufactured:		
Finished goods	6.8	4.7
Work in Progress	3.6	3.6
Raw materials	6.6	5.9
Total manufactured	**17.0**	**14.2**
Drilling supplies	25.2	17.6
Chemicals	8.1	9.3
Other items and spares	14.0	17.1
Total inventories	**64.3**	**58.2**

Note 9 — Other Current Assets

Our other current assets include:

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Prepaid expenses	41.7	48.9
Deferred financing fees	1.0	9.6
VAT receivable	21.4	6.2
Other short term receivables	16.9	15.7
Total other current assets	**81.0**	**80.4**

Note 10 — Investments in Associates

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

	2012	2011
C6 Technologies AS	50.00%	50.00%
Rawabi Allis-Chalmers Company Ltd	50.00%	50.00%

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

	DECEMBER 31	
($ in millions)	2012	2011
C6 Technologies AS	2.4	2.4
Rawabi Allis-Chalmers Company Ltd	—	5.0
Total investments in associates	**2.4**	**7.4**

The components of investments in associates are as follows:

($ in millions)	2012		2011	
	C6	RAWABI	C6	RAWABI
Net book balance at beginning of year	2.4	5.0	5.6	5.2
Share in results of associates	(0.1)	(0.1)	(2.7)	(0.2)
Impairments	—	(4.9)	—	—
Currency adjustment	0.1	—	(0.5)	—
Net book balance at end of year	**2.4**	**—**	**2.4**	**5.0**

Quoted market prices for C6 Technologies AS and Rawabi Allis-Chalmers Company Limited are not available because shares are not publicly traded.

Rawabi Allis-Chalmers Company Limited

Rawabi Allis-Chalmers Limited or “Rawabi JV” is a joint venture with an unrelated Saudi company, Rawabi Holding Company Ltd. The joint venture was formed to provide oilfield services, including directional drilling, tubular services, underbalanced services and production services, and rental, drilling and completion services in Saudi Arabia. Currently, the joint venture is providing rental services in Saudi Arabia.

We have determined that Rawabi JV is a variable interest entity under the terms of the joint venture agreement that does not allow either shareholder, acting alone, to control the entity’s operations. While we are not the primary beneficiary under the joint venture agreement, we are able to materially influence the operational and financial decisions of Rawabi JV and has accounted for our investment using the equity method.

During the third quarter of 2012, we wrote off our investment in Rawabi Allis-Chalmers Company Ltd due to sustained historical losses and limited potential for prospective future earnings. The impairment recorded was $4.9 million.

C6 Technologies AS

In November 2010 we closed an agreement with the IKM Group, pursuant to which IKM Group acquired 50% of the shares in C6 Technologies AS, or C6, through an equity issue, and C6 simultaneously purchased 100% of the shares in Viking Intervention Technology AS, or VIT. Previously, on April 30, 2010, we announced our acquisition of VIT. VIT is a company developing an integrated carbon cable intervention system and was acquired for its complimentary product portfolio. These transactions were completed under the same terms as the initial share purchase agreement.

Following the loss of control in VIT, we deconsolidated VIT and have accounted for the investment in C6 as an investment in associates.

Note 11 — Property Plant and Equipment

($ in millions)	OPERATIONAL EQUIPMENT	OTHER FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
As of December 31, 2012				
Cost	1,459.2	69.2	68.8	1,597.2
Accumulated depreciation and impairments	(510.6)	(27.2)	—	(537.8)
Net book value	**948.6**	**42.0**	**68.8**	**1,059.4**
Depreciation and amortization for 2012	173.5	9.1	—	182.6
As of December 31, 2011				
Cost	1,053.1	139.8	90.9	1,283.8
Accumulated depreciation and impairments	(197.0)	(42.7)	—	(239.7)
Net book value	**856.1**	**97.1**	**90.9**	**1,044.1**
Depreciation and amortization for 2011	102.7	21.7	—	124.4

Operational equipment includes drilling rigs and equipment and well services equipment. Other fixed assets include office fixtures, furniture and equipment and motor vehicles.

We review our long-lived assets for impairment and for the year ended December 31, 2012 we have recognized impairments totalling $65.8 million ($4.1 million 2011) in respect of tangible fixed assets.

Note 12 — Goodwill

The goodwill acquired during 2012 and 2011 represents the excess of purchase price over the fair value of tangible and identifiable intangible asset acquired, which represents primarily intangible assets pertaining to the acquired workforce of X-It, Wellbore, Great White, Allis Chalmers and Universal Wireline and their expected future synergies.

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Net book balance at beginning of year	898.9	356.4
Goodwill acquired during the year	2.3	560.4
Adjustments to goodwill during the measurement period	(6.4)	85.4
Impairments of goodwill	(207.6)	(99.0)
Currency adjustments	18.9	(4.3)
Net book balance at end of year	**706.1**	**898.9**

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 judgment and assumptions to be made in connection with the future performance of the various components of our business operations.

During the third quarter of 2012, the level of our stock price, the loss of large customers in North America, as well as the significant decline in our 2012 forecasted results compared to forecasts prepared at the time of the 2011 goodwill impairment testing, were considered to be interim triggering events and, therefore, we performed an interim goodwill impairment assessment. We considered the key assumptions including long-term market growth predictions, the discount rate to be applied and potential tax effects. As a consequence, we concluded at the end of that quarter that our carrying value exceeded the fair value and we recorded a goodwill impairment of $207.6 million.

In the fourth quarter 2012 we updated our goodwill impairment assessment, including our valuation and consideration of several qualitative factors. Compared to the end of the third quarter 2012, no significant changes to the assumptions were identified, which give rise to an additional impairment at this point in time.

The fair value calculations are particularly sensitive to assumptions concerning revenue growth, EBITDA margin, terminal value growth and the discount factor, with greatest impact in the North American segment. The fair value has been modeled under a range of scenarios to which a probability of likelihood had been applied; on average these show a marked improvement in EBITDA margin from current low rates over the next few years and 2% growth rate in the terminal value. Should these revenue and margin improvements and growth rates not be obtained over the forecast period, significant additional levels of impairment could be required. The impact of an assumed 1% lower future revenue growth and a margin reduction of 1% for the North American reporting units would have an impact of approximately $50 million and $40 million, respectively.

During our annual goodwill analysis in the fourth quarter of 2011 we concluded that the fair value was below carrying value for certain reporting units. The resulting impairment adjustments are disclosed in the table above, and comprise a $99.0 million impairment of goodwill in relation to the Latin America segment.

Note 13 — Intangible Assets

The following table discloses our intangible assets:

($ in millions)	TECHNOLOGY	CUSTOMER RELATIONSHIPS	TRADE NAMES	PATENTS	NONCOMPETE	ORDER BACKLOG	TOTAL
Estimated useful lives	8–10 years	4–11 years	5 years	9–20 years	5 years	2 years	
Remaining average amortization period, December 31, 2012	4.4 years	7.7 years		13.8 years	4.3 years		
As of December 31, 2012							
Cost	14.0	139.5	10.8	8.8	0.1	—	173.2
Accumulated amortization and impairments	(5.8)	(35.7)	(1.2)	(0.9)	—	—	(43.6)
Net book value	**8.2**	**103.8**	**9.6**	**7.9**	**0.1**	**—**	**129.6**
Amortization and impairments for 2012	1.5	75.4	2.2	0.6	—	0.2	79.9
As of December 31, 2011							
Cost	13.3	225.7	12.2	5.6	—	2.3	259.1
Accumulated amortization and impairments	(4.1)	(47.3)	(2.0)	(0.3)	—	(2.1)	(55.8)
Net book value	**9.2**	**178.4**	**10.2**	**5.3**	**—**	**0.2**	**203.3**
Amortization and impairments for 2011	1.2	40.0	6.6	0.4	—	2.1	50.3

Future amortization of intangible asset as of December 31, 2012 is as follows:

($ in millions)	2013	2014	2015	2016	2017 AND THEREAFTER	ASSETS NOT CURRENTLY BEING AMORTIZED	TOTAL
Intangible assets							
Customer relationships	14.1	14.1	14.1	14.1	47.4	—	103.8
Technology	1.5	1.5	1.5	0.9	1.6	1.2	8.2
Trade names	—	—	—	—	—	9.6	9.6
Patents	0.7	0.6	0.6	0.7	5.3	—	7.9
Noncompete	—	0.1	—	—	—	—	0.1
Total intangible amortizations	**16.3**	**16.3**	**16.2**	**15.7**	**54.3**	**10.8**	**129.6**

We acquired technology with the acquisition of Wellbore Solutions and will not begin amortizing until the technology is ready for marketing. We are not currently amortizing the trade names of Gray Wireline and X-it Energy as we intend to continue to trade under these brands for the foreseeable future. We review all our intangible assets at least annually to ensure the carrying value remains justifiable.

Due to certain trigger events identified in the three months ended September 30, 2012, we performed impairment assessments on our long-lived amortizable intangibles and impaired $44.5 million of customer relationship value in our Pressure Pumping business. Those same trigger events caused us to perform impairment assessment of goodwill and we determined that our Land Drilling business carrying value was in excess of the fair value and since Land Drilling had no remaining goodwill we impaired all of its associated intangibles, consisting of $10.0 million of customer relationships and $1.6 million for trademark. In addition, this same impairment testing resulted in an impairment for our Directional Drilling business in excess of its goodwill value; therefore, customer relationships were impaired by the $1.4 million overage.

In December 2011, an impairment review of intangibles was undertaken and as a result there was an impairment of intangibles of $21.7 million. In addition, we decided to discontinue the usage of the Great White Pressure Pumping brand name and therefore impaired $0.9 million for that asset during the fourth quarter of 2011. In the first quarter of 2011 an impairment of $5.1 million was made to certain of the acquired brand names in the Allis-Chalmers merger as we made the decision to discontinue these brand names and replace with the Archer brand name.

Note 14 — Other Noncurrent Assets

Our other noncurrent assets are composed of the following:

($ in millions)	DECEMBER 31	
	2012	**2011**
Deferral Financing Fees	12.1	5.5
Other	6.3	6.8
Total other noncurrent assets	**18.4**	**12.3**

Note 15 — Interest-bearing Debt

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Interest-bearing debt:		
Multicurrency term and revolving facility	1,047.1	774.1
Related party subordinated loan	55.0	—
Hermes covered term loan	34.9	—
Allis-Chalmers 2014 senior note	—	99.2
Allis-Chalmers 2017 senior note	—	197.4
Other loans and capital lease liability	82.3	21.9
Total loans and capital lease liability	1,219.3	1,092.6
Less: current portion	(329.5)	(108.9)
Long-term portion of interest bearing debt	**889.8**	**983.7**

Multicurrency term and revolving facility

On August 22, 2011 we entered into the multicurrency term and revolving facility which was amended and restated in December 22, 2011 for the addition of two new banks to the syndicate and increased the facility to $1,121.9 million. In January 2012, another lender was added to the facility, bringing the total facility to $1,171.9 million.

The facility is divided into two tranches. Tranche A, a revolving facility, is for $493.4 million, and Tranche B, a term loan, is for $678.5 million. The final maturity date of the tranches is November 11, 2015. The interest rate as of December 31, 2012 of the tranches is the aggregate of LIBOR, NIBOR or EURIBOR, plus between 2.25% and 3.75% per annum, depending on the net interest bearing debt to EBITDA ratio, plus mandatory costs, if any. An annual installment of $100.0 million is payable in November each year, and the remaining is payable upon final maturity of the facility, if not refinanced. The first instalment of $100.0 million was paid in November 2012, bringing the facility amount available on Tranche B to $578.5 million.

The multicurrency term and revolving facility agreement is secured by pledges over shares in material subsidiaries, and assignment over intercompany debt, as well as by guarantees issued by the material subsidiaries. Archer's multicurrency term and revolving facility agreement contains certain financial covenants, including, among others:

- Our total consolidated net interest bearing debt shall not exceed 3.5x twelve months rolling adjusted EBITDA until September 30, 2012 and 3.0x thereafter
- Our minimum ratio of equity to total assets of 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).

The multicurrency term and revolving facility agreement contains events of default which includes 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 February 2013 we reached an agreement with our lending banks to amend the existing facility agreement following a $250.0 million equity raising. The proceeds of this additional equity were used to prepay the $100.0 million installment due in November 2013, prepay $95.0 million relating to the revolving debt facility under the multicurrency loan agreement and repay $55.0 million related to the subordinated debt with Seadrill. At year end these amounts were classified within the current portion of long term debt. The amendment resulted in an increase in interest margin of 20 basis points, which as per the revised agreement now ranges between 3.0% and 3.95% per annum, depending on the net interest-bearing debt to EBITDA ratio. The interest rate of the facilities is LIBOR, NIBOR or EURIBOR plus the respective margin. The leverage ratio covenant in the amended agreement, which is calculated as net interest bearing debt divided by twelve months rolling adjusted EBITDA, has been revised to 5.00x for December 31, 2012 and to not exceed 4.75x until September 30, 2013, with a subsequent reduction of 0.25x per quarter to 3.25x from March 31, 2015 and onwards. As of December 31, 2012 we were in compliance with the revised covenants. After the amendment, the total amount available under the multicurrency term and revolving facility was reduced from $1,071.9 million to $876.9 million.

Related party subordinated loan

On November 12, 2012, Seadrill Limited, a related party, provided Archer with a $55.0 million subordinated term loan facility that was repayable by February 28, 2013. Once repaid the amount is not available for reborrowing. The loan provides for interest at LIBOR + 5%. In November, we borrowed the full $55.0 million and applied it to our annual principal payment of $100.0 million due in November under the multi-currency term and revolving facility along with using part of our existing cash balances on hand. Subsequent to December 31, 2012, this facility was settled in full.

Hermes-covered term loan

On January 18, 2012 Archer Emerald Ltd., a wholly owned subsidiary of Archer Limited, signed a €29.5 million Hermes covered term loan agreement for the modular rig Archer Emerald. The facility is repayable in semi-annual instalments in March and September through March 2017. The interest rate is 1.3% above EURIBOR. At December 31, 2012, the equivalent of $34.9 million was outstanding under this facility.

Allis-Chalmers senior notes

Archer had, through the acquisition of Allis-Chalmers, two senior notes outstanding. The first senior notes were due in January 15, 2014 and bore interest at 9.0%. Total outstanding of these notes was $97.7 million at December 31, 2011. The 2014 notes were recorded in the balance sheet at 101.6% of the total outstanding amount, which was the fair value at the time of the Allis-Chalmers acquisition. The second senior notes were due in March 1, 2017 and bore interest at 8.5%. Total outstanding of these notes was $186.1 million at December 31, 2011. The 2017 notes were recorded in the balance sheet at 106.1% of the total outstanding amount, which was the fair value at the time of the Allis-Chalmers acquisition.

Any premiums of the booked value of the 2014 and 2017 notes, arising on the revaluation at the time of the merger and subsequent repurchases were deferred and amortized as a reduction in the interest expenses over the course of the remaining lifetime of the notes.

These notes were all redeemed in March 2012 at a rate less than the fair value at the time of the Allis-Chalmers acquisition, with 2014 notes redeemed at 100% and the 2017 notes redeemed at 104.25%. The retirement of the notes was financed by a drawing on Archer's multicurrency term and revolving facility. The redemption of this debt generated a gain of $4.7 million for the year ended December 31, 2012.

Other loans and capital leases

We have two $50.0 million cash overdraft facilities and at December 31, 2012, net borrowings under these facilities were $55.8 million in aggregate. In addition we have borrowed $9.9 million under cash overdraft facilities in Argentina. We have a $25.0 million import facility in Argentina, which had an outstanding balance at December 31, 2012 of $2.9 million (2011: $8.6 million). We have a $4.0 million term loan facility in Argentina, which had an outstanding balance at December 31, 2012 of $1.7 million (2011: $2.9 million). We also have several equipment-financing obligations that in aggregate had a balance due of $0.2 million at December 31, 2012 (2011: $0.1 million).

We have capital leases for properties rented for our North America segment. The leases commenced in 2007 and 2008 and have lease terms of 20 years with options for two five-year extensions. The aggregate monthly lease payments are $54,922 and provide for annual lease escalation based on increases in the consumer price index. The outstanding balance under these leases was approximately $5.6 million at December 31, 2012 (2011: $6.4 million). We also lease certain equipment under capital leases. The lease terms are 60 months at an aggregate monthly payment of $182,614. Ownership of the assets transfers at expiration of the lease but purchase of the assets, at a prescribed formula, can be accelerated at lessee's option at any time. The outstanding balance under these lease was approximately $6.2 million at December 31, 2012 (2011: $3.7 million).

Our outstanding interest bearing debt as of December 31, 2012 is repayable as follows:

($ in millions)	CAPITAL LEASE	OTHER DEBT	TOTAL
Year ending December 31			
2013	2.1	327.4	329.5
2014	1.8	108.2	110.0
2015	1.5	759.8	761.3
2016	1.2	7.6	8.8
2017	0.9	4.5	5.4
Thereafter	4.3	—	4.3
Total debt	**11.8**	**1,207.5**	**1,219.3**

Note 16 — Other Current Liabilities

Our other current liabilities are comprised of the following:

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Accounts payable	142.9	143.1
Taxes payable	21.2	28.6
Employee withheld taxes, social security and vacation payment	39.0	57.8
Other current liabilities	160.2	128.1
Total other current liabilities	**363.3**	**357.6**

Note 17 — Other Noncurrent Liabilities

Our other noncurrent liabilities are comprised of the followings:

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Accrued pension and early retirement obligation	37.1	57.6
Other noncurrent liabilities	3.1	3.8
Total other noncurrent liabilities	**40.2**	**61.4**

Note 18 — Commitments and Contingencies

Purchase commitments

As of December 31, 2012 we have committed to purchase obligations in respect of capital expenditure amounting to $130.0 million, of which $75.0 million is payable in 2013 and $55.0 million is payable in 2014. $80.0 million of the commitment relates to our second modular rig called Archer Topaz. Please refer to Note 26 for further details on the second modular rig.

Guarantees

We have issued guarantees in favor of third parties as follows, which is the maximum potential future payment for each type of guarantee:

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Guarantees to customers of the Company's own performance	69.2	30.8
Guarantee in favor of banks	10.5	4.7
Other guarantees	—	—
	79.7	**35.5**

Legal Proceedings

From time to time, we are involved in litigations, 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. At December 31, 2012, 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.

We are also named from time to time in legal proceedings related to activities that occurred prior to of one of our predecessor's bankruptcy in 1988 (Allis-Chalmers). However, we believe that we were discharged from liability for all such claims in the bankruptcy and believe the likelihood of a material loss relating to any such legal proceeding is remote.

The case of Cudd Pressure Control, Inc. vs. Great White Pressure Control, LLC, et. al., one of our subsidiaries, predates Archer's acquisition of the Great White group. Plaintiff, Cudd Pressure Control, alleges several causes of action relating to Great White Pressure Control's employment of former Cudd employees. Although the case was filed in 2006 and the relevant events date back more than five years, the case was just recently tried in Texas state district court with the jury returning a verdict in favor of the defendants. Although plaintiff will likely appeal the jury verdict, we believe any such appeal will be unsuccessful.

A class action was filed in Corpus Christi, Texas against one of our subsidiaries alleging violations of the Fair Labor Standards Act, or FLSA, relating to nonpayment of overtime pay. The court has conditionally certified a class of potential class members and the opt-in period has expired. The plaintiffs have filed an Amended Petition adding additional subsidiaries as defendants. We continue to engage in settlement discussions with counsel for plaintiffs. While we believe that a negative outcome is reasonably possible, we have not been able to predict any such amount with any degree of certainty at this time with respect to all of the potential and putative class members. We have, however, received an assessment of potential liabilities from outside counsel which has allowed us to assess a contingency reserve in accordance with U.S. GAAP.

A class action was filed in Houston, Texas against another one of our subsidiaries alleging violations of the FLSA relating to non-payment of overtime pay. After significant negotiation, the parties reached settlement terms. The Court granted final approval of the settlement terms in December 2012. The settlement amount has been fully accrued.

Three class actions have recently been filed against a number of our subsidiaries all alleging violations of the FLSA relating to nonpayment of overtime pay. These cases are in the early stages of discovery and, although litigation is inherently uncertain, management believes the case is highly defensible.

Two of our wholly owned 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 defendant for the defendants' failure to pay for services provided. We submitted our writ in December 2012 and a final court decision can be expected at the earliest towards the end of 2014. In the defendants' answer to the writ, they raised counterclaims alleging that they are owed more than the amount we claimed in damages. 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 19 — Share Capital

	DECEMBER 31			
	2012		2011	
	All shares are common shares of $2.00 par value each			
	SHARES	$ MILLION	SHARES	$ MILLION
Authorized share capital	600,000,000	1,200.0	600,000,000	1,200.0
Issued, outstanding and fully paid share capital	366,659,120	733.3	366,397,622	732.8

Archer shares are traded on the Oslo Börs under the symbol "ARCHER.OL". Dividends, when declared, will be denominated in NOK.

Archer was incorporated in 2007 and 50 ordinary shares were issued. In October 2007, Archer also issued of 100,000,000 shares. In April 2008 there was an equity issue of 10,000,000 shares. There were no new shares issued in 2009. In August 2010, Archer completed a private placement of 115.4 million shares. At December 31, 2010, there were 225,400,050 shares issued and outstanding.

On March 4, 2011, Archer issued a total of 97,071,710 common shares in connection with the merger with Allis-Chalmers.

On August 31, 2011, Archer issued 12.7 million new shares, following a Private Placement directed towards its two largest shareholders, Seadrill Limited, or Seadrill, and Lime Rock Partners V. L.P., or Lime Rock. Seadrill was allocated 10.8 million of the new shares while Lime Rock was allocated the remaining 1.9 million shares. The proceeds were used to partly finance the acquisition of Great White.

In August 2011, Archer completed a private placement of 30.0 million shares. The proceeds were used to partly finance the acquisition of Great White.

A total of 997,242 shares were issued during 2011 in relation to exercise of options, and a further 228,620 shares were issued in relation to settlement with dissenting shareholders from the merger with Allis-Chalmers.

A total of 249,998 shares were issued during 2012 in relation to exercise of options and 11,500 shares were issued as a result of ministerial error related to the exchange of shares as consideration for the Allis-Chalmers merger.

Please refer to Note 26 for discussion of changes in capital structure subsequent to December 31, 2012.

Note 20 — Share Option Plans

Options on Archer shares:

We have granted options to our senior management and directors that provide the employee with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment under certain conditions. Options granted under the scheme will vest at a date determined by the Board of Directors. The options granted under the plan to date vest over a period of one to five years.

As of December 31, 2012 there were four option programs: one in 2007, one in 2010 and two options programs which were acquired in and have been continued following the merger with Allis-Chalmers.

Accounting for share-based compensation

The fair value of the share options granted is recognized as personnel expenses. During 2012, $4.1 million has been expensed in our Statement of Operations ($5.0 million in 2011). If the option will be exercised social security related to the exercise will be expensed at the exercise date.

The following summarizes share option transactions related to the Archer programs in 2012 and 2011:

	2012		2011	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK
Outstanding at beginning of year	12,812,572	19.75	6,507,000	14.79
Granted	2,430,000	14.88	5,575,000	34.00
Granted in respect of ALY merger	—	—	2,012,481	23.25
Exercised	(249,998)	10.00	(997,242)	16.26
Forfeited	(4,958,669)	21.00	(284,667)	23.21
Outstanding at end of year	**10,033,905**	18.18	**12,812,572**	19.75
Exercisable at end of year	5,372,905	17.86	6,548,900	17.89

$435,000 was received in 2012 as a result of share options being exercised ($4.9 million in 2011).

Options issued under the 2007 program may be exercised up to December 31, 2015. The exercise price is between NOK 10 and NOK 12 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2012 a total of 1,715,000 options were outstanding under the 2009 Program, of which 1,620,000 were exercisable.

Options issued under the 2010 program have exercise prices between NOK 18 and NOK 36. With the exception of 1 million options granted in 2012 which expire in 2013 and vested immediately, the options may be exercised by one third or one fifth each year beginning 12 months after they were granted, and expire between December 31, 2015 and February 28, 2017. Subsequent to December 31, 2011, 4.3 million of the 5.6 million of options granted in 2011 at NOK 34 were repriced to NOK 20. At December 31, 2012 6,379,000 options under the 2010 Program were outstanding and approximately 1,813,000 were exercisable.

Options issued under the Allis-Chalmers 2003 Program have exercise prices between NOK 6.03 and NOK 72.26. At December 31, 2012 all 787,068 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program have exercise prices between NOK 18.48 and NOK 19.22. At December 31, 2012 all 1,152,837 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

The weighted average grant-date fair value of options granted during 2012 is NOK 8.56 per share (2011: NOK 8.65 per share)

As of December 31, 2012 total unrecognized compensation costs related to all unvested share-based awards totalled $5.5 million, which is expected to be recognized as expenses in 2013, 2014, 2015, 2016 and 2017 by, $2.6 million, $1.8 million, $1.0 million and $0.1 million, respectively.

The weighted average remaining contractual life of outstanding options are 42 months (2011: 45 months) and their weighted average fair value was NOK 0.37 per option (2011: NOK 9.29 per option).

We pay the employers' national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.

When stock options are exercised we settle the obligation by issuing new shares.

Valuation:

We use the Black-Scholes pricing model to value stock options granted. The fair value of options granted is determined based on the expected term, risk-free interest rate, dividend yield and expected volatility. The expected term is based on historical information of past employee behavior regarding exercises and forfeiture of options. The risk-free interest rate assumption is based upon the published Norwegian treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield assumption is based on history and expectation of dividend payouts.

We use a blended volatility for the volatility assumption, to reflect the expectation of how the share price will react to the future cyclicality of our industry. The blended volatility is calculated using two components. The first component is derived from volatility computed from historical data for a period of time approximately equal to the expected term of the stock option, starting from the date of grant. The second component is the implied volatility derived from our "at-the-money" long-term call options. The two components are equally weighted to create a blended volatility.

The parameters used in calculating these weighted fair values are as follows:

- average risk-free interest rate 1.7% (2011: 2.8%);
- volatility 50% (2011: 50.0 %);
- dividend yield 0% (2011: 0%);
- option holder retirement rate 10% (2011: 10%) and
- expected term 2.7 years (2011: 3.89 years)

Note 21 — Pension Benefits

Defined benefits plan

We have a defined benefit pension plan covering substantially all Norwegian employees as of December 31, 2012. A significant part of this plan is administered by a life insurance company.

The primary benefits for the onshore employees in Norway are a retirement pension of approximately 66 percent of salary at retirement age of 67 years, together with a long-term disability pension. The retirement pension per employee is capped at an annual payment of 66 percent of the total of 12 times the Norwegian Social Security Base. Most employees in this group may choose to retire at 62 years of age on a preretirement pension. Offshore employees in Norway have retirement and long-term disability pension of approximately 60 percent of salary at retirement age of 67. Offshore employees on fixed installations have the same preretirement pension, but the employees may not retire until they are 62 years of age.

The pension obligations were originally transferred from the Seadrill group to us in connection with the spin-off and transfer of Seadrill Well Service companies from Seadrill in 2007. One pension contract was split, as only some of the participants in the pension contract were transferred to us. The obligations related to retired persons as of October 1, 2007 participating in this contract were not transferred and are a Seadrill obligation.

Annual pension cost

($ in millions)	**2012**	**2011**
Benefits earned during the year	12.6	11.6
Interest cost on prior years' benefit obligation	4.8	4.3
Gross pension cost for the year	**17.4**	**15.9**
Expected return on plan assets	(3.4)	(3.6)
Administration charges	0.4	0.3
Net pension cost for the year	**14.4**	**12.6**
Social security cost	2.0	1.8
Amortization of actuarial gains/losses	1.1	0.1
Amortization of prior service cost	—	0.3
Amortization of net transition assets	(4.3)	—
Total net pension cost	**13.2**	**14.8**

The funded status of the defined benefit plan

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Projected benefit obligations	111.0	125.6
Plan assets at market value	(78.5)	(75.1)
Accrued pension liability exclusive social security	**32.5**	**50.5**
Social security related to pension obligations	4.6	7.1
Accrued pension liabilities	**37.1**	**57.6**

Change in benefit obligations

($ in millions)	**2012**	**2011**
Benefit obligations at beginning of year	125.6	90.0
Interest cost	4.8	4.3
Current service cost	12.6	11.6
Acquisitions	(20.2)	0.3
Benefits paid	(1.3)	(1.2)
Change in unrecognized actuarial gain	(18.5)	25.5
Translation adjustments	8.0	(4.9)
Benefit obligations at end of year	**111.0**	**125.6**

Change in pension plan assets

($ in millions)	**2012**	**2011**
Fair value of plan assets at beginning of year	75.1	58.8
Estimated return	3.4	3.6
Contribution by employer	14.5	11.0
Administration charges	(0.4)	(0.3)
Acquisitions	(11.4)	—
Benefits paid	(0.5)	(0.5)
Change in unrecognized actuarial gain	(7.7)	5.3
Translation adjustments	5.5	(2.8)
Fair value of plan assets at end of year	**78.5**	**75.1**

Pension obligations are actuarially determined and are affected by assumptions including expected return on plan assets, discount rates, compensation increases and employee turnover rates. We evaluate the assumptions periodically and make adjustments to these assumptions and the recorded liabilities as necessary.

Two of the most critical assumptions used in calculating our pension expense and liabilities are the expected rate of return on plan assets and the assumed discount rate. We evaluate assumptions regarding the estimated rate of return on plan assets based on historical experience and future expectations on investment returns, which are calculated by a third party investment advisor utilizing the asset allocation classes held by the plan’s portfolios. In determining the discount rate we utilized the Norwegian Government 10-year bond effective yield plus 0.3-0.5 percent. Changes in these and other assumptions used in the actuarial computations could impact the projected benefit obligations, pension liabilities, pension expense and other comprehensive income.

Assumptions used in calculation of pension obligations

	2012	2011
Rate of compensation increase at the end of year	3.50%	3.50%
Discount rate at the end of year	4.40%	3.80%
Prescribed pension index factor	1.40%	2.50%
Expected return on plan assets for the year	4.00%	4.10%
Turnover	4.00%	4.00%
Expected increases in Social Security Base	3.25%	3.25%

The asset allocation of funds related to our defined benefit plan was as follows:

Pension benefit plan assets

	DECEMBER 31	
	2012	**2011**
Equity securities	9.2%	19.5%
Debt securities	50.3%	47.2%
Real estate	17.8%	17.0%
Money market	22.3%	13.3%
Other	0.4%	3.0%
Total	**100.0%**	**100.0%**

The investment policies and strategies for the pension benefit plan funds do not use target allocations for the individual asset categories. The investment objectives are to maximize returns subject to specific risk management policies. We address diversification by the use of domestic and international fixed income securities and domestic and international equity securities. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. The estimated yearly return on pension assets was 4.1% in 2012. (2011: 4.1%).

Cash flows — Benefits expected to be paid

The table below shows our expected annual pension plan payments under defined benefit plans for the years 2013–2022. The expected payments are based on the assumptions used to measure our obligations at December 31, 2012 and include estimated future employee services.

($ in millions)	
2013	9.9
2014	13.4
2015	14.7
2016	15.9
2017	17.1
2018–2022	99.9
Total payments expected during the next 10 years	**170.9**

Defined Contributions Plans

We contribute to a private defined contribution pension plan for the UK-based employees, which is administered by a private pensions broker on our behalf. Eligible employees may contribute a minimum of 2% of their salary to the scheme, and we contribute between 5% and 7.5% to participants' plans. In 2012 we contributed $0.4 million (2011: $0.5 million) to the plan.

We also contribute to the 401(k) Profit Sharing Plan adopted for the U.S. employees. The plan is a defined contribution savings plans designed to provide retirement income to eligible employees. It is funded by voluntary pretax contributions from employees up to statutory limits based on percentage of salary. We fund the plans with matching contributions. In 2012 we contributed $2.9 million to 401(k) plans for our employees (2011:$2.1 million).

Note 22 — Related Party Transactions

We transact business with the following related parties, being companies in which our principal shareholders Hemen Holding Ltd and Farahead Investments Inc. (hereafter jointly referred to as "Hemen") and companies associated with Hemen have a significant interest:

- Seadrill Limited ("Seadrill")
- Frontline Management (Bermuda) Limited ("Frontline")
- North Atlantic Drilling Ltd ("NADL")

We were established at the end of the third quarter of 2007 as a spin-off of Seadrill's Well Service division. We acquired the shares in the Seadrill Well Service division entities on October 1, 2007. The consideration for the shares was $449.1 million. The acquisition has been accounted for as a common control transaction with the asset and liabilities acquired recorded at the historical carrying value of Seadrill. The excess of consideration of the net asset and liabilities acquired has been recorded as adjustment to equity of $205.1 million.

In June 2012, Seadrill provided us with a $20.0 million subordinated term-loan facility to provide a contingency in case of a potential breach of covenants. As the covenants were met without this loan all amounts were repaid in August along with $0.1 million of interest. The loan was due June 30, 2018 and had interest at LIBOR plus 4.5%. In November 2012, Seadrill provided us with a $55.0 million subordinated term-loan facility to assist in the funding of a required $100.0 million principal payment on our multi-currency term and revolving facility. At December 31, 2012, we owed Seadrill the $55.0 million of principal and $0.4 million of accrued interest which was settled subsequent to year end.

Frontline provides management support and administrative services for us and charged us fees of $0.5 million for these services in the twelve months ended December 31, 2012 (2011: $0.7 million). These amounts are included in "General and administrative expenses" in our Consolidated Statement of Operations. At December 31, 2012, we owed Frontline $0.4 million related to these services.

We also supplied Seadrill with engineering services amounting to $16.1 million including reimbursable material for the year ended December 31, 2012 (2011: $8.0 million). This amount has been included in operating revenue. At December 31, 2012, Seadrill owed us $2.2 million related to these services.

In order to secure timely delivery and earlier tradability of the 30.0 million shares that were to be issued in the private placing at NOK 30 a share on the August 31, 2011, we borrowed shares from Seadrill pursuant to a share lending agreement.

In February 2013, and in connection with our refinancing of the multicurrency term and revolving facility (See Note 15), Seadrill granted an on-demand guarantee of $100.0 million in favor of the lender.

We entered into an underwriting agreement on February 7, 2013 with Seadrill where the private placement of approximately $250.0 million of common stock was fully underwritten by our five largest shareholders. The underwriters received a total underwriting fee of $5 million which was payable in approximately 4.2 million shares of our common stock (See Note 26). Seadrill's part of the compensation was 2,811,793 shares of common stock which they received on February 20, 2013.

We also supplied NADL with engineering services amounting to $3.7 million including reimbursable material for the year ended December 31, 2012 (2011: $1.1 million). This amount has been included in operating revenue. At December 31, 2012, NADL owed us $0.6 million related to these services.

In addition, one of our largest customers is Pan American Energy, or PAE, which we also consider to be a related party. One of the principal shareholders of PAE is Bridas Corporation. Bridas Energy Holdings Ltd has a significant interest in Bridas Corporation. One of Archer's former directors, Alejandro P. Bulgheroni, may be deemed to indirectly beneficially own 50% of the share of the Bridas Energy Holdings Ltd and is a member of the management committee of PAE. PAE represented 12.3% of our consolidated revenues for the year ended December 31, 2012 (2011: 14.7%). At December 31, 2012, we had trade receivables and other receivables with PAE of $42.5 million ($55.5 million at December 31, 2011).

Note 23 — Reporting and Geographical Segment Information

Following the significant expansion of the business in 2011, the management structure of the group has been reorganized in 2012 with focus on four geographic and strategic areas: North America, Latin America, North Sea and Emerging Markets and Technologies. The new structure will increase our operational focus and consolidate activities by geographical areas. The new reorganization took effect January 1, 2012.

The split of our organization and aggregation of our business into four 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. The accounting principles for the segments are the same as for our consolidated financial statements. Our historical segment data previously reported for the year ended December 31, 2011 and as of December 31, 2011, have been restated to conform to the new presentation.

The following segmental information reflects the four reporting segments as they existed as of December 31, 2012.

($ in millions)	FOR THE YEARS ENDED DECEMBER 31	
	2012	**2011**
Revenues from external customers		
North America	683.1	443.0
Latin America	585.3	467.5
North Sea	597.8	651.3
Emerging Markets & Technologies	322.5	292.8
Total	**2,188.7**	**1,854.6**
Depreciation and amortization		
North America	125.6	69.3
Latin America	37.4	36.4
North Sea	9.8	8.4
Emerging Markets & Technologies	32.2	33.0
Total	**205.0**	**147.1**
Operating income/(loss) — net loss		
North America	(320.4)	21.3
Latin America	(44.4)	(95.2)
North Sea	17.0	56.7
Emerging Markets & Technologies	24.8	23.9
Stock compensation costs	(4.0)	(4.9)
Merger and acquisition costs	—	(17.7)
Operating loss	**(327.0)**	**(15.9)**
Total financial items	(42.5)	(46.6)
Income taxes	(6.3)	(14.5)
Net loss	**(375.8)**	**(77.0)**
Capital expenditures – fixed assets		
North America	147.9	58.2
Latin America	43.8	52.5
North Sea	48.2	40.8
Emerging Markets & Technologies	31.7	14.7
Total	**271.6**	**166.2**

($ in millions)	AS OF DECEMBER 31	
	2012	**2011**
Total assets		
North America	1,114.9	1,386.8
Latin America	496.4	521.7
North Sea	462.1	385.5
Emerging Markets & Technologies	513.9	520.7
Total	**2,587.3**	**2,814.7**

Goodwill

($ in millions)	NAM	LAM	NRS	EMT	TOTAL
Balance at December 31, 2010	—	—	**135.2**	**221.2**	**356.4**
Acquisitions	548.1	88.3	—	8.0	644.4
Changes to goodwill	1.0	—	—	0.6	1.6
Impairment	(10.6)	(88.3)	—	(0.1)	(99.0)
Exchange rate fluctuations on goodwill measured in foreign currency	—	—	(2.8)	(1.7)	(4.5)
Balance at December 31, 2011	**538.5**	—	**132.4**	**228.0**	**898.9**
Acquisitions	—	—	—	2.3	2.3
Changes to goodwill	(6.4)	—	—	—	(6.4)
Impairment	(207.6)	—	—	—	(207.6)
Exchange rate fluctuations on goodwill measured in foreign currency	—	—	9.0	9.9	18.9
Balance at December 31, 2012	**324.5**	—	**141.4**	**240.2**	**706.1**

Geographic information by country

	FOR THE YEARS ENDED DECEMBER 31	
($ in millions)	**2012**	**2011**
Revenue		
Norway	550.4	641.2
United States	851.7	605.0
Argentina	427.4	359.2
United Kingdom	146.5	134.0
Other	212.7	115.2
Total	**2,188.7**	**1,854.6**

	AS OF DECEMBER 31	
($ in millions)	**2012**	**2011**
Property plant and equipment		
United States	594.0	603.7
Argentina	204.4	170.1
New Zealand	78.6	—
Norway	76.1	67.0
Brazil	47.9	85.6
Other	58.4	117.7
Total	**1,059.4**	**1,044.1**

Note 24 — Risk Management and Financial Instruments

Our reporting currency is U.S. Dollars. We have operations and assets in a number of countries worldwide, and receive revenues and incur expenditures in other currencies, causing our results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the Norwegian krone and British pounds. We are also exposed to changes in interest rates on variable interest rate debt, and to the impact of changes in currency exchange rates on debt denominated in Norwegian krone, Euros and British pounds. There is thus a risk currency and interest rate fluctuations will have a negative effect on our cash flows.

Interest rate risk management

Our exposure to interest rate risk relates mainly to our variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. Our policy is to obtain the most favorable interest rate borrowings available without increasing our foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on cash at bank. Such deposits generally have short-term maturities, in order to provide us with the flexibility to meet requirements for working capital and capital investments.

The extent to which we utilize interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt exposure and our views regarding future interest rates. At December 31, 2012 we had no outstanding interest rate swap agreements but at December 31, 2011 we had outstanding interest rate swap agreements covering NOK 490 million of our NOK interest bearing debt, effectively fixing the interest rate on approximately 8% of the debt. These agreements qualify for hedge accounting, and accordingly any changes in the fair values of the swap agreements are included in the Consolidated Balance Sheet under “Accumulated other comprehensive income/(loss)”. The total fair value gain relating to interest rate swaps in 2011 amounted to $0.7 million.

Any change in fair value resulting from hedge ineffectiveness is recognized immediately in earnings. We recognized a $0.6 million loss related to the interest swap agreement prior to the start-up of the hedging period. Other than this, we have not recognized any gain or loss due to hedge ineffectiveness in the consolidated financial statements during the years ended December 31, 2012 or 2011.

Foreign currency risk management

We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating consolidated subsidiaries who do not have a functional currency of USD, which is our reporting currency. Transaction losses are recognized in “Other financial items” on our Consolidated Statement of Operations in the period to which they relate. Translation differences are recognized as a component of equity. The total transaction gain relating to foreign exchange movements recognized in the Consolidated Statement of Operations in 2012 amounted to $13.7 million (2011: $6.1 million).

Credit risk management

We have financial assets, including cash and cash equivalents, trade receivables and other receivables. These assets expose us to credit risk arising from possible default by the counterparty. We consider the counterparties to be creditworthy financial institutions and do not expect any significant loss to result from nonperformance by such counterparties. We, in the normal course of business, do not demand collateral.

Fair values

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

($ in millions)	DECEMBER 31			
	2012		2011	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Nonderivatives				
Cash and cash equivalents	58.2	58.2	37.3	37.3
Restricted cash	11.9	11.9	13.3	13.3
Current portion of interest bearing debt	329.5	329.5	108.9	108.9
Long term interest bearing debt	889.8	889.8	969.8	983.7
Interest rate swap agreement	—	—	1.2	1.2

The above financial assets and liabilities are measured at fair value on a recurring basis as follows:

($ in millions)	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	DECEMBER 31 2012	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets:				
Cash and cash equivalents	58.2	58.2	—	—
Restricted cash	11.9	11.9	—	—
Liabilities:				
Multicurrency term revolving facility, excluding current portion	852.1	—	852.1	—
Other loans and capital leases, excluding current portion	37.7	—	37.7	—

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 as of December 31, 2012 and 2011. For certain instruments, including cash and cash equivalents, receivables and accounts payable, it is assumed the carrying amount approximated fair value due to the short-term maturity of those instruments.

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 cannot be purchased by us at prices other than the outstanding balance plus accrued interest.

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

Retained risk

We retain the risk, through self-insurance, for the deductibles relating to physical damage insurance on our capital equipment, currently a maximum of $1.0 million per occurrence. In the opinion of management, adequate provisions have been made in relation to such exposures, based on known and estimated losses.

Concentration of risk

The following table summarizes revenues from our major customers as a percentage of total revenues (revenues in excess of 10 percent for the period):

CUSTOMER	2012	2011
StatoilHydro	15%	19%
Pan American Energy	12%	15%
ConocoPhillips	8%	10%
Customer <10%	65%	56%
Total	**100%**	**100%**

Note 25 — Lease Obligations

In addition to capital leases (See Note 15), we have significant operating leases for certain premises, office equipment and operating equipment. The most significant lease agreements are related to offices in the United States, Norway and United Kingdom. Rental expenses amounted to $17.9 million in 2012 (2011: $11.0 million).

Estimated future minimum rental payments are as follows:

($ In millions)	OPERATING LEASES	CAPITAL LEASES	TOTAL
YEAR			
2013	15.7	3.0	18.7
2014	13.6	2.3	15.9
2015	11.9	2.0	13.9
2016	9.7	1.7	11.4
2017	7.0	1.2	8.2
Thereafter	20.1	6.0	26.1
Total	**78.0**	**16.2**	**94.2**

Note 26 — Subsequent Events

Subsequent events have been incorporated to related notes where appropriate. Other subsequent events are disclosed in this note.

In February 2013, we issued 208,334,000 new shares of Archer stock in a private placement resulting in net proceeds of $250.0 million. Those proceeds were used to repay the $100.0 million instalment due in November 2013 under our multi-currency facility, prepay $95.0 million under that same facility and repay a $55.0 million subordinated loan from a related party. The private placement was underwritten by Archer's five largest shareholders who in aggregate own 68% of Archer's issued and outstanding share capital. The underwriters received an underwriting commission of $5.0 million which was settled through the issuance of 4,166,667 new shares of Archer stock. In order to facilitate the immediate settlement and delivery of freely tradable shares to the subscribers shares were made available through a share loan arrangement with Seadrill. At a special general meeting on February 13, 2013, we reduced the par value of Archer common stock from $2.00 to $1.00 and increased the number of authorized shares from 600 million to 1.2 billion. Following the par value reduction and the issuance of new shares, Archer has 579,159,787 fully paid shares of par value of $1.00 each.

In February 2013, we were awarded a Statoil drilling contract for our second modular rig with operations expected in the second half of 2014. The contract is for 34 months on the Heimdal platform in the North Sea. Total capital expenditures related to our second modular rig, called the Archer Topaz, are estimated to be $80.0 million. The total contract purchase price of the rig is approximately $71.0 million and we estimate other capitalized costs, including interest and internal project costs, to be approximately $9.0 million. The first installment on the Archer Topaz is for 30% of the total contract price and is due in the first quarter of 2013. The remaining instalments will be due in 2014. The financing related to the Archer Topaz is expected to be finalized during the second quarter of 2013 and we assume the financing will be a Hermes backed credit facility similar to our existing facility for the Archer Emerald. Until the Hermes backed credit facility is concluded, we will finance the first installment through a subordinated shareholder loan.

Appendices

Appendix A
Corporate governance

As used herein, unless otherwise required by the context, the terms “Archer”, “Company”, “we”, “our” and words of similar import refer to Archer Limited. The Norwegian Code of Practice for Corporate Governance (the “Code”) applies to us to the extent that the provisions of this Code do not conflict with the legislation of our national jurisdiction. The Code is a “comply or explain” guideline and we generally aim at complying with the recommendations of the Code. However, we will, to some extent, deviate from certain recommendations of the Code, partly due to different practice and principles under which Bermuda companies operate. The status of noncompliance and the explanations therefore is set out below.

The Code is available in its entirety at the Oslo Stock Exchange website (www.ose.no) and the website of The Norwegian Corporate Governance Board (www.nues.no).

Section 1
Our Board has reviewed its corporate governance for the financial year 2012 and, in line with the Code, it will cover the compliance with each section of the code below.

Section 2
In accordance with normal practice for Bermuda companies, our by-laws do not include a specific description of our business. According to the memorandum of association, no restrictions apply as to the purpose of the company and the reasons for its incorporation. As a Bermuda incorporated company, we have chosen to establish the constitutional framework in compliance with the normal practice of Bermuda and accordingly deviate from section 2 of the Code.

Section 3
Our equity capital is at a level appropriate to our objectives, strategy, and risk profile. In accordance with Bermuda law, the Board is authorized to repurchase treasury shares, and to issue any unissued shares within the limits of the authorized share capital. These authorities are neither limited to specific purposes nor to a specific period as recommended in section 3 of the Code. While we aim at providing competitive long-term return on the investments for our shareholders, we do not currently have a formal dividend policy.

Section 4
In accordance with the company laws of Bermuda, the shareholders can resolve an amount of authorized capital within which the Board may decide to increase the issued capital at its discretion without further shareholder approval. There is no legal framework providing for specific time-limited or purpose-limited authorizations to increase the share capital. The Board will propose to the shareholders that they consider and, if necessary, resolve to increase the authorized capital of the Company that will allow the Board some flexibility to increase the number of issued shares without further shareholder approval. As such, we may deviate from the Code’s recommendation in section 4 to limit such authorization to 10% of the issued share capital. Any increase of the authorized capital is, however, subject to approval by the shareholders by 2/3 majority of the votes cast. Neither our by-laws nor Bermuda company laws include regulation of preemptive rights for shareholders in connection with share capital increases. Our by-laws provide for the Board in its sole discretion to direct a share issue to existing shareholders at par value or at a premium price.

Section 5
We are subject to the general principle of equal treatment of shareholders under the Norwegian Securities Trading Act section 5-14. The Board will in connection, with any future share issues, on a case-by-case basis, evaluate whether deviation from the principle of equal treatment is justified. The Board will consider and determine on a case-by-case basis whether independent third party evaluations are required if entering into agreements with close associates in accordance with the Code section 5. The Board may decide, however, due to the specific agreement or transaction, to deviate from this recommendation if the interests of the shareholders in general are believed to be maintained in a satisfactory manner through other measures.

Section 6
As a Bermuda registered company, the general meetings of the Company can be conducted through proxy voting. The VPS registered shareholders are holders of interests in the shares and thus represented by the VPS Registrar in the general meetings and not through their own physical presence. This is in line with the general practice of other non-Norwegian companies listed on Oslo Børs. We comply in all other respects with the recommendations for general meetings as set out in of the Code.

Section 7
We have not established a nomination committee as recommended by the Code section 7. In lieu of a nomination committee comprised of independent directors, the Board is responsible for identifying and recommending potential candidates to become Board members and recommending directors for appointment to board committees.

Section 8
The Chairman of our seven-member Board has been elected by the Board and not by the shareholders as recommended in the Code. This is in compliance with normal procedures under Bermuda law. We are not fully in compliance with section 8 with respect to independence of board members. The Code recommends that the board should not include executive personnel and the majority of the shareholder-elected board members should be independent of the company’s executive personnel and material business contacts. The Code also recommends that at least two of the

members of the board should be independent of the company's main shareholders. Fredrik Halvorsen, a director since October 2010, currently serves as our interim Chief Executive Officer. No other executive also serves as a director. Two of our seven directors, Cecilie Fredriksen and Giovanni Dell' Orto, are independent of our two largest shareholders, Lime Rock Partners and Seadrill. Three of our directors, Tor Olav Trøim, Fredrik Halvorsen and Kate Blankenship, may be deemed affiliated, under the Code, with our largest shareholder, Seadrill. Our chairman Saad Bargach and director John Reynolds are affiliated with our second largest shareholder, Lime Rock Partners. We accordingly deviate from the Code section 8.

Section 9

The Board annually sets a plan for its work in December for the following year which includes a review of strategy, objectives and their implementation, the review and approval of the annual budget and review and monitoring of our current year financial performance. The Board meets at least four times a year, with further meetings being held as required to react to operational or strategic changes in the market and company circumstances. The Board receives frequent and relevant information to carry out its duties. It has delegated authority to the Management by the means of a delegation of authority guideline. The Board has established an HSE committee, which reviews our performance related to health, safety and environment. It also has established an Audit Committee, which reviews the financial information and confirms to the Board that it has been prepared in line with the adopted accounting policies.

Our Board acknowledges its responsibility for our system of internal control and for reviewing its effectiveness. Our system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

Section 10

The Board has established an Audit Committee, which has formal charter and terms of reference approved by the Board. The Audit Committee, which is comprised of two directors, Kate Blankenship and John Reynolds, is responsible for ensuring Archer has an independent and effective internal and external audit system. The Audit Committee supports the Board in the administration and exercise of its responsibility for supervisory oversight of financial reporting and internal control matters and to maintaining appropriate relationships with our auditors. Appointment of the auditor for audit services is approved at our annual general meeting and the Board is given authority to approve the fees to be paid to the auditor. Our auditor meets the Audit Committee annually regarding the preparation of the annual financial statements and also to present their report on the internal control procedures. The Audit Committee holds separate discussions with our external auditor on a quarterly basis without executive management being present. The scope, resources, and the level of fees proposed by the external auditor in relation to our audit are approved by the Audit Committee.

We have in place clearly defined lines of responsibility and limits of delegated authority. Comprehensive procedures provide for the appraisal, approval, control and review of expenditures. The senior management team meets with its geographic and divisional leadership on a regular basis to discuss particular issues affecting each region and business unit, including their key risks, health and safety statistics and legal and financial matters.

Section 11

There is no obligation to present the guidelines for remuneration of the board of directors to the shareholders of a Bermuda incorporated company. We will provide information to our shareholders regarding remuneration of the Board in compliance with U.S. GAAP but will not implement procedures that are not generally applied under Bermuda law. We therefore deviate from this part of section 11 of the Code. There are no service contracts between the Company and any of our directors providing for benefits upon termination of their service.

Section 12

There is no obligation to present the guidelines for remuneration of the executive management to the shareholders of a Bermuda incorporated company. We provide information to our shareholders regarding remuneration of the executive management in compliance with U.S. GAAP, but will not implement procedures that are not generally applied under Bermuda law. In the view of the Company there is sufficient transparency and simplicity in the remuneration structure that the information provided through the annual report and financial statements are sufficient to keep shareholders adequately informed. We therefore deviate from this part of section 12 of the Code.

Section 13

The Board of Directors has established guidelines requiring us to report interim financial information on a quarterly basis according to a financial calendar that is publically available. It has also asked us to hold a quarterly financial results conference call, which is accessible to all participants in the securities market. Timing and venue for such events are announced through public press releases. For specific events the Board of Directors requests us to hold investor meetings allowing for more detailed information. The information shared in such meetings is published on our website.

Section 14

The Board of Directors has adopted all recommendation related to takeovers, which requires that all shareholders are given sufficient information and time to form an independent view of a potential takeover offer.

Appendix A
Corporate governance

Norwegian Accounting Act Section 3-3 b

In addition to the Norwegian Code of Practice for Corporate Governance, the Norwegian Accounting Act has set out additional requirements for corporate governance. We have established a set of guidelines related to internal control and corporate governance.

Risk Oversight

It is management's responsibility to manage risk and bring our most material risks to the attention of the Board of Directors. The Board of Directors has delegated to the Audit Committee the responsibility to discuss with management our major financial risk exposures and the steps management has taken to monitor and control those exposures, including our risk assessment and risk management policies. The Audit Committee reports as appropriate to the full Board. Each operational division head is responsible to report risks related to each segment to the chief executive officer, who in turn reports to the Board.

Internal control

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with United States generally accepted accounting principles. Our control environment is the foundation for our system of internal control over financial reporting and is an integral part of our Code of Business Ethics and Conduct for the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, which sets the tone of our company. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Audit committee

The Audit Committee currently consists of two directors, Kate Blankenship and John Reynolds. The Audit Committee assists our Board of Directors in fulfilling its oversight responsibility by overseeing and evaluating (i) the conduct of our accounting and financial reporting process and the integrity of our financial statements; (ii) the functioning of our systems of internal accounting and financial controls; (iii) the performance and independence of our internal audit function and (iv) the engagement, compensation, performance, qualifications and independence of our independent auditors.

The independent auditors have unrestricted access and report directly to the Audit Committee. The Audit Committee meets privately with, and has unrestricted access to, the independent auditors and all of our personnel.

Compensation committee

The Compensation Committee currently consists of three directors, Tor Olav Trøim, Fredrik Halvorsen and Saad Bargach. The Compensation Committee formulates and oversees the execution of our compensation strategies, including making recommendations to our Board of Directors with respect to compensation arrangements for senior management, directors and other key employees. The Compensation Committee also administers our stock compensation plans.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee currently consists of one director, Giovanni Dell' Orto. The Health, Safety and Environmental Committee directs management to conduct our business with no accidents, injuries or losses in an environmental sustainable manner. The committee reviews material incidents and discusses appropriate actions to mitigate future occurrences.

Communications with the Board of Directors

Stockholders and other interested parties wishing to communicate with the Board of Directors or any individual director, including the chairman, should send any communication to Corporate Secretary, Archer Well Limited, 10613 W Sam Houston Parkway N, Suite 600, Houston, Texas 77064. Any such communication must state the number of shares beneficially owned by the stockholder making the communication. The Corporate Secretary will forward such communication to the director or directors to whom the communication is directed, unless the Corporate Secretary determines that the communication does not relate to the business or affairs of the Company or the functioning or constitution of the Board of Directors or any of its committees, relates to routine or insignificant matters that do not warrant the attention of the Board of Directors, is an advertisement or other commercial solicitation or communication, is frivolous or offensive, or is otherwise not appropriate for delivery to directors.

Communication from the Company

Information of relevance to our share price is communicated through our website, and includes information relating to results and economic development. Our policy is to comply with all applicable standards aimed at securing a good information flow.

Archer Limited publishes annual and quarterly reports at its website. We acknowledge the importance of providing shareholders, and the equity market in general, with correct and relevant information about us and our activities.

Related party transaction approval policy

Our Board of Directors has adopted a written policy relating to the approval of transactions with related persons. For purposes of this policy, a related person transaction is one in which we were, are or will be a participant and the amount involved exceeds $120,000, and in which any related person had, has or will have a direct or indirect material interest. Pursuant to the policy, all related party transactions must be reviewed and approved by the Audit Committee of our Board of Directors.

Other than the ones mentioned above, we have not established any further guidelines regulating the work of the Board and its committees.

Appendix B
List of significant subsidiaries

Company Name	Percent holding	Nature of Company
Archer (UK) Limited	100%	Drilling and well service operations
Archer AS	100%	Drilling and well service operations
Archer Assets UK Limited	100%	Holding company
Archer BCH (Canada) Ltd	100%	Holding company
Archer Consulting Resources Limited	100%	Provides crew services
Archer Directional Drilling Services LLC	100%	Directional drilling services
Archer DLS Corporation	100%	Land drilling operations
Archer do Brazil Servicos de Petroleo Ltda	100%	Drilling service operations
Archer Drilling LLC	100%	Platform drilling and engineering
Archer Emerald (Bermuda) Limited	100%	Owns and operates modular rig
Archer Leasing and Procurement LLC	100%	Acquires equipment for lease
Archer Logistica y Servicos de Mexico	100%	Dormant
Archer Management (Bermuda) Ltd.	100%	Provides management services
Archer Management AS	100%	Provides management services
Archer Management (U.S.) LLC	100%	Provides management services
Archer Management Limited	100%	Provides management services
Archer Norge AS	100%	Drilling and well service operations
Archer Offshore Denmark AS	100%	Well service operations
Archer Oil Tools AS	100%	Provides oil tools
Archer Oil Tools LLC	100%	Provides oil tools
Archer Overseas Contracting Limited	100%	Provides crew services
Archer Pressure Pumping LLC	100%	Provides pressure pumping services
Archer Rental Services LLC	100%	Rents oilfield equipment
Archer Services Limited	100%	Provides crew services
Archer Survey and Inspection LLC	100%	Performs rig inspections
Archer Topaz Limited	100%	Acquiring a modular rig
Archer Tubular Services LLC	100%	Provides casing and tubing services
Archer Underbalanced Services LLC	100%	Provides underbalanced drilling services
Archer Well Company (Australia) Pty Ltd	100%	Well service operations
Archer Well Company (M) SDN BHD	100%	Well service operations
Archer Well Company (Singapore) Pte Ltd	100%	Well service operations
Archer Well Company Inc.	100%	Holding company
Archer Well Services Nigeria Limited	100%	Dormant
AWC Frac Valves Inc.	100%	Sells and services frac valves
BCH Energy do Brazil Servicos de Petroleo Ltda	100%	Drilling service operations
Bergen Technology Center AS	100%	Manufacturing and engineering
C6 Technologies AS	50%	Research and development
DLS Argentina Limited	100%	Land drilling operations
Gray Wireline Service Inc.	100%	Provides wireline services
Great White Pressure Control LLC	100%	Provides pressure control services
Peak Well Solutions AS	100%	Well service operations
Tanus Argentina S.A.	100%	Provides drilling mud services
Wellbore Solutions AS	100%	Well service operations
X-it Energy Services Limited	100%	Dormant

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Report of Independent Auditors

To the Board of Directors and Shareholders of Archer Limited:

We have audited the accompanying balance sheets of Archer Limited (parent company alone) as of December 31, 2012 and 2011, and the related statements of operations, comprehensive loss, cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company publishes consolidated financial statements, which are its primary financial statements. The financial statements of Archer Limited (parent company alone) have been prepared solely to comply with the reporting requirements of Section 5.5 of the Norwegian Securities Trading Act.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Archer Limited (parent company alone) at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 90 of The Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent in writing.

PricewaterhouseCoopers LLP

London
United Kingdom
April 25, 2013

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Appendix C
Supplemental parent company only information

Archer Limited

Statements of Operations

(In millions of $, except share and per share data)	YEAR ENDED DECEMBER 31	
	2012	**2011**
Revenues		
Operating revenues	2.4	—
Total revenues	**2.4**	**—**
Expenses		
General and administrative expenses	0.8	13.4
Total expenses	**0.8**	**13.4**
Operating income (loss)	**1.6**	**(13.4)**
Financial items		
Interest income	0.6	0.7
Interest expenses	(15.2)	(12.7)
Interest/dividends from subsidiaries	52.5	44.1
Share of loss from subsidiaries	(434.5)	(98.4)
Other financial items	19.2	2.7
Total financial items	**(377.4)**	**(63.6)**
Loss before income taxes	**(375.8)**	**(77.0)**
Income taxes	—	—
Net loss	**(375.8)**	**(77.0)**
Basic loss per share	**(1.03)**	**(0.24)**
Diluted loss per share	**(1.03)**	**(0.24)**
Weighted average number of shares outstanding		
Basic	366,572,200	322,420,262
Diluted	366,572,200	322,420,262

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

Archer Limited

Statements of Comprehensive Loss

	YEAR ENDED DECEMBER 31	
	2012	**2011**
Net loss	**(375.8)**	**(77.0)**
Other comprehensive/(loss)		
Change in unrealized gain/(loss) relating to subsidiary pension plans	14.4	(15.3)
Change in unrealized foreign exchange differences	(5.0)	(17.5)
Interest swap gain	1.2	0.7
Other comprehensive income/(loss)	**10.6**	**(32.1)**
Total comprehensive loss	**(365.2)**	**(109.1)**

Accumulated Other Comprehensive Income/(Loss)

	SUBSIDIARY PENSION PLANS-UNRECOGNIZED GAIN /(LOSS)	CHANGE IN UNREALIZED FOREIGN EXCHANGE DIFFERENCES	OTHER COMPREHENSIVE INCOME/(LOSS)	TOTAL
Balance at December 31, 2010	**(6.3)**	**31.7**	**(1.9)**	**23.5**
Net changes in gains and losses and prior service costs	(15.3)	—	—	(15.3)
Interest swap gain	—	—	0.7	0.7
Foreign exchange differences	—	(17.5)	—	(17.5)
Balance at December 31, 2011	**(21.6)**	**14.2**	**(1.2)**	**(8.6)**
Net changes in gains and losses and prior service costs	14.4	—	—	14.4
Interest swap gain	—	—	1.2	1.2
Foreign exchange differences	—	(5.0)	—	(5.0)
Balance at December 31, 2012	**(7.2)**	**9.2**	—	**2.0**

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

Appendix C
Supplemental parent company only information

Archer Limited

Balance Sheets

(In millions of $)	DECEMBER 31	
	2012	**2011**
ASSETS		
Current assets		
Cash and cash equivalents	22.3	1.6
Amounts owed from subsidiaries	—	219.1
Other current assets	—	2.3
Total current assets	**22.3**	**223.0**
Noncurrent assets		
Capitalized debt fees	7.4	9.6
Amounts due from subsidiaries, long term	393.4	480.0
Investments in subsidiaries	780.3	764.8
Total noncurrent assets	**1,181.1**	**1,254.4**
Total assets	**1,203.4**	**1,477.4**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Due to subsidiaries	12.3	2.9
Related party subordinated loan	55.0	—
Other current liabilities	1.2	3.1
Total current liabilities	**68.5**	**6.0**
Noncurrent liabilities		
Long-term interest bearing debt	208.7	184.6
Total noncurrent liabilities	**208.7**	**184.6**
Commitments and contingencies		
Shareholders' equity		
Common shares of par value $2.00 per share: 600,000,000 shares authorized: 366,659,120 outstanding shares at December 31, 2012 (December, 31 2011: 366,397,622)	733.3	732.8
Additional paid in capital	779.6	775.5
Accumulated deficit	(383.6)	(7.8)
Accumulated other comprehensive income / (loss)	2.0	(8.6)
Contributed deficit	(205.1)	(205.1)
Total shareholders' equity	**926.2**	**1,286.8**
Total liabilities and shareholders' equity	**1,203.4**	**1,477.4**

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

Archer Limited

Statements of Cash Flows

(In millions of $)	YEAR ENDED DECEMBER 31	
	2012	**2011**
Cash Flows from Operating Activities		
Net loss	**(375.8)**	**(77.0)**
Adjustment to reconcile net loss to net cash (used in)/provided by operating activities:		
Share of results of subsidiaries	434.5	98.4
Share-based compensation expenses	0.6	—
Amortization of loan fees	3.0	4.4
Unrealized foreign currency gains	(19.2)	(2.7)
Changes in operating assets and liabilities, net of acquisitions		
(Increase)/decrease in amounts owed by subsidiaries	(41.2)	201.0
Change in other operating assets and liabilities, net	(13.0)	(12.2)
Net cash (used in)/provided by operating activities	**(11.1)**	**211.9**
Cash Flows from Investing Activities		
Net cash advanced/ invested in subsidiaries	(36.8)	(479.9)
Acquisition of subsidiaries	—	(98.3)
Net cash used in investing activities	**(36.8)**	**(578.2)**
Cash Flows from Financing Activities		
Proceeds from long-term debt	48.8	—
Repayment of long-term debt	(34.9)	—
Proceeds from related party debt	75.0	—
Repayment of related party debt	(20.0)	—
Debt issuance costs	(0.8)	(6.8)
Proceeds from issuance of equity, net	0.5	247.4
Net cash provided by financing activities	**68.6**	**240.6**
Net increase/(decrease) in cash and cash equivalents	**20.7**	**(125.7)**
Cash and cash equivalents at beginning of the year	1.6	127.3
Cash and cash equivalents at the end of the year	**22.3**	**1.6**
Interest paid	(12.7)	(12.7)
Taxes paid	—	—

The merger with Allis-Chalmers Energy Inc. was primarily financed by the issue of Archer shares to Allis-Chalmers shareholders. The merger is described in detail in Note 5.

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

Appendix C
Supplemental parent company only information

Archer Limited

Statements of Changes in Shareholders' Equity

(In millions of $)	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	(ACCUMULATED DEFICIT) RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	CONTRIBUTED DEFICIT	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2010	**450.8**	**219.4**	**69.2**	**23.5**	**(205.1)**	**557.8**
Shares issued on merger with Allis-Chalmers	194.6	389.6	—	—	—	584.2
Private placement	85.4	161.9	—	—	—	247.3
Foreign exchange differences	—	—	—	(17.5)	—	(17.5)
Interest swap gain	—	—	—	0.7	—	0.7
Pension – unrecognized loss	—	—	—	(15.3)	—	(15.3)
Options issued	2.0	4.6	—	—	—	6.6
Net loss	—	—	(77.0)	—	—	(77.0)
Balance at December 31, 2011	**732.8**	**775.5**	**(7.8)**	**(8.6)**	**(205.1)**	**1,286.8**
Foreign exchange differences	—	—	—	(5.0)	—	(5.0)
Interest swap gain	—	—	—	1.2	—	1.2
Pension – unrecognized loss	—	—	—	14.4	—	14.4
Options issued	0.5	—	—	—	—	0.5
Share based compensation	—	4.1	—	—	—	4.1
Net loss	—	—	(375.8)	—	—	(375.8)
Balance at December 31, 2012	**733.3**	**779.6**	**(383.6)**	**2.0**	**(205.1)**	**926.2**

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

Archer Limited

Notes to the supplemental parent only financial information

Note 1 — General Information

Archer Limited is a holding company. As used herein, unless otherwise required by the context, the terms "Archer", "Company", "we", "our" and words of similar import refer to Archer Limited. 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 were incorporated on August 31, 2007.

Our shares are traded on the Oslo Börs under the symbol "ARCHER.OL". Dividends, when declared, will be denominated in NOK.

Basis of presentation

We are a limited company that conducts substantially all of our business through our subsidiaries. This supplemental information has been presented on a "parent company only" basis to comply with Norwegian regulations.

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The amounts are presented in United States Dollars, or USD, or $ rounded to the nearest million, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods in these financial statements.

Reclassifications

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year presentation.

Note 2 — Accounting Policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 predicted with certainty. Actual results could differ from those estimates.

Foreign currencies

With effect from October 1, 2011, our functional currency was changed from the NOK to USD. This followed the acquisition of Great White, by one of our subsidiaries after which the majority of revenues generated by our subsidiaries, and thus ultimately remitted to us by way of dividend, are received in USD.

Current and noncurrent classification

Assets and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Assets and liabilities not maturing within one year are classified as long term.

Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with maturity of three months or less, and exclude restricted cash.

Capitalized debt fees

Loan related costs, including debt arrangement fees, incurred on the initial arrangement of loan finance and any subsequent amendments, are capitalized and amortized over the term of the related loan using the straight-line method, which approximates the interest method. Amortization of loan related costs is included in interest expense. Recurring loan costs, such as commitment fees, are recognized in the income statement within other financial items in the period in which they are incurred.

Investments in subsidiaries

Our investments in subsidiaries are presented under the equity method of accounting. Under the equity method of accounting, the investment is initially recorded at cost and is subsequently adjusted to reflect our share of the net profit or loss of the associate. Distributions received from the investee reduce the carrying amount of the investment.

Impairment of long-lived assets
The carrying values of long-lived assets that are held and used by us are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may no longer be appropriate. We assess 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 loss is recorded equal to the difference between the asset's carrying value and fair value.

Income taxes
We are a Bermuda company. Under current Bermuda law, we are not required to pay taxes in Bermuda on either income or capital gains. We have received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, we will be exempted from taxation until year 2035.

The impact of changes to income tax rates or tax law is recognized in periods when the change is enacted.

Earnings per share, or EPS
Basic earnings per share is calculated based on the income for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments which includes share options.

Financial Instruments
From time to time, we enter into interest rate swaps in order to manage floating interest rates on debt. Interest-rate swap agreements are recorded at fair value in the balance sheet when applicable. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability may be designated as a cash flow hedge.

When the interest swap qualifies for hedge accounting, we formally designates the swap instrument as a hedge of cash flows to be paid on the underlying loan, and in so far as the hedge is effective, the change in the fair value of the swap each period are recognized in the "Accumulated other comprehensive income/(loss)" line of the Balance Sheet. Changes in fair value of any ineffective portion of the hedges are charged to the Statement of Operations in "Other financial items." Changes in the fair value of interest-rate swaps are otherwise recorded as a gain or loss under "Other financial items" in the Statement of Operations where those hedges are not designated as cash flow hedges.

Related party transactions
Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence.

Recently issued accounting pronouncements
In July 2012 the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update ("ASU") No. 2012-02, "Intangibles – Goodwill and Other (Topic 350)." The amendments in this ASU allow an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The requirements of this ASU were adopted during our quarter ended September 30, 2012 and did not have a significant impact on our disclosures.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350)". The amendments in this ASU allow an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the first step of the two-step impairment test. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity must perform additional impairment testing. Otherwise, performing the two-step impairment test is not necessary. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The requirements of this ASU were adopted during the year.

Note 3 — Earnings Per share, or EPS

The components for the calculation of basic EPS and diluted EPS and the resulting value are as follows:

	NET LOSS	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2012			
Loss per share	(375.8)	366,572,200	(1.03)
Effect of dilutive options*	—	—	—
Diluted	(375.8)	366,572,200	(1.03)

in $ millions)	NET LOSS	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2011			
Loss per share	(77.0)	322,420,262	(0.24)
Effect of dilutive options*	—	—	—
Diluted loss per share	(77.0)	322,420,262	(0.24)

*Loss per share not adjusted for dilutive, in the money share options

Note 4 — Other Current Assets

Our other current assets include:

($ in millions)	DECEMBER 31	
	2012	**2011**
Prepaid expenses	—	2.1
Other short term receivables	—	0.2
Total other current assets	—	**2.3**

Note 5 — Investments In Subsidiaries

We had the following direct participation in investments:

COMPANY NAME	PERCENT HOLDING AS OF DECEMBER 31	
	2012	**2011**
Archer Management AS	100%	100%
Archer Management Limited	100%	100%
Archer Management (Bermuda) Ltd.	100%	100%
Archer Overseas Contracting Limited	100%	100%
Archer Services Limited	100%	100%
Archer Asset UK Limited	100%	100%
Archer Well Company (Singapore) Pte Ltd	100%	100%
Rig Inspection Services Pte Ltd	0%	100%
Archer Emerald (Bermuda) Limited	100%	100%
Archer Topaz Limited	100%	100%
Archer Management (U.S.) LLC	100%	100%
Allis-Chalmers Energy Inc.	0%	100%

Appendix C
Supplemental parent company only information

Rig Inspection Services Pte Ltd was amalgamated with Archer Well Company (Singapore) Pte Ltd on December 31, 2012. On December 31, 2012, Allis-Chalmers Energy Inc., or Allis-Chalmers, was sold by us to Archer Asset UK Limited, another of our wholly owned subsidiaries. Allis-Chalmers was the U.S.-holding company of several companies which conducted business operations in the United States, Brazil and Argentina. Archer Assets UK Limited issued 6.8 million shares for value of $205.6 million in consideration for the sale.

Our investment in Archer Assets UK Limited was also increased in 2012 by the conversion of loan balances of $436.6 million to equity by the issuance of an additional 4.4 million shares of Archer Assets UK Limited to us in satisfaction of the outstanding loans.

On February 23, 2011 we completed the merger with Allis-Chalmers, which was previously announced in August 2010. Allis-Chalmers conducts land drilling operations in Argentina, Brazil and Bolivia and provides directional drilling, coiled tubing, underbalanced drilling, casing and tubing and rental services primarily in the U.S. Allis-Chalmers also manufactures and sell frac valves in the U.S. The purchase price comprised both cash and equity payments to the shareholders of Allis-Chalmers, which resulted in us acquiring 100% of the share capital in Allis-Chalmers in exchange for Archer shares, in a ratio of 1.15 shares to each Allis-Chalmers share, or a cash settlement of $4.25 per share. 95.3% of Allis-Chalmers shareholders elected to take Archer stock in the above ratio as consideration, with the remainder receiving cash. The total purchase price, which includes an adjustment pertaining to the exchange of Allis-Chalmers share options, to our share options, was $600.9 million.

Note 6 — Related Party Subordinated Loan

On November 12, 2012, Seadrill Limited, a related party, provided Archer with a $55.0 million subordinated term loan facility that is repayable by February 28, 2013. Once repaid the amount is not available for reborrowing. The loan provides for interest at LIBOR + 5%. In November 2012, we borrowed the full $55.0 million and applied it to our annual principal payment of $100.0 million due at that time under the multi-currency term and revolving facility along with using part of our existing cash balances on hand. Subsequent to December 31, 2012, this facility was settled in full.

Note 7 — Long-term, Interest-bearing Debt

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Long-term debt:		
Multicurrency term and revolving facility	208.7	184.6
Total long-term debt	**208.7**	**184.6**
Less: current portion		—
Long-term portion of interest bearing debt	**208.7**	**184.6**

Multicurrency term and revolving facility
On August 22, 2011 we, along with certain of our subsidiaries, entered into the multicurrency term and revolving facility which was amended and restated in December 22, 2011 for the addition of two new banks to the syndicate and increased the facility to $1,121.9 million. In January 2012, another lender was added to the facility, bringing the total facility to $1,171.9 million.

The facility is divided into two tranches. Tranche A, a revolving facility, is for $493.4 million, and Tranche B, a term loan, is for $678.5 million. The final maturity date of the tranches is November 11, 2015. The interest rate as of December 31, 2012 of the tranches is the aggregate of LIBOR, NIBOR or EURIBOR, plus between 2.25% and 3.75% per annum, depending on the net interest bearing debt to EBITDA, plus mandatory costs, if any. An annual installment of $100.0 million is payable in November each year, and the remaining is payable upon final maturity of the facility, if not refinanced. The first instalment of $100.0 million was paid in November 2012, bringing the facility amount available on Tranche B to $578.5 million. At December 31, 2012, our consolidated borrowings under this facility were $1,047.1 million of which $195.0 million was classified as current.

The multicurrency term and revolving facility agreement is secured by pledges over shares in material subsidiaries, and assignment over intercompany debt, as well as by guarantees issued by the material subsidiaries. Archer's multicurrency term and revolving facility agreement contains certain financial covenants, including, among others:

- Our total consolidated net interest-bearing debt shall not exceed 3.5x twelve months rolling pro forma EBITDA until September 30, 2012 and 3.0x thereafter;
- Our minimum ratio of equity to total assets of at least 30.0%; and
- We are to maintain the higher of $30 million and 5% of interest bearing debt in freely available cash on a consolidated basis (including undrawn committed credit lines).

The multicurrency term and revolving facility agreement contains events of default which includes 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 February 2013 we reached an agreement with our lending banks to amend the existing facility agreement following a $250.0 million equity raise. The proceeds of this additional equity were used to prepay a $100.0 million installment of one of our subsidiaries due in November 2013 and prepay $95.0 million relating to the revolving debt facility for one of our subsidiaries under the multicurrency loan agreement. In addition we used the proceeds to repay our $55.0 million subordinated debt with Seadrill (See Note 6). The amendment resulted in an increase in interest margin of 20 basis points, which as per the revised agreement now ranges between 3.0% and 3.95% per annum, depending on the net interest bearing debt to EBITDA ratio. The interest rate of the facilities is LIBOR, NIBOR or EURIBOR plus the respective margin. The leverage ratio covenant in the amended agreement, which is calculated as net interest bearing debt divided by twelve months rolling pro forma EBITDA, has been revised to 5.00x for December 31, 2012 and to not exceed 4.75x until September 30, 2013, with a subsequent reduction of 0.25x per quarter to 3.25x from March 31, 2015 and onwards. As of December 31, 2012 we were in compliance with the revised covenants. After the amendment, the total amount available under the multicurrency term and revolving facility was reduced from $1,171.9 million to $876.9 million.

Our long-term interest-bearing debt as of December 31, 2012 is repayable as follows:

($ in millions)	
	YEAR ENDING DECEMBER 31
2013	—
2014	—
2015	208.7
Total debt	**208.7**

Note 8 — Other Current Liabilities

Our other current liabilities comprise the following:

($ in millions)	**DECEMBER 31**	
	2012	**2011**
Accounts payable	—	0.7
Accrued interest, related party	0.4	—
Accrued expenses	0.8	1.2
Interest rate swap	—	1.2
Total other current liabilities	**1.2**	**3.1**

Note 9 — Commitments and Contingencies

Guarantees

We have issued guarantees in favor of third parties as follows, which is the maximum potential future payment for each type of guarantee:

	DECEMBER 31	
($ in millions)	**2012**	**2011**
Guarantees to customers of the Company's own performance	7.8	30.8
Guarantee in favor of banks	7.1	4.7
Other guarantees	—	—
	14.9	**35.5**

Appendix C
Supplemental parent company only information

Legal Proceedings
From time to time, we are involved in litigations, disputes and other legal proceedings arising in the normal course of their 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 our loss can be reasonably estimated, we record a liability for the expected loss but at this time any such expected loss are immaterial to our financial condition 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.

Note 10 — Share Capital

	DECEMBER 31			
	2012		2011	
All shares are common shares of $2.00 par value each	SHARES	$ MILLION	SHARES	$ MILLION
Authorized share capital	600,000,000	1,200.0	600,000,000	1,200.0
Issued, outstanding and fully paid share capital	366,659,120	733.3	366,397,622	732.8

We were incorporated in 2007 and 50 ordinary shares each were issued. In October 2007, we also issued 100,000,000 shares. In April 2008 there was an equity issue of 10,000,000 shares. There were no new shares issued in 2009. In August 2010, we completed a private placement of 115.4 million shares. At December 31, 2010, there were 225,400,050 shares issued and outstanding.

On March 4, 2011, we issued a total of 97,071,710 common shares in connection with the merger with Allis-Chalmers.

On August 31, 2011, we issued 12.7 million new shares, following a Private Placement directed towards our two largest shareholders, Seadrill and Lime Rock Partners V. L.P., or Lime Rock. Seadrill was allocated 10.8 million of the new shares while Lime Rock was allocated the remaining 1.9 million shares. The proceeds were used to partly finance the acquisition of Great White.

In August 2011, we completed a private placement of 30.0 million shares. The proceeds were used to partly finance the acquisition of Great White.

A total of 997,242 shares were issued during 2011 in relation to exercise of options, and a further 228,620 shares were issued in relation to settlement with dissenting shareholders from the merger with Allis-Chalmers.

A total of 249,998 shares were issued during 2012 in relation to exercise of options and 11,500 shares were issued as a result of ministerial error related to the exchange of shares as consideration for the Allis-Chalmers merger.

Please refer to Note 14 for discussion of changes in capital structure subsequent to December 31, 2012.

Note 11 — Share Option Plans

Options on Archer shares:
We have granted options to senior management and directors of the Company and our subsidiaries that provide the grantee with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment under certain conditions. Options granted under the scheme will vest at a date determined by the board of directors. The options granted under the plan to date vest over a period of one to five years.

As of December 31, 2012 there were four option programs: one in 2007, one in 2010 and two options programs which were acquired in and have been continued following the merger with Allis-Chalmers.

Accounting for share-based compensation
The fair value of the share options granted is recognized as personnel expenses. During 2012, $0.6 million has been expensed in our Statement of Operations. There were no effects on taxes in the financial statements.

The following summarizes share option transactions related to the Archer plans in 2012 and 2011:

	2012		2011	
	OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE NOK**	**OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE NOK**
Outstanding at beginning of year	12,812,572	19.75	6,507,000	14.79
Granted	2,430,000	14.88	5,575,000	34.00
Granted in respect of ALY merger	—	—	2,012,481	23.25
Exercised	(249,998)	10.00	(997,242)	16.26
Forfeited	(4,958,669)	21.00	(284,667)	23.21
Outstanding at end of year	**10,033,905**	18.18	**12,812,572**	19.75
Exercisable at end of year	5,372,905	17.86	6,548,900	17.89

$435,000 was received in 2012 as a result of share options being exercised ($4.9 million in 2011).

Options issued under the 2007 program may be exercised up to December 31, 2015. The exercise price is between NOK 10 and NOK 12 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2012 a total of 1,715,000 options were outstanding under the 2007 program, of which 1,620,000 were exercisable.

Options issued under the 2010 program have exercise prices between NOK 18 and NOK 36. With the exception of 1 million options granted in 2012 which expire in 2013 and vested immediately, the options may be exercised by one third or one fifth each year beginning 12 months after they were granted, and expire between December 31, 2015 and February 28, 2017. Subsequent to December 31, 2011, 4.3 million of the 5.6 million of options granted in 2011 at NOK 34 were repriced to NOK 20. At December 31, 2012 6,379,000 options under the 2010 Program were outstanding and approximately 1,813,000 were exercisable.

Options issued under the Allis-Chalmers 2003 Program have exercise prices between NOK 6.03 and NOK 72.26. At December 31, 2012 all 787,068 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program have exercise prices between NOK 18.48 and NOK 19.22. At December 31, 2012 all 1,152,837 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

The weighted average grant-date fair value of options granted during 2012 is NOK 8.56 per share (2011: NOK 8.65 per share).

As of December 31, 2012 total unrecognized compensation costs related to all unvested share-based awards totalled $5.5 million, which is expected to be recognized as expenses in 2013, 2014, 2015, 2016 and 2017 by $2.6 million, $1.8 million, $1.0 million and $0.1 million, respectively.

The weighted average remaining contractual life of outstanding options are 42 months (2011: 45 months) and their weighted average fair value was NOK 0.37 per option (2011: NOK 9.29 per option).

We pay the employers' national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.

When stock options are exercised we settle the obligation by issuing new shares.

Valuation
We use the Black-Scholes pricing model to value stock options granted. The fair value of options granted is determined based on the expected term, risk-free interest rate, dividend yield and expected volatility. The expected term is based on historical information of past employee behavior regarding exercises and forfeiture of options. The risk-free interest rate assumption is based upon the published Norwegian treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield assumption is based on history and expectation of dividend payouts.

We use a blended volatility for the volatility assumption, to reflect the expectation of how the share price will react to the future cyclicality of our industry. The blended volatility is calculated using two components. The first component is derived from volatility computed from historical data for a period of time approximately equal to the expected term of the stock option, starting from the date of grant. The second component is the implied volatility derived from our "at-the-money," long-term call options. The two components are equally weighted to create a blended volatility.

The parameters used in calculating these weighted fair values are as follows:

- Average risk-free interest rate 1.7% (2011: 2.8%);
- Volatility 50% (2011: 50.0 %);
- Dividend yield 0% (2011: 0%);
- Option holder retirement rate 10% (2011: 10%) and
- Expected term 2.7 years (2011: 3.89 years)

Note 12 — Related Party

We transact business with Seadrill, being a company in which our principal shareholders Hemen Holding Ltd and Farahead Investments Inc. have a significant interest.

We were established at the end of the third quarter of 2007 as a spin-off of Seadrill's Well Service division. We acquired the shares in the Seadrill Well Service division entities on October 1, 2007. The consideration for the shares was $449.1 million. The acquisition has been accounted for as a common control transaction with the asset and liabilities acquired recorded at the historical carrying value of Seadrill. The excess of consideration of the net asset and liabilities acquired has been recorded as adjustment to equity of $205.1 million.

In June 2012, Seadrill provided us with a $20.0 million subordinated term-loan facility to provide a contingency in case of a potential breach of covenants. As the covenants were met without this loan all amounts were repaid in August along with $0.1 million of interest. The loan was due June 30, 2018 and had interest at LIBOR plus 4.5%. In November 2012, Seadrill provided us with a $55.0 million subordinated term-loan facility to assist in the funding of a required $100 million principal payment on our multi-currency term and revolving facility. At December 31, 2012, we owed Seadrill the $55.0 million of principal and $0.4 million of accrued interest which was settled subsequent to year end.

In order to secure timely delivery and earlier tradability of the 30.0 million shares that were to be issued, in the private placing at NOK30 a share on the August 31, 2011, we borrowed shares from Seadrill pursuant to a share lending agreement.

Note 13 — Risk Management and Financial Instruments

Our reporting currency is U.S. Dollars. Our subsidiaries operate in a number of countries worldwide and receive revenues and incur expenditures in other currencies causing their results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the Norwegian Krone and British Pounds. We also are exposed to changes in interest rates on variable interest rate debt and to the impact of changes in currency exchange rates on debt denominated in Norwegian Krone, Euros and British Pounds. There is, thus, a risk currency and interest rate fluctuations will have a negative effect on our cash flows.

Interest rate risk management

Our exposure to interest rate risk relates mainly to our variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. Our policy is to obtain the most favorable interest rate borrowings available without increasing our foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on cash at bank. Such deposits generally have short-term maturities, in order to provide us with flexibility to meet requirements for working capital and capital investments.

The extent to which we utilize interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt exposure and our views regarding future interest rates. At December 31, 2012, we had no interest swaps but at December 31, 2011, we had outstanding interest rate swap agreements covering NOK 490 million of our NOK interest bearing debt, effectively fixing the interest rate on approximately 8% of the debt. These agreements qualify for hedge accounting, and accordingly any changes in the fair values of the swap agreements are included in the Balance Sheet under "Accumulated other comprehensive income/(loss)." The total fair value gain relating to interest rate swaps in 2011 amounted to $0.7 million.

Any change in fair value resulting from hedge ineffectiveness is recognized immediately in earnings. We recognized a $0.6 million loss related to the interest swap agreement prior to the start-up of the hedging period. Other than this, we have not recognized any gain or loss due to hedge ineffectiveness in the financial statements during the years ended December 31, 2012 and 2011.

Foreign currency risk management

We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating subsidiaries who do not have a functional currency of USD, which is our reporting currency. Transaction losses are recognized in "Other financial items" in the period to which they relate. Translation differences are recognized as a component of equity. The total transaction gain relating to foreign exchange movements recognized in our Statement of Operations in 2012 amounted to $19.2 million (2011: $2.7 million).

Credit risk management

We have financial assets, including cash and cash equivalents and other receivables. These assets expose us to credit risk arising from possible default by the counterparty. We consider the counterparties to be creditworthy financial institutions and do not expect any significant loss to result from nonperformance by such counterparties. We, in the normal course of business, do not demand collateral.

Fair values

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

	DECEMBER 31			
($ in millions)	2012		2011	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Nonderivatives				
Cash and cash equivalents	22.3	22.3	1.6	1.6
Related party subordinated loan	55.0	55.0	—	—
Long term interest bearing debt	208.7	208.7	184.6	184.6
Interest rate swap agreement – long term liability	—	—	1.2	1.2

The above financial assets and liabilities are measured at fair value on a recurring basis as follows:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS
($ in millions)	DECEMBER 31 2012	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Assets:				
Cash and cash equivalents	22.3	22.3	—	—
Liabilities:				
$1,171.9 million multicurrency term revolving facility	208.7	—	208.7	—

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

We have 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 as of December 31, 2012 and 2011. 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 value of the related party subordinated loan 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 cannot be purchased by us at prices other than the outstanding balance plus accrued interest.

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

Note 14 — Subsequent Events

Subsequent events have been incorporated to related notes where appropriate. Other subsequent events are disclosed in this note.

In February 2013, we issued 208,334,000 new shares of our stock in a private placement resulting in net proceeds of $250.0 million. Those proceeds were used to repay a $100.0 million instalment of one of our subsidiaries due in November 2013 under our multi-currency facility, prepay $95.0 million under that same facility for a subsidiary and repay the $55.0 million subordinated loan from a related party. The private placement was underwritten by our five largest shareholders who in aggregate own 68% of our issued and outstanding share capital. The underwriters received an underwriting commission of $5.0 million which was settled through the issuance of 4,166,667 new shares of our stock. In order to facilitate the immediate settlement and delivery of freely tradable shares to the subscribers, shares were made available through a share loan arrangement with Seadrill. At a special general meeting on February 13, 2013, we reduced the par value of our stock from $2.00 to $1.00 and increased the number of authorized shares from 600 million to 1.2 billion. Following the par value reduction and the issuance of new shares, we have 579,159,787 fully paid shares of par value of $1.00 each.

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We are a global oilfield service company that specializes in drilling services and well services because we believe that specialists do the job best. Our experience drives our difference in our constant search for new ways to deliver better wells. We listen to our customers to provide straightforward solutions to help them produce more oil and gas. We are craftsmen who take pride in our work and do what we promise. **We are Archer, the well company.**

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