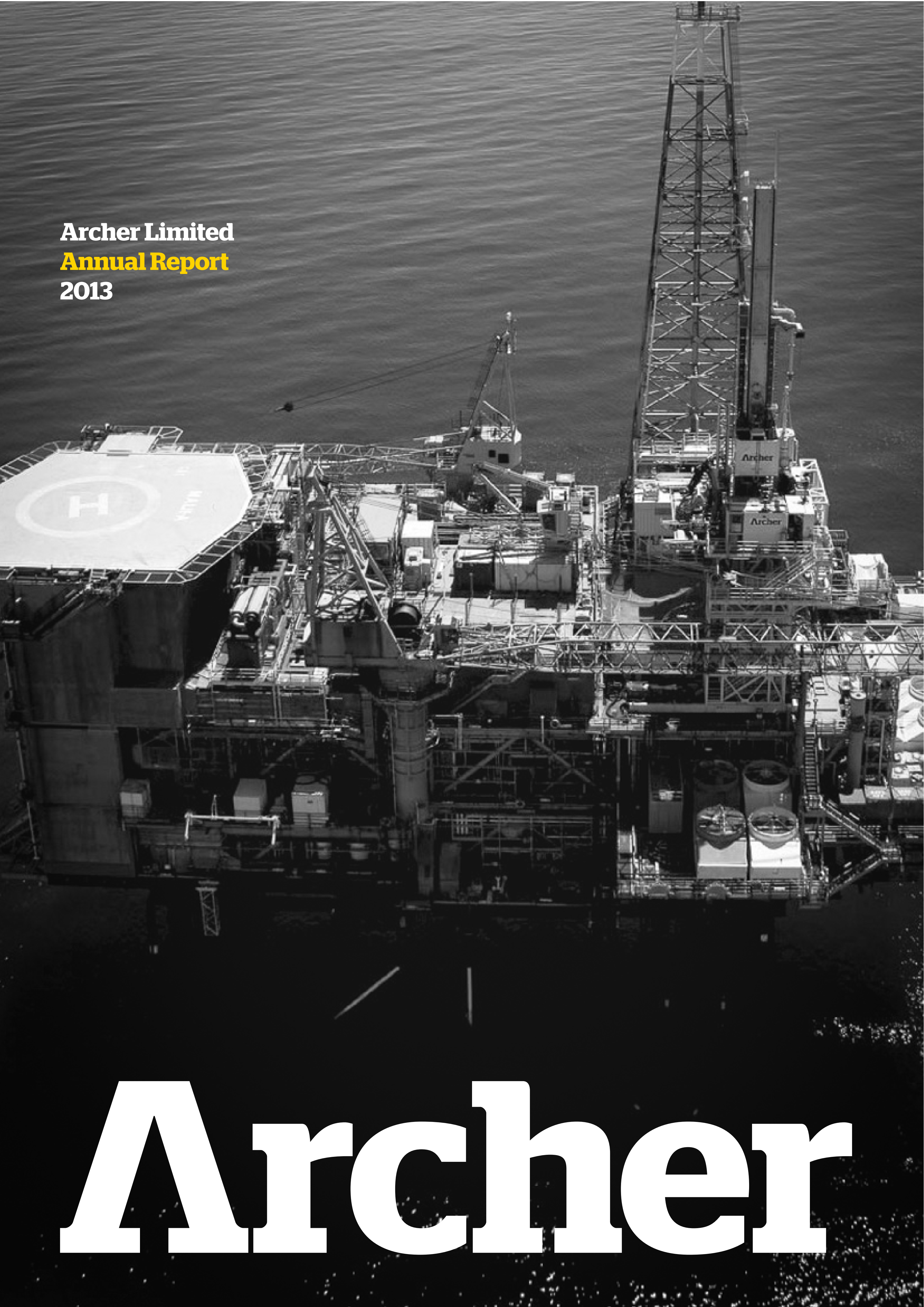


Archer Limited
Annual Report
2013

Archer

Contents

Letter to Shareholders

Since joining Archer in July of 2013 I have developed a better understanding of the issues that we have faced and I believe we have begun the process required to improve our performance. Changes have been made in key leadership positions, in geographic distribution of our assets, and the sizing of our organisation to meet the opportunities ahead. Many of these changes have personally impacted our employees and, while regrettable, were necessary to put us on a better footing to address our business. We continue to work hard to address both the revenue and cost components of our business equation and I feel that the financial improvements of the third and fourth quarters are indicative that we are on the right path.

In North America, we continued to see oversupply in our industry, which had a detrimental impact on pricing and utilisation of our assets and consequentially on our margins. To counter these negative market trends we have concentrated our efforts on operational efficiencies and cost control. I believe we have made and will continue to make the changes necessary to support an improved performance in 2014 in this market. While oversupply still exists, industry indicators point towards increased exploration and production spending in 2014, which should result in improved supply demand balance and eventually an improved price environment.

Latin America was able to avoid the severe strike impact and idle rigs that hampered our results in 2012. High rig utilisation and improved operational performance supported stronger pricing with a positive impact on our business in Argentina and Bolivia. In Brazil, we have addressed the downturn of the land drilling business by downsizing our operations to meet the current demand and transferring rigs to Argentina to augment our capabilities there. In February 2014 we have been awarded a significant new drilling contract with YPF and we look forward to continued growth in this market area as Argentina has increased its focus on domestic production from traditional and unconventional resources.

Revenue in our North Sea operation was consistent with 2012, reflecting the stability of our current contract positions in Platform Drilling. The start-up of the Archer Emerald offshore New Zealand as well as increased utilisation in Engineering Services supported an improved profitability. We started the construction of a second Modular Rig, the Archer Topaz, which will work under contract on the Heimdal platform in Norway, providing another opportunity to continue the growth of this segment of our North Sea business. We are a well-respected supplier in the North Sea, a position we are proud of and which will help us to support revenue growth across product lines and geographic expansion.

Our Emerging Markets and Technologies segment continued its strong growth for well integrity products, such as the LOCK™ series for well suspension and the multistage cementing tool Cflex™. We continue to see increased adoption of this technology in premium markets, facilitating our first sales off the coast of West Africa in 2013. Our Wireline Division experienced continued price erosion and lower utilisation in the United States, where we have made changes to both structure and footprint before the year end. Offsetting this to some extent were improvements in the Eastern Hemisphere, where we added both product offerings and geographic locations over the course of the year.

During the year we divested our North American Rental, Tubular and Underbalanced businesses in line with our strategy to simplify the structure and reduce the debt of the Company. While our revenue remained flat at $2.0 billion, we reported a net loss of $519 million in 2013, mainly as a result of a large impairment of goodwill and intangible assets related to our North American based businesses, compared to a net loss of $376 million in 2012. Our net interest bearing debt reduced from $1.2 billion at the end of 2012 to $715 million at the end of 2013 as a result of the private placement of 208,334,000 new shares with net proceeds of $250 million as well as the proceeds from the divestitures.

Looking back, it is clear that we were not able to react quickly enough to the market issues in North America, as they were the cause of our declining performance year on year and are the primary reason for our goodwill impairment. However, the actions taken to simplify the company, reduce the debt and strengthen the balance sheet were an important step in the right direction. I do believe we are now correctly focused on improving our business performance in North America and other Areas and are positioned for improved results in 2014.

David King
Chief Executive Officer

Board of Directors' Report
Company overview and history

We are a global oilfield services company supplying quality products and services in support of our customers' objectives to achieve maximum production of hydrocarbons safely, causing no harm to people or the environment.

We service the entire lifecycle of our customers' wells. Our comprehensive drilling and workover services include platform drilling, land drilling, directional drilling, modular rigs, drilling fluids, solids control, engineering services 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.

We are expanding our existing capabilities to better support our customers in the process of well abandonment and platform decommissioning and other end of life requirements in field operations and our modular rig technology is an important enabler for this strategy.

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.

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 organised and exists under the Laws of Bermuda.

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 +44 208 811 4900. 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 a global oilfield services company supplying quality products and services in support of our customers' objectives to achieve maximum production of hydrocarbons safely, causing no harm to people or the environment.


Archer

Board of Directors' Report
Business overview

Principal markets
Archer operates in Angola, Argentina, Australia, Bolivia, Brazil, China, Denmark, Malaysia, Norway, Qatar, Saudi Arabia, Singapore, Thailand, United Arab Emirates, United Kingdom and the United States.

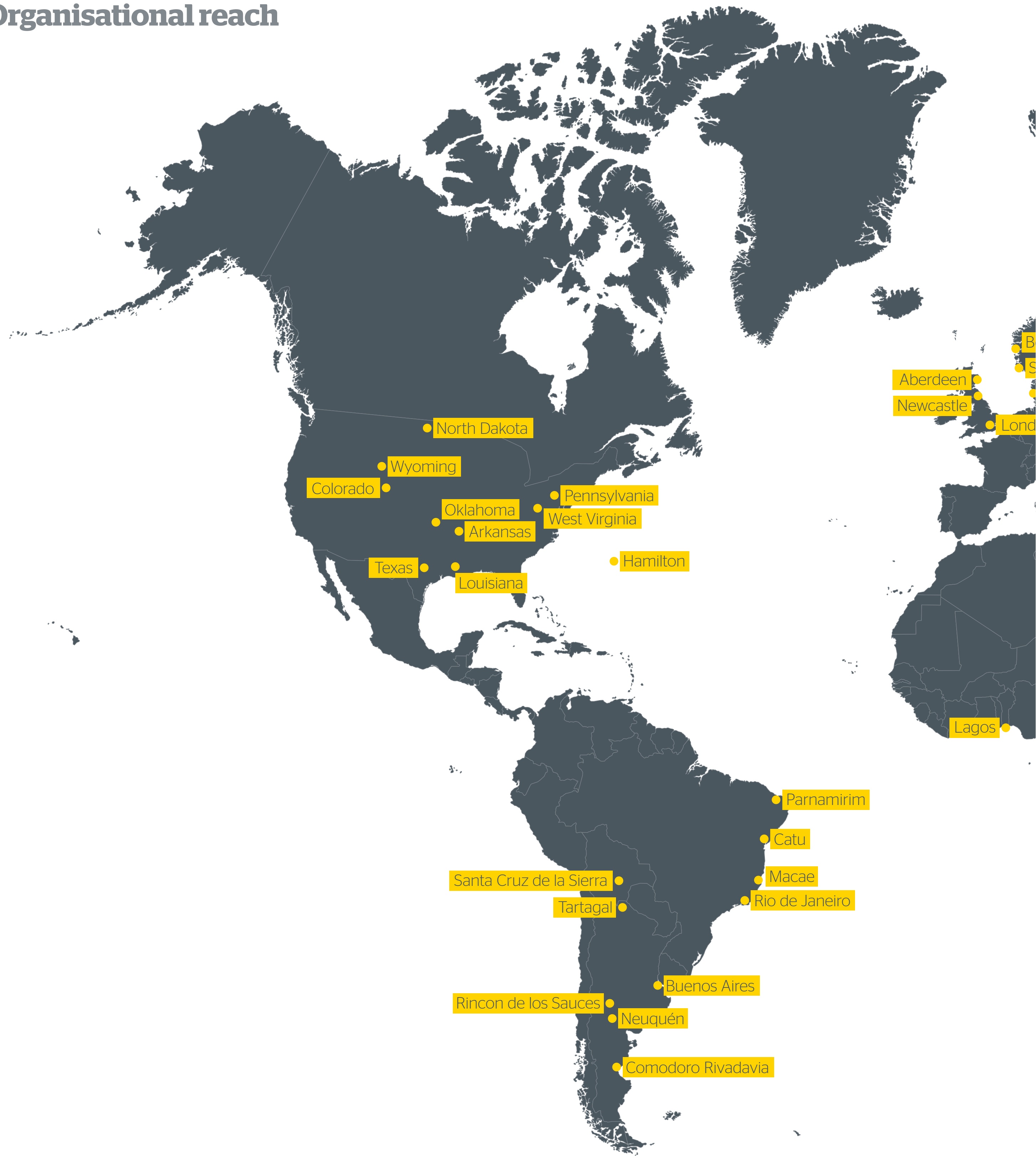
We have facilities and offices in Angola, Argentina, Australia, Bolivia, Brazil, Malaysia, Norway, Qatar, Singapore, the United Arab Emirates, the United Kingdom and the United States.

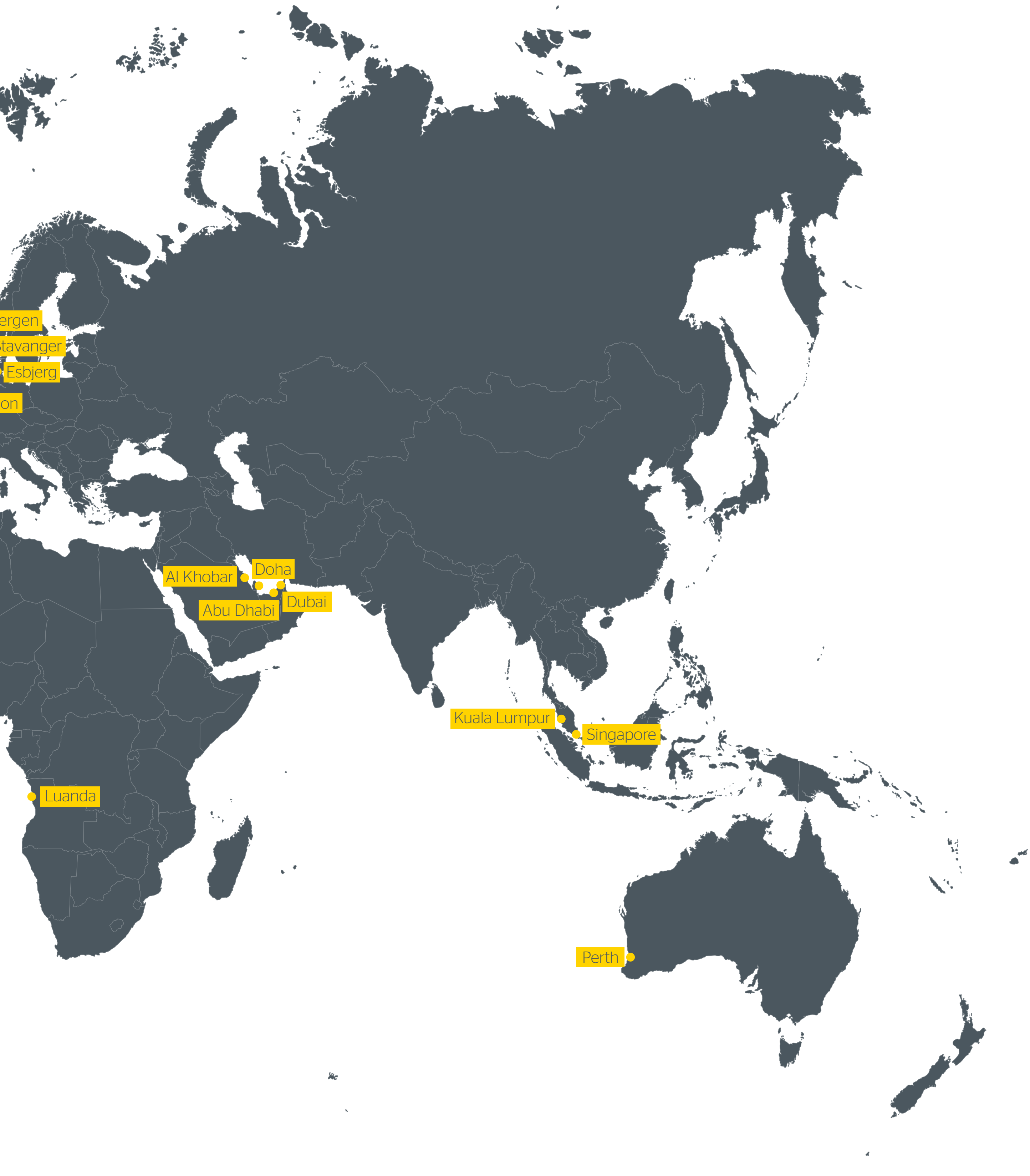
The demand for our products and services is driven by the price for hydrocarbons in the countries where we operate. As such, we believe the long-term fundamentals for the services we provide are sound and give us a good basis to grow. The immediate prospects in 2014 remain challenging mainly as a result of the oversupply of oilfield services as well as the low drilling activity for natural gas in the United States.

Strategy
Our primary focus is to develop our capabilities in order to secure the position as "supplier of choice" across our entire product and service offering. This position will enable us to expand our reach both geographically and technically and it will be the foundation to secure longer term profitable growth. We will pursue opportunities to benefit from economies of scale and selectively strengthen our geographical footprint and develop technologies.

Our primary focus is to develop our capabilities in order to secure the position as "supplier of choice" across our entire product and service offering.

Board of Directors' Report
Organisational reach

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Board of Directors' Report
Financial review

2013 Operating results

The following discussions are based on a continuing operations basis, after restating amounts to take account of discontinued operations of our Tubular, Rental and Underbalanced service businesses, which were disposed of during 2013.

Our total operating revenue and reimbursables for the year ended December 31, 2013, amounted to $2,041.3 million, a decrease of 0.7% compared to $2,054.7 million for the year ended December 31, 2012. Reduced revenue in our North America business, mainly as a result of lower pricing and equipment utilisation, was partly offset by increased rig utilisation, price increases related to inflation adjustments and improved performance as well as lower level of industrial action in Argentina.

Our total operating expenses, excluding impairment charges for the year ended December 31, 2013, amounted to $2,055.5 million, an increase of 0.4% compared to $2,047.2 million for the year ended December 31, 2012. This increase is primarily due to increased activity and cost inflation in Argentina as well as higher cost of goods sold in our Oiltools division as a result of increased sales. It was partly offset by lower costs in North America following the implementation of cost reduction measures and lower reimbursable expenses in the North Sea.

Our depreciation and amortisation expenses for the year ended December 31, 2013, amounted to $161.4 million, an increase of 3.7% compared to $155.7 million for the year ended December 31, 2012. This increase is due to substantial investments in fixed assets over the last two years, predominantly for the Modular Rig as well as Pressure Pumping equipment.

Impairments resulted in a noncash charge of $430.8 million in the year ended December 31, 2013, $7.2 million of which was reported in the results of discontinued operations, compared to $338.7 million in the year ended December 31, 2012. During the fourth quarter of 2013, the following were considered to be circumstances which, more likely than not, would reduce the fair value of a reporting unit to below its carrying amount;

- reduced pricing and low utilisation of equipment as a result of oversupply of land based oilfield services in the United States, and
- the decline in our 2013 forecasted results compared to forecasts prepared at the time of the 2012 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 $378.6 million, an impairment of fixed assets of $18.7 million, an impairment of intangibles of $33.5 million. The annual impairment testing of goodwill and intangibles in 2012 resulted in 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.

Our general and administrative expense for the year ended December 31, 2013, amounted to $61.3 million, a decrease of 26.9% compared to $83.9 million for the year ended December 31, 2012. Proceeds from a settlement of a legal case, lower cost stock based compensation and an overall reduction in costs explain the decrease. General and administrative expenses as a percentage of total revenues were 3.0% for the year ended December 31, 2013, and 4.1% for the year ended December 31, 2012.

Our interest expense for the year ended December 31, 2013, amounted to $51.8 million, a decrease of 5.3% compared to $54.7 million for the year ended December 31, 2012. Interest-bearing debt was $0.8 billion at December 31, 2013, compared to $1.2 billion at December 31, 2012. The decrease in debt is a result of the private placement of 208,334,000 new shares with net proceeds of $250 million as well as the proceeds for the divestitures of our North American based Rental, Tubular and Underbalanced businesses.

Net Income was negatively impacted by the noncash charge for impairments of $430.8 million.

Our other financial items for the year ended December 31, 2013, amounted to $21.6 million of expenses, compared to $17.5 million of gain for the year ended December 31, 2012. Other financial items consist mainly of foreign exchange gains/(losses) arising on settlement of transaction loans denominated in currencies other than the functional currency. The expenses recognised in 2013 have resulted in the weakening of currencies against the US Dollar, especially the Norwegian Krone in which Archer transacts a significant portion of the business of its North Sea segment.

Our total income tax charges for 2013 amounted to a net credit of $2.6 million, mainly related to a reassessment of the valuation allowance maintained against deferred tax assets held by the North America Segment following the sale of the underbalanced business. This compares to tax expense of $5.5 million in 2012 which arose mainly in respect of operations in Europe and Latin America.

Our net loss for the year ended December 31, 2013, amounted to $518.6 million, compared to a net loss of $375.8 million for the year ended December 31, 2012.

We have proposed no dividends for the year ending December 31, 2013.

Balance sheet
Our total current assets were $599.8 million at December 31, 2013, and consisted primarily of trade accounts receivables.

Our total non-current assets were $1.2 billion at December 31, 2013, and consisted primarily of fixed assets used in our operations, goodwill and other intangibles.

As of December 31, 2013, our total assets amounted to $1.8 billion compared to $2.6 billion at December 31, 2012. The decrease in assets primarily is attributable to the impairments recorded in 2013.

Our total current liabilities were $475.9 million at December 31, 2013, and consisted primarily of current portion of interest-bearing debt, accounts payable and accrued expenses.

Our total non-current liabilities were $684.4 million at December 31, 2013, and consisted primarily of long-term interest-bearing debt.

Our total equity has decreased to $634.6 million at December 31, 2013, compared to $926.2 million at December 31, 2012. The decrease in equity is primarily attributable to the net loss for 2013.

Cash flow
Our cash and cash equivalents, excluding restricted cash, amounted to $49.5 million as of December 31, 2013, compared to $58.2 million as of December 31, 2012.

Our cash extended for capital expenditures amounted to $117.5 million for 2013, representing predominantly investments in the modular rig, improvements in drilling and workover rigs, wireline tools as well as pressure pumping and oiltools equipment.

On March 7, 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.

On December 6, 2013, Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the modular rig, Archer Topaz. The facility is repayable in 10 semi-annual instalments.

Parent company results 2013
Net loss for the year was $518.6 million, corresponding to a net loss per share of $0.94.

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, 2013, as well as the letter of comfort received from Seadrill Limited in connection with Archer's obligations resulting from the recently awarded drilling contracts in Argentina. The Board believes the annual report provides a correct outline of the Company's assets and debt, financial position and financial performance.

Key figures

	2013	2012
Revenue *In $ millions*	2,041	2,055
EBITDA[1] *In $ millions*	147	115
Net loss *In $ millions*	(519)	(376)
Net interest bearing debt *In $ millions*	715	1,161
Employees at December 31	8,100	8,300

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

Board of Directors' Report
Health, safety and environment

Our Health, Safety and Environmental, or HSE, philosophy is to establish and maintain a culture where there are no accidents, injuries or losses. Our primary responsibility is to eliminate or mitigate the risks encountered by our employees in the course of their duties. All employees are committed to operating within a safe working environment and recognise that each individual has a responsibility to ensure we reach the goal of no accidents, injuries or losses.

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

As part of our programs 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 analysed over 379,000 observations in 2013.

Although there have been many successes in our safety performance over the course of the year, such as the performance of our Emerald Modular Rig achieving one year recordable incident free, and a significant reduction in our Company's medical treatment cases, we have seen an increase in the number of injuries in all operating areas. This is and will remain a primary concern and area of focus as we begin 2014.

Although the Company had no "reportable" fatalities in 2013 we did suffer the loss of two employees, one in a vehicle incident when returning from a work location and a second of a non-job related medical issue. In addition, we regrettably experienced 62 lost-time injuries in 2013 throughout the Company while working a total of 21.7 million man-hours in the field. The statistics by geographic area are as follows:

	2013		2012	
Area	**Injuries**	**Medical Treatment Cases**	**Injuries**	**Medical Treatment Cases**
North Sea	6	9	2	17
North America	48	42	28	75
Latin America	7	27	5	36
Emerging Markets & Technologies	1	3	0	3
Archer Total	**62**	**81**	**35**	**131**

The North American market, in which the product lines where we participate and the nature of the markets served, has historically carried higher exposure to incident and injury for the industry.

In relation to the environment, despite our efforts, we unfortunately recorded three minor environmental spills in the first quarter of the year, which were 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 pre-emptive 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, for Quality Management. In addition, the North Sea management system met the requirements of ISO 14001:2006 for Environmental Management Standards for several years. Our drilling and workover operation in Argentina has also been certified according to ISO 9001:2008 for several years and in 2013 the Argentinean Institute of Oil and Gas awarded us the annual award for safety in service companies. In addition, we received in 2013 the ISO certification of our frac valve manufacturing operation in the United States, following a program to improve our safety and quality performance in this operation. 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.

Board of Directors' Report
Employees and diversity

The year of 2013 was a transitional period for Archer, during which time we made a number of changes to the senior management team.

In July, David King joined Archer as Chief Executive Officer, bringing with him 30 years of international oilfield services experience. Also during the year, three of the geographical business units saw changes in their leadership.

Within our North Sea operations, we ramped up our UK headcount throughout the year in response to higher activity from contract wins.

In North America, we saw continued pressure on pricing, compressing margins and requiring a strong focus on cost control. This resulted in several reduction-in-force exercises during the year to right size the business and support organisation. The Rental & Tubular and Underbalanced businesses were divested during the year, with 325 employees leaving Archer through these transactions.

We completed the move of the Emerging Marketing & Technology management team to Dubai early in 2013 and managed a steady increase in headcount in Middle East and Asia Pacific in response to increased actively in our Oiltools and Wireline divisions in the region. In Latin America, we downsized our Land Drilling operation in Brazil and during the fourth quarter initiated a hiring program in Argentina in response to the relocation of land drilling rigs between the two countries.

Also during the fourth quarter, we performed a global review of our structure resulting in the elimination of 200 positions.

At December 31, 2013, the Archer global headcount is 8,100 employees. 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 trained, motivated and diverse workforce means we will be more competitive.

In Archer, there are equal employment opportunities and fair treatment to all individuals regardless of race, colour, 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.

In terms of gender diversity, approximately 6% of Archer's employees are female, which increases to 10% female when considering the Archer management population. Two out of the five Archer Board members are female.

2013 was a transitional period for Archer, during which time we made a number of changes to the senior management team.


Archer
ACCESS
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Board of Directors' 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 led by a multi-year low in natural gas prices. While natural gas prices have improved in 2013 and into 2014, exploration and development activities in the natural gas markets remains relatively low and are expected to continue at these levels unless there is a meaningful change in the price of natural gas in 2014 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, 2013, the closing price of natural gas at the Henry Hub was $3.49 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 $93.89 per barrel as of December 31, 2013.

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 Organisation 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 nationalisation 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 favouring 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 labour unrest. In Argentina, where we have significant operations, labour organisations have substantial support and have considerable

Board of Directors' Report
Risk factors

political influence. The demands of labour organisations in Argentina have increased in recent years as a result of the general labour 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 labour 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, unionisation efforts have been made from time to time within the industry in the United States, to varying degrees of success. Any such unionisation could increase our costs or limit the flexibility in that market.

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 utilisation 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 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. The Argentinian government stated the seizure was affected as YPF did not invest enough in Argentina and thus let oil production and exploration in the country decline. On February 25th, 2014, Argentina and Repsol reached an agreement on the compensation for assets seized, which must be ratified by the Repsol's shareholders and the Argentinean Parliament. 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 dividends 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 favourable 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 organisations. 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 specialised equipment and parts from third-party suppliers and we may be vulnerable to delayed deliveries and future price increases.
We purchase specialised equipment and parts from third-party suppliers and affiliates. 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 proppants,

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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 realised.
As of December 31, 2013, 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 numberof days remaining on the contract, assuming full utilisation 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 favourable 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 utilisation rates and day rates for our rigs and materially reduce our revenues and profitability.

Utilisation 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 our 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 utilisation 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 utilisation rates and day rates for drilling rigs may lead to construction of new rigs. These increases in the supply of rigs could depress the utilisation 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 labour 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 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.

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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 behaviour 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, 2013, contracts from Pan American Energy, Statoil and ConocoPhillips accounted for 14%, 10% and 6% of our total operating revenues, respectively. In the year ended, December 31, 2012, Statoil, Pan American Energy and ConocoPhillips accounted for approximately 15%, 12% and 8% 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 non-payment and non-performance 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 non-payment of and non-performance 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.

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 impairment 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 2013 and in 2012 and recorded impairments of $378.6 million and $338.7 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.

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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 US 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.

This risk is in particular present in Argentina, where at the end of 2013 and in January 2014 the Argentinean Peso devalued by approximately 25% against the US Dollar, negatively impacting the financial results of the Company. While the official exchange rate has stabilised since then, it is still approximately 25% - 30% above the unofficial rate.

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 reorganisation of such subsidiary, or to realise 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, 2013, we had total outstanding interest-bearing debt of $764.8 million. This debt represented 42.6% of our total assets. 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 instalment 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 instalment 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 have currently 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 recognised to our tax provisions in later years as and when these and other matters are finalised with the appropriate tax authorities.

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.

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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 organised 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 organised 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 recognise 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 231,053,240 and 65,935,200, respectively, of Archer's common shares as of April 25, 2013, which corresponds to 39.9% and 11.4% 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 authorised share capital of Archer (and disapplying pre-emptive 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 Directors' Report

Share capital issues

At December 31, 2013, our authorised share capital is $1,200,000,000, divided into 1,200,000,000 shares each with a par value of $1.00. All of our shares are of the same class.

A total of 366,659,120 shares, each with a par value of $2.00, were issued and outstanding at December 31, 2012.

The authorised share capital of Archer was amended through a decision at a special general meeting in February 2013 from 600,000,000 $2.00 shares to 1,200,000,000 $1.00 shares. The amendment consisted of the reduction of the issued share capital from $733,318,240 to $366,659,120 by cancelling paid up share capital to the extent of $1.00 on each of the issued shares, cancelling the remaining 233,340,880 authorised but unissued $2.00 shares, and reinstating the authorised but unissued share capital as 466,681,760 share of $1.00 each.

On February 20, 2013, Archer issued 212,500,667 of the $1.00 shares in settlement of a private placement.

At December 31,2013, the number of shares issued is 579,159,787 corresponding to a share capital of $579,159,787. 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. The Board is not aware of any other shareholders agreements or any take-over bids during the year.

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, 2013

Seadrill	39.9%
Lime Rock	11.4%
Hemen Holdings	7.6%
Others	41.1%

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.

Board of Directors' 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.

Mr. Fredrik Halvorsen served as a Director since October 2010 and was appointed Deputy Chairman of the Board in February 2011. Mr. Halvorsen resigned from the Company in July 2013.

Mr. Saad Bargach served as Chairman of the Board from February 2011 up until July 2013 and as Director until his resignation on September 20, 2013.

John Reynolds
Chairman
John Reynolds has served as a Director since February 2011 and was appointed Chairman of the Board in July 2013. 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. He currently serves on the board of directors of Tesco Corporation, EnerMech Ltd., Revelation Energy Holdings LLC, Tercel Oilfield Products, and Shelf Drilling. 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., Torch Offshore Inc, and VEDCO Holdings, Inc. Mr. Reynolds is a US citizen, resident in the United States.

Tor Olav Trøim
Director
Tor Olav Trøim has served as Director of the Company since our incorporation on August 2007 and was appointed Vice Chairman of the Board in September 2013. Mr. Trøim graduated as M.Sc Naval Architect from the University of Trondheim, Norway, in 1985. His careers include Equity Portfolio Manager with Storebrand ASA (1987-1990), and Chief Executive Officer for the Norwegian Oil Company DNO AS (1992-1995). Mr. Trøim has also served as Chairman of the Board and a director of Seadrill Partners since July 2012. Mr. Trøim is also Chairman of the Board and a director of Golar LNG Partners LP, or Golar LNG Partners, a Marshall Islands limited partnership listed on the NASDAQ stock exchange. He has also served as a director of Golar since 2011, Golden Ocean since 2004 and Marine Harvest ASA, or Marine Harvest, a Norwegian company listed on the Oslo stock exchange, since 2012. He served as a director of Frontline from November 1997 until February 2008. Mr. Troim is a Norwegian citizen, resident in the UK.

Kate Blankenship
Director
Kate Blankenship has served as a director of the Company since our incorporation on August 2007. Mrs. Blankenship has also served as a director of Frontline since 2003. Mrs. Blankenship joined Frontline in 1994 and served as its Chief Accounting Officer and Secretary until October 2005. Mrs. Blankenship has been a director of Ship Finance since October 2003, Seadrill Partners since June 2012, NADL since February 2011, Independent Tankers Corporation Limited, or Independent Tankers, since February 2008, Golar since July 2003, Golar LNG Partners since September 2007, Golden Ocean since November 2004 and Avance Gas Holding Ltd. since October 2013. She is a member of the Institute of Chartered Accountants in England and Wales. Mrs. Blankenship is a British citizen, resident in France.

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.

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 Argentinean citizen, resident in Argentina.

Board independence
All directors are independent from the executive management team, all the directors are independent from the company's material business relations and two of the five 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 Directors' Report
Senior management

David King
Chief Executive Officer
Mr. King was appointed as Chief Executive Officer for Archer in July 2013. Mr. King has more than 30 years' experience in the oil & gas services industry. He joined Halliburton in 1978 where he held numerous executive and leadership roles. As a member of the Executive Committee; he served as Chief Health, Safety and Environmental Officer. He was also President of the Completion and Production division and Senior Vice President of Production Optimisation. In 2010 Mr. King joined Kenda Capital as a Senior Business Advisor.

Mr. King graduated from the University of Alabama with a BSc in Civil Engineering where in 2007 he was recognised as a Distinguished Fellow of the College of Engineering, and completed the Advanced Management Program, an executive education program of Harvard Business School. He is a US citizen residing in Houston, Texas.

John Lechner
President North Sea and Executive Vice President
Mr. Lechner was appointed to the position of President, North Sea Region and Executive Vice President in August 2013. He previously held the position of Senior Business Development Manager for Asia Pacific at Archer. Mr. Lechner has over 28 Years of oilfield experience having worked in the European, Asian, Russian, North American, Middle Eastern and Far Eastern Markets within various senior roles at Schlumberger, Parker Drilling and OilSERV.

Mr. Lechner is a graduate of the University of Notre Dame and the University of Houston. He is an American citizen and resides in Norway.

Ted Wooten
President North America and Executive Vice President
Mr. Wooten was appointed as President, North America and Executive Vice President in December 2013. Prior to joining Archer Mr. Wooten served as Vice President Operations for Bluegrass Energy in Tulsa Oklahoma, and he also has in-house consulting experience with other US based operators.

Mr Wooten held the position of Assistant Director of the Department of Petroleum Geology at the University of Oklahoma and holds a degree in Petroleum Engineering from the University of Missouri-Rolla. Mr. Wooten is a US citizen and resides in Houston, Texas.

Carlos Etcheverry
President Latin America, Corporate Marketing and Executive Vice President
Mr. Etcheverry has held the position as President Latin America since April 2013. Prior to this, Mr. Etcheverry was the President of Archer's land drilling division, and joined Archer via the Allis-Chalmers 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 University de la Plata, Argentina and three MBAs in Marketing, Administration and Finance. Mr. Etcheverry holds Argentinean 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 Dubai, UAE.

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 US 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 US citizen and resides in Houston, Texas.

Board of Directors' Report
Responsibility statement

We confirm, to the best of our knowledge, that the financial statements for the year ended December 31, 2013, have been prepared in accordance with accounting principles generally accepted in the United States or US 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 Directors' 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 2014
The Board of Archer Limited

John Reynolds
(Chairman)

Kate Blankenship
(Director)

Cecilie Fredriksen
(Director)

Tor Olav Trøim
(Director)

Giovanni Dell' Orto
(Director)

Financial Statements 2013

Independent Auditor's Report

To the Board of Directors and Shareholders of Archer Limited:

We have audited the accompanying consolidated financial statements of Archer Limited and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Archer Limited and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

London
United Kingdom
April 29, 2014

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, except share and per share data)	YEAR ENDED DECEMBER 31	
	2013	2012
Revenues		
Operating revenues	1,944.3	1,945.8
Reimbursable revenues	97.0	108.9
Total revenues	**2,041.3**	**2,054.7**
Expenses		
Operating expenses	1,739.1	1,701.0
Reimbursable expenses	93.7	106.6
Depreciation and amortisation	161.4	155.7
Impairment of goodwill and non-current assets	423.7	293.2
General and administrative expenses	61.3	83.9
Total expenses	**2,479.2**	**2,340.4**
Operating loss	**(437.9)**	**(285.7)**
Financial items		
Interest income	1.3	1.7
Interest expenses	(51.8)	(54.7)
Share of results in associated company	(1.6)	(0.2)
Other financial items	(21.6)	17.5
Total financial items	**(73.7)**	**(35.7)**
Loss from continuing operations before income taxes	**(511.6)**	**(321.4)**
Income tax benefit / (expense)	2.6	(5.5)
Loss from continuing operations	**(509.0)**	**(326.9)**
Loss from discontinued operations, net of tax	(9.6)	(48.9)
Net loss	**(518.6)**	**(375.8)**
Basic loss per share ($) – from continuing operations	(0.92)	(0.89)
– from discontinued operations	(0.02)	(0.14)
Diluted loss per share ($) – from continuing operations	(0.92)	(0.89)
– from discontinued operations	(0.02)	(0.14)
Weighted average number of shares outstanding (In thousands)		
Basic	549,468	366,572
Diluted	549,468	366,572

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

Archer Limited and Subsidiaries
Consolidated statement of comprehensive loss

($ in millions)	YEAR ENDED DECEMBER 31	
	2013	2012
Net loss	**(518.6)**	**(375.8)**
Other comprehensive (loss) / income net of tax		
Change in unrealised (loss) / gain related to pension	(15.5)	14.4
Change in unrealised foreign exchange differences	(6.5)	(5.0)
Interest swap gain	–	1.2
Other comprehensive (loss) / income	**(22.0)**	**10.6**
Total comprehensive loss (net of tax)	**(540.6)**	**(365.2)**

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

	PENSION - UNRECOGNISED GAINS/LOSSES	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	OTHER COMPREHENSIVE INCOME/(LOSS)	TOTAL
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 currency translation differences	–	(5.0)	–	(5.0)
Balance at December 31, 2012	**(7.2)**	**9.2**	**–**	**2.0**
Net change in gains and losses and prior service cost	(15.5)	–	–	(15.5)
Interest swap gain	–	–	–	–
Foreign currency translation differences	–	(6.5)	–	(6.5)
Balance at December 31, 2013	**(22.7)**	**2.7**	**–**	**(20.0)**

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

Archer Limited and Subsidiaries
Consolidated balance sheets

($ in millions)	DECEMBER 31	
	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	49.5	58.2
Restricted cash	16.5	11.9
Accounts receivables, net of allowance for doubtful accounts of 6.2 and 3.4, respectively	386.1	418.5
Inventories	65.2	64.3
Deferred tax	5.6	8.4
Other current assets	76.9	81.0
Total current assets	**599.8**	**642.3**
Non-current assets		
Investments in associates	0.6	2.4
Loans to associates	9.3	–
Property plant and equipment	800.0	1,059.4
Deferred tax	16.2	29.1
Goodwill	294.1	706.1
Other intangible assets	65.5	129.6
Other non-current assets	9.4	18.4
Total non-current assets	**1,195.1**	**1,945.0**
Total assets	**1,794.9**	**2,587.3**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of interest-bearing debt	150.9	329.5
Other current liabilities	325.0	363.3
Total current liabilities	**475.9**	**692.8**
Non-current liabilities		
Long-term interest bearing debt	613.9	889.8
Deferred tax	11.6	38.3
Other non-current liabilities	58.9	40.2
Total non-current liabilities	**684.4**	**968.3**
Commitments and contingencies		
Shareholders' equity		
Common shares of par value $1.00 per share; 1.2 billion shares authorised, 579,159,787 outstanding shares at December 31, 2013 (December 31, 2012: par value $2.00 per share: 600,000,000 shares authorised: 366,659,120 outstanding)	579.2	733.3
Additional paid-in capital	816.1	779.6
Accumulated deficit	(902.2)	(383.6)
Accumulated other comprehensive (loss)/income	(20.0)	2.0
Contributed surplus / (deficit)	161.5	(205.1)
Total shareholders' equity	**634.6**	**926.2**
Total liabilities and shareholders' equity	**1,794.9**	**2,587.3**

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

Archer Limited and Subsidiaries
Consolidated statement of cash flows

($ in millions)	YEAR ENDED DECEMBER 31	
	2013	**2012**
Cash Flows from Operating Activities		
Net loss	**(518.6)**	**(375.8)**
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortisation	159.1	155.7
Depreciation – reported in discontinued operations	23.0	49.3
Share-based compensation expenses	1.1	4.1
Loss on property, plant and equipment disposals	3.0	2.9
(Gain)/loss on disposal of assets in discontinued operations, net	(9.7)	0.4
Impairment charges	423.7	338.7
Impairment charges – reported in discontinued operations	7.2	–
Equity in loss of unconsolidated affiliates	1.6	0.2
Gain on debt redemption	–	(4.7)
Amortisation of loan fees and senior note premium	9.4	5.9
Deferred income taxes	(11.0)	(11.7)
Unrealised foreign currency gain	20.6	(13.7)
Changes in operating assets and liabilities, net of acquisitions		
Decrease in trade accounts receivable and other short-term receivables	1.3	32.1
(Increase)/decrease in inventories	(0.2)	6.5
Decrease in trade accounts payable and other short-term liabilities	(36.0)	(13.1)
Change in other operating assets and liabilities, net	(2.9)	(8.0)
Net cash provided by operating activities	**71.6**	**168.8**
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(117.5)	(248.7)
Additions to property, plant and equipment for discontinued operations	(2.1)	(17.5)
Proceeds from sale of property, plant and equipment	9.0	8.6
Proceeds from sale of discontinued operations, net	253.9	6.5
Acquisition of subsidiaries, net of cash	–	(0.9)
Loans to associates	(9.3)	–
Net change in restricted cash	(5.5)	2.3
Net cash provided by / (used in) investing activities	**128.5**	**(249.7)**

Continued next page.

Archer Limited and Subsidiaries
Consolidated statement of cash flows

Cash Flows from Financing Activities		
Net borrowings under revolving facilities	26.3	55.2
Proceeds from related party debt	10.0	75.0
Repayment on related party debt	(65.0)	(20.0)
Proceeds from debt	43.7	434.8
Repayment of debt	(463.0)	(439.8)
Debt issuance costs	(6.6)	(4.3)
Proceeds from issuance of equity, net	247.9	0.4
Net cash (used in) / provided by financing activities	**(206.7)**	**101.3**
Effect of exchange rate changes on cash and cash equivalents	(2.1)	0.5
Net (decrease) / increase in cash and cash equivalents	**(8.7)**	**20.9**
Cash and cash equivalents at beginning of the year	58.2	37.3
Cash and cash equivalents at the end of the year	**49.5**	**58.2**
Interest paid	(47.0)	(65.1)
Taxes paid	(13.6)	(38.8)

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

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

($ in millions)	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	CONTRIBUTED (DEFICIT)/ SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2011	**732.8**	**775.5**	**(7.8)**	**(8.6)**	**(205.1)**	**1,286.8**
Foreign currency translation differences	–	–	–	(5.0)	–	(5.0)
Interest swap gain	–	–	–	1.2	–	1.2
Pension – unrecognised 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**
Recapitalisation	(366.6)	–	–	–	366.6	–
Private placement	212.5	35.4	–	–	–	247.9
Foreign currency translation differences	–	–	–	(6.5)	–	(6.5)
Pension – unrecognised gain	–	–	–	(15.5)	–	(15.5)
Share-based compensation	–	1.1	–	–	–	1.1
Net loss	–	–	(518.6)	–	–	(518.6)
Balance at December 31, 2013	**579.2**	**816.1**	**(902.2)**	**(20.0)**	**161.5**	**634.6**

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

Archer Limited and Subsidiaries
Notes to 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 organisations. 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, organisation, 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 (US 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 US 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.

During 2013 we disposed of three of our business divisions, namely, Archer Tubular Services LLC, Archer Rental Services LLC and the assets and liabilities comprising the North American underbalanced services. We present our financial statements on a continuing business basis and we have restated comparative figures to exclude these discontinued operations.

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 materially 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 amortisation, 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.

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Revenue recognition
We recognise 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 recognised 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 recognised 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 mobilisation costs. Mobilisation fees and related costs are deferred and amortised 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, 2013, 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 non-current 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 mainly 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 2013 was $2.9 million (2012: $4.3 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 analysing 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 capitalised. 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.

Assets 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 instalments and variation orders, construction supervision, equipment, spare parts, capitalised interest, costs related to first-time mobilisation 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.

Capitalised interest

The amount of interest expense capitalised in an accounting period is determined by applying an interest rate or the capitalisation rate to the average amount of accumulated expenditures for the asset during the period. The capitalisation rates used in an accounting period is based on the rates applicable to our borrowings outstanding during the period. We do not capitalise amounts beyond the actual interest expense incurred in the period. We capitalised interest of $1.1 million in the year ended December 31, 2013 (2012: $1.0 million).

If our financing plans associate a specific new borrowing with a qualifying asset, we use the rate on that borrowing as the capitalisation 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 capitalisation 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. Our Oiltools division also leases operating equipment which is leased out to Archer customers. Where we have substantially all the risks and rewards of ownership, the lease is classified as a capital lease. Capital leases are capitalised 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 amortisation expense” in the Consolidated Statement of Operations. Capitalised 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 amortisation. The cost of intangible assets is generally amortised on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of our intangible assets range from 2 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 amortisation period. Once fully amortised, the intangible’s cost and accumulated amortisation are eliminated.

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

Acquired technology is not amortised 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 capitalised as goodwill. Goodwill is not amortised 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.

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Impairment of long-lived assets and intangible assets
The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment 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 capitalised and amortised.

Defined benefit pension plans
We have one defined benefit plan that provides retirement, death and termination benefits. Our net obligation is calculated separately for the 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's 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 plan is primarily 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 recognised in the Consolidated Statement of Operations when the net cumulative unrecognised actuarial gains or losses for the 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 recognised over the expected remaining working lives of the employees participating in the plans. Otherwise, recognition of actuarial gains and losses is included in other comprehensive income. Those amounts will be subsequently recognised as a component of net periodic pension cost on the same basis as the amounts recognised 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 pre-tax 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 recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised. When it is more likely than not that a portion or all of a deferred tax asset will not be realised 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 recognised 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 recognise the impact of a tax position in our financial statements if that position is more likely than not to be 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 recognised in the year in which the resolution occurs.

Earnings per share or EPS
Basic earnings per share are 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, for which we include share options.

Deferred charges
Loan-related costs, including debt arrangement fees, incurred on the initial arrangement are capitalised and amortised over the term of the related loan using the straight-line method, which approximates the interest method. Amortisation of loan-related costs is included in interest expense. Subsequent loan costs in respect of existing loans, such as commitment fees, are recognised 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 recognised 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 recognised 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 recognised 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 recognised 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 reorganised 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 organisational changes.

Segmental data in Note 24 is presented under the four segments existing as of December 31, 2013.

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
The Financial Accounting Standards Board (FASB) issued the following applicable Accounting Standards Updates (ASU):
In February 2013 the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" that requires additional disclosures regarding amounts reclassified out of accumulated other comprehensive income by component. This requirement is effective for fiscal years and interim periods beginning after December 15, 2012. We adopted these provisions in the first quarter of 2013 and the adoption had no material impact on our consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity" which requires that when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent should release the cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity; and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Upon the occurrence of those events, the cumulative translation adjustment should be released into net income. The amendments in this ASU are effective prospectively for fiscal years beginning after December 15, 2013, and for interim reporting periods within those years, with early adoption being permitted. We plan to adopt these provisions in the first quarter of 2014 and do not expect the adoption to have a material impact on our consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 "Income Taxes: Presentation of an Unrecognised Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This pronouncement provides explicit guidance on the financial statement presentation of an unrecognised tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This pronouncement is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2013. We will adopt the provisions of ASU No. 2013-11 on January 1, 2014. We do not anticipate the provisions of ASU No. 2013-11 to have a material impact on our consolidated financial statements.

Note 3 — Acquisitions
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 specialises in the sales, service and rental of casing exit equipment.

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The purchase price has been allocated as follows:

($ in millions)	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 recognised in the consolidated balance sheet is attributable to expected synergies and other acquired intangible assets which cannot be separately identified. This goodwill is allocated to the Oiltools reporting unit within Archer's EMT reporting segment.

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.

No further acquisitions have been made during 2013.

Note 4 – Impairments
During the fourth quarter of 2013, reduced pricing and low utilisation of equipment as a result of an oversupply of land based oilfield services in the United States, along with a decline in our 2013 forecasted results compared to forecasts prepared at the time of the 2012 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 results in the following impairments: An impairment of goodwill, amounting to $378.6 million (See Note 13), an impairment of fixed assets amounting to $18.7 million (See Note 12), an impairment of intangibles amounting to $33.5 million (See Note 14). Of the impairments of goodwill and intangible assets, $4.4 million and $2.8 million respectively are reported within the results of discontinued operations.

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, amounting to $207.6 million (See Note 13), an impairment of fixed assets amounting to $65.8 million (See Note 12), an impairment of intangibles amounting to $57.5 million (See Note 14), an impairment of investments in associates totalling $4.9 million (See Note 11) and an impairment of inventory of $2.9 million.

Please refer to Note 13 for further details on the calculation of goodwill impairments.

Note 5 – Other Financial Items

($ in millions)	YEARS ENDED DECEMBER 31	
	2013	**2012**
Foreign exchange differences	(20.5)	13.7
Gain on redemption of debt	–	4.7
Other items	(1.1)	(0.9)
Total other financial items	**(21.6)**	**17.5**

The other financial items consist mainly of foreign exchange gains arising on settlement of transaction 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 16).

Note 6 – Income Taxes

Our income tax expense consists of the following:

($ in millions)	YEARS ENDED DECEMBER 31	
	2013	**2012**
Current tax expense	8.5	17.2
Deferred tax benefit	(11.1)	(11.7)
Total income tax (benefit) / expense	**(2.6)**	**5.5**

The effective tax rate is impacted by the derecognition of some deferred tax assets as we do not expect to utilise these in the foreseeable future. Archer has booked valuation allowances against some net operating losses and foreign tax credits in North America and Brazil. The effective tax rate is impacted by prior years adjustments mainly for North America where there have been true ups on taxable income.

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

($ in millions)	YEARS ENDED DECEMBER 31	
	2013	**2012**
United States	(10.6)	(9.9)
South America	2.3	6.6
Europe	4.9	8.5
Others	0.8	0.3
Total	**(2.6)**	**5.5**

The following table shows a reconciliation of the expected tax expense ($ in millions) based on the expected blended tax rate, to the actual tax (benefit) / expense reported by the Archer Group:

($ in millions)	YEARS ENDED DECEMBER 31	
	2013	**2012**
Expected blended tax value	(186.2)	(126.8)
Goodwill impairment	0.7	24.8
Other non-deductible expenses	(2.8)	3.4
Tax exempted income and credits	0.8	(1.0)
Foreign tax rate differences	1.1	(9.0)
Valuation allowances	180.4	115.7
Prior year adjustments	(2.9)	3.6
State and withholding taxes	3.1	(5.2)
Actual tax expense recognised	**(2.6)**	**5.5**

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

($ in millions)	DECEMBER 31	
	2013	2012
Pension	13.8	13.5
Tax loss carry forward	274.5	182.1
Impairments of tangible and intangible asset	–	75.2
Property differences	38.1	51.7
Provisions	5.6	8.3
Other	4.5	2.9
Gross deferred tax asset	**336.5**	**333.7**
Deferred tax on excess values	22.8	73.1
Short term deferred tax liability - Norway	–	37.6
Other	6.8	10.1
Gross deferred tax liability	**29.6**	**120.7**
Gross deferred tax asset / (liability)	**306.9**	**213.0**
Valuation allowance	297.9	(213.8)
Net deferred tax asset / (liability)	**8.9**	**(0.8)**

Gross tax losses of $520 million originate in the United States, and expire over a period of 20 years. Additional tax losses of $99 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 changed significantly in 2013, mainly due to the divestment activities in the United States and due to lower tax depreciations in North America.

The gross deferred tax assets were at the same level as 2012. The 2012 impairments of tangible and intangibles assets in the United States generated tax assets in form of tax losses to be carried forward, but were at the same time written down with a valuation allowance in South America and North America.

The valuation allowance relates to tax operating losses and foreign tax credits and excess tax values on drilling equipment, for which we do not, at the balance sheet date, have a sufficiently documented tax strategy for realisation.

Deferred taxes are classified as follows:

($ in millions)	DECEMBER 31	
	2013	2012
Short-term deferred tax asset	5.6	8.4
Long-term deferred tax asset	16.2	29.1
Short-term deferred tax liability	(1.3)	–
Long-term deferred tax liability	(11.6)	(38.3)
Net deferred tax asset / (liability)	**8.9**	**(0.8)**

No provision has been made in respect of deferred tax on unremitted earnings from subsidiaries (2012: Nil). No tax would be expected to be payable if unremitted earnings were repatriated to the ultimate parent.

The Archer Group operates in a number of jurisdictions and its tax filings are subject to regular audit by the tax authorities. The Group's principal operations are located in Norway, Brazil, Argentina, UK and Canada, with the earliest periods under audit or open and subject to examination by the tax authorities being 2010, 2011, 2011, 2013, 2011/12 respectively.

All benefits in relation to uncertain tax positions have been recognised at the balance sheet (2012: all benefits recognised).

The Group's accounting policy is to include interest and penalties in relation to uncertain tax positions with tax expense.

Note 7 – Discontinued Operations

On June 27, 2013, we completed the sale of our Rental business in North America and our Tubular business in North America and Latin America. During the third quarter of 2013 we agreed to sell our Underbalanced business in North America which subsequently closed on October 17, 2013. We sold these operations as we determined that they were non-strategic assets and the proceeds from the sale would enable us to reduce our debt.

The summarised results of operations included in income from discontinued operations were as follows:

($ in millions)	YEARS ENDED DECEMBER 31	
	2013	**2012**
Revenues	64.8	134.0
Operating and reimbursable expenses	(45.2)	(80.5)
Impairments	(11.0)	(45.5)
Depreciation and amortisation	(23.0)	(49.3)
Interest expense	(3.8)	(6.8)
Other financial items	–	–
Gain on sale of discontinued operations, net	9.1	–
Loss from discontinued operations before income tax expense	**(9.1)**	**(48.1)**
Income tax expense	(0.5)	(0.8)
Loss from discontinued operations, net of tax	**(9.6)**	**(48.9)**

The Rental and Tubular businesses were deconsolidated at June 27, 2013, the date of their disposal and the assets utilised in the North American Underbalanced business were sold in October 2013 so their assets and liabilities are not included within the December 31, 2013, balance sheet. As of December 31, 2012, the carrying amounts of the major classes of assets and liabilities associated with our discontinued operations were classified as follows:

($ in millions)	DECEMBER 31, 2012
Accounts receivable	21.2
Inventory	7.7
Other current assets	0.3
Property plant and equipment	198.7
Goodwill	13.3
Intangibles	15.6
Deferred tax assets	14.2
Total assets	**271.0**
Accounts payable	4.2
Other current liabilities	4.5
Deferred tax liabilities	4.1
Total liabilities	**12.8**

Note 8 – Earnings Per Share, or EPS

Other current assets include:

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE *(in $)*
2013			
Basic loss per share from continuing operations	(509.0)	549,467,913	(0.92)
Effect of dilutive options*	–	–	–
Diluted loss per share	(509.0)	549,467,913	(0.92)
Basic loss per share from discontinued operations	(9.6)	549,467,913	(0.02)
Effect of dilutive options*	–	–	–
Diluted loss per share	(9.6)	549,467,913	(0.02)

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	NET LOSS ($ in millions)	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (in $)
2012			
Basic loss per share from continuing operations	(326.9)	366,572,200	(0.89)
Effect of dilutive options*	–	–	–
Diluted loss per share	(326.9)	366,572,200	(0.89)
Basic loss per share from discontinued operations	(48.9)	366,572,200	(0.14)
Effect of dilutive options*	–	–	–
Diluted loss per share	(48.9)	366,572,200	(0.14)

**Loss per share not adjusted for dilutive in the money share options. Share based compensation of approximately 91,760 and 151,022 shares were excluded from the computation of diluted earnings per share for the years ended December 31, 2013 and 2012, respectively, as the effect would have been anti-dilutive due to the net loss for the period.*

Note 9 – Inventories

Our inventories include the following:

($ in millions)	DECEMBER 31	
	2013	2012
Manufactured:		
Finished goods	3.8	6.8
Work in progress	1.4	3.6
Raw materials	8.0	6.6
Total manufactured	13.2	17.0
Drilling supplies	25.0	25.2
Chemicals	11.6	8.1
Other items and spares	15.4	14.0
Total inventories	**65.2**	**64.3**

Note 10 — Other Current Assets

Our other current assets include:

($ in millions)	DECEMBER 31	
	2013	2012
Prepaid expenses (moved 0.2 to Debt fees – see debt fee sch)	33.7	41.7
Deferred financing fees	6.4	1.0
VAT receivable	17.1	21.4
Other short term receivables	19.7	16.9
Total other current assets	**76.9**	**81.0**

Note 11 — Investments in Associates

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

	2013	2012
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)	2013	2012
C6 Technologies AS	0.6	2.4
Rawabi Allis-Chalmers Company Ltd.	–	–
Total investments in associates	**0.6**	**2.4**

The components of investments in associates are as follows:

($ in millions)	DECEMBER 31			
	2013		2012	
	C6	RAWABI	C6	RAWABI
Net book balance at beginning of year	2.4	–	2.4	5.0
Share in results of associates	(1.6)	–	(0.1)	(0.1)
Impairments	–	–	–	(4.9)
Currency adjustment	(0.2)	–	0.1	–
Net book balance at end of year	**0.6**	**–**	**2.4**	**–**

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

We have also made additional investment in C6 by way of a loan which, at December 31, 2013, amounted to $9.3 million and is repayable in 2021.

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.

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Note 12 – Property Plant and Equipment

($ in millions)	OPERATIONAL EQUIPMENT	OTHER FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
As of December 31, 2013				
Cost	1,296.7	58.3	21.1	1,376.1
Accumulated depreciation and impairments	(546.6)	(29.5)	–	(576.1)
Net book value	**750.1**	**28.8**	**21.1**	**800.0**
Depreciation and amortisation for 2013	136.7	9.6	–	146.3
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 amortisation for 2012	173.5	9.1	–	182.6

Operational equipment includes drilling rigs and equipment and well services equipment. Other fixed assets include land and buildings, office fixtures, furniture and equipment and motor vehicles. At 31.12.2013, $12.5 million of fixed assets have been pledged in respect of finance agreements for the acquisition. (2012: $7.1 million)

We review our long-lived assets for impairment and for the year ended December 31, 2013, and we have recognised impairments totalling $18.7 million (2012: $65.8 million) in respect of property, plant and equipment.

Included in the cost of operational equipment is $25.0 million in respect of assets held under capital leases. (2012: $19.2 million).

Note 13 – Goodwill

The goodwill acquired during 2012 and 2011 represents the excess of purchase price over the fair value of tangible and identifiable intangible assets 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.

($ in millions)	ASSET VALUE	2013 IMPAIRMENT	NET VALUE	ASSET VALUE	2012 IMPAIRMENT	NET VALUE
Value at beginning of year	1,012.7	(306.6)	706.1	997.9	(99.0)	898.9
Goodwill acquired during the year	–	–	–	2.3	–	2.3
Adjustments to goodwill during the measurement period	–	–	–	(6.4)	–	(6.4)
Impairments of goodwill	–	(378.6)	(378.6)	–	(207.6)	(207.6)
Goodwill disposed of in sale of discontinued operations	(61.3)	48.0	(13.3)	–	–	–
Currency adjustments	(20.1)	–	(20.1)	18.9	–	18.9
Net book balance at end of year	**931.3**	**(637.2)**	**294.1**	**1,012.7**	**(306.6)**	**706.1**

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 step one of our annual goodwill impairment testing in the fourth quarter of 2013, we considered the following qualitative indicators sufficient to trigger a qualitative test of the valuation of goodwill as we concluded that they amounted to circumstances which, more like than not, would reduce the fair value of a reporting unit to below its carrying amount;

- reduced pricing and low utilisation of equipment as a result of oversupply of land based oilfield services in the United States, and
- the decline in our 2013 forecasted results compared to forecasts prepared at the time of the 2012 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.

We considered the key assumptions in our goodwill valuation model, including long-term market growth predictions, the discount rate to be applied and potential tax effects. As a consequence, we concluded at December 31, 2013, that our carrying value exceeded the fair value in certain of our reporting units. After further analysis and consideration, we recorded a goodwill impairment of $378.6 million. (See Note 4)

The fair value calculations are particularly sensitive to assumptions concerning revenue growth, EBITDA margin, investments for future growth, terminal value growth and the discount factor. With the majority of the remaining goodwill relating to our North Sea and Emerging Market & Technologies Reporting Segments the sensitivity to market volatility has reduced, however, goodwill amounting to $26 million remains exposed to the higher volatility in the US land market.

The fair value has been modelled under the assumptions of continuing existing contracts, incremental improvements in revenue for known new projects as well as a slow improvement in the US land market starting in the second half of 2014. Terminal revenue growth rate was assumed at 2% with EBITDA margins being equal to the exit year. EBITDA margins were assumed to moderately improve from current low rates over the next few years. Should these revenue and margin improvements and growth rates not be obtained over the forecast period, additional levels of impairment could be required.

The impact of either an assumed 1% lower revenue growth or 1% lower than estimated margin for the North American reporting units in 2014 would have an impact of approximately $0.5 million and $1.3 million, respectively, on the remaining $5.5 million of goodwill in the North American reporting segment, and would have no significant impact on any other of our segments.

The weighted average cost of capital, or WACC, used to discount estimated future cash flows, remained unchanged from previous years at 9.8%. We also performed a sensitivity analysis on this metric as input variables such as the risk free rate of return, the volatility index beta, the market risk and small stock premium or the equity ratio is subject to change over the time horizon in the cash flow model. For example an increase of the weighted average cost of capital from 9.8% to 10.8% would lead to an additional impairment of $7.6 million.

During our annual goodwill analysis in 2012, 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 $207.6 million impairment of goodwill in the relation to the Latin America segment.

Note 14 — Other 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 amortisation period,	3.7 years	6.7 years		7.7 years	3.3 years		
As of December 31, 2013							
Cost	11.8	98.8	2.5	3.3	0.1	–	116.5
Accumulated amortisation and impairments	(6.8)	(42.8)	(0.9)	(0.5)	–	–	(51.0)
Net book value	**5.0**	**56.0**	**1.6**	**2.8**	**0.1**	**–**	**65.5**
Amortisation and impairments for 2013	2.6	33.9	8.0	4.6	–	–	49.1
As of December 31, 2012							
Cost	14.0	139.5	10.8	8.8	0.1	–	173.2
Accumulated amortisation 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**
Amortisation and impairments for 2012	1.5	75.4	2.2	0.6	–	0.2	79.9

Future amortisation of intangible assets as of December 31, 2013, is as follows:

($ in millions)	2014	2015	2016	2017	2018 AND THEREAFTER	ASSETS NOT CURRENTLY BEING AMORTISED	TOTAL
Intangible assets							
Customer relationships	8.7	8.7	8.7	8.7	21.2	–	56.0
Technology	1.7	1.1	0.9	0.8	0.5	–	5.0
Trade names	–	–	–	–	–	1.6	1.6
Patents	0.4	0.4	0.4	0.4	1.2	–	2.8
Noncompete	–	0.1	–	–	–	–	0.1
Total intangible amortisations	**10.8**	**10.3**	**10.0**	**9.9**	**22.9**	**1.6**	**65.5**

In 2013 we ceased using the trade name Gray Wireline and we impaired the $8 million value of the Gray Wireline trade name to zero. We are not currently amortising the trade name X-IT Energy as we intend to continue to trade under this brand for the foreseeable future. We review all our intangible assets at least annually to ensure the carrying value remains justifiable.

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During our annual review of our long lived assets in the fourth quarter of 2013, we impaired $10.5 million and $7.6 million of customer relationship value in our Pressure Pumping and Directional Drilling businesses respectively. These impairments were a result of our annual goodwill review which indicated that the carrying value of these businesses was in excess of their fair value, and as there was no remaining goodwill in these business units we impaired the customer relation values, being associated intangible assets. We also impaired the total carrying value of customer relationships in our Underbalanced business, of $2.7 million, prior to the disposal of the assets of that business unit to reflect the valuation of the business based on the agreed sales price. The impairment of the Underbalanced customer relations is reported in the results of discontinued operations.

The annual review also resulted in the impairment of $3.6 million of patents held by the directional business as we are no longer using the patented technology, and $1.1 million of technology held by our 50% owned subsidiary Wellbore Solution AS, as we do not anticipate being able to market the technology in the foreseeable future.

Due to certain trigger events identified in the three months ended September 30, 2012, we performed impairment assessments on our long-lived amortisable 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.

Note 15 — Other Non-current Assets

Our other non-current assets are comprised of the following:

($ in millions)	DECEMBER 31	
	2013	2012
Deferred financing fees	4.1	12.1
Other	5.3	6.3
Total other non-current assets	**9.4**	**18.4**

Note 16 — Interest-bearing Debt

($ in millions)	DECEMBER 31	
	2011	2012
Interest-bearing debt:		
Multicurrency term and revolving facility	669.2	1,047.1
Related party subordinated loan	–	55.0
Hermes covered term loan	41.6	34.9
Allis-Chalmers 2014 senior note	–	–
Allis-Chalmers 2017 senior note	–	–
Other loans and capital lease liability	54.0	82.3
Total loans and capital lease liability	**764.8**	**1,219.3**
Less: current portion	(150.9)	(329.5)
Long-term portion of interest bearing debt	**613.9**	**889.8**

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. 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 instalment due in November 2013, pre-pay $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. The amendment resulted in an increase in interest margin of 20 basis points. The interest rate of the facilities is LIBOR, NIBOR or EURIBOR plus the respective margin.

On March 7, 2013, we entered into a third amendment and restatement agreement at which time $876.9 million was committed by the lenders. Under the terms of the agreement 75% of the net proceeds from the sale of certain assets need to be applied towards the facility. Therefore, we repaid $164.2 million as a result of the sale of our Rental and Tubular businesses and an additional $14.4 million as a result of the sale of assets used in Underbalanced business. Following this prepayment, the total amount available on our main credit facility has been reduced from $876.9 million to $698.2 million.

The agreement was amended by Addendum No. 1 thereto dated July 31, 2013, to address the covenant requirements after the divesture. The amended and restated multicurrency term and revolving facility, is divided into two tranches. The total amount available under tranche A (the revolving credit facility) is $398.4 million and the total amount available under tranche B (the term loan facility) is $299.8 million. An instalment of $100.0 million is due in November 2014. The final maturity date of the facility is November 11, 2015. The interest payable on the tranches is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 3.00% and 3.95% per annum, depending on the ratio of the net interest bearing debt to EBITDA, in addition to mandatory costs, if any.

As of December 31, 2013, a total of $669.2 million has been drawn under the multicurrency term and revolving facility, of which $369.4 million has been drawn under tranche A and $299.8 million has been drawn under tranche B.

Collateral for the two tranches is provided by shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries. In addition, Seadrill Limited, a related party, has granted on-demand guarantees of $200.0 million in favour of the lenders under the multicurrency term and revolving facilities and the lenders of the overdraft facilities, in respect of our obligations under tranche A, tranche B and the overdraft facilities. Our entities that fall under the laws of the United States of America and that are parties to the multicurrency term and revolving facility have executed general security agreements in respect of their assets as further security. The multicurrency term and revolving facility contains certain financial covenants, including, among others:

- Our leverage ratio covenant has been increased in Addendum No. 1 referred to above. Our total consolidated net interest bearing debt shall not exceed 5.75x of the last twelve months EBITDA as of December 31, 2013. This leverage ratio has subsequent quarterly reductions of 0.25x until it reaches 4.0x prior to maturity.
- 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).
- We shall ensure that the capital expenditures, on a consolidated basis, measured at the end of each financial year after 2012 shall not exceed $150 million, plus any capital expenditure made under specific, separate and carved out financial arrangements.

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

As of December 31, 2013, we are in compliance with all covenants under our debt facilities.

Related party subordinated loan

On March 27, 2013, Seadrill Limited, a related party, provided Archer Topaz Limited, a wholly owned subsidiary of Archer, with a $10.0 million subordinated term loan facility. The loan provided for interest at LIBOR + 5% and was repayable by April 2, 2013. In March 2013, the full $10.0 million was drawn and used to partly finance the first instalment on our second modular rig, Archer Topaz. This subordinated term loan was repaid in April 2013.
On November 12, 2012, Seadrill Limited 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. During 2013 this facility was settled in full.

Hermes-covered term loan

On December 6, 2013, Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the modular rig, Archer Topaz. The facility is repayable in 10 semi-annual instalments. The interest rate is 1.45% above EURIBOR. At December 31, 2013, the equivalent of $13.1 million was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favour of the lender securing our obligations under this facility.

On January 18, 2012, Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer 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, 2013, the equivalent of $28.5 million (2012: $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 amortised 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, 2013, net borrowings under these facilities were $22.6 million in aggregate (2012: $55.8 million). In addition we have borrowed $16.0 million under cash overdraft facilities in Argentina (2012: $9.9 million). We had a $25.0 million import facility in Argentina, which had an outstanding balance at December 31, 2012, of $2.9 million. We had a $4.0 million term loan facility in Argentina, which had an outstanding balance at December 31, 2012, of $1.7 million. These loans were repaid during 2013.

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We also entered into capital leases covering both real property and equipment during 2013, and at December 31, 2013, the net balance due under these arrangements was $15.4 million. In addition, we also have several equipment-financing obligations that in aggregate had a balance due of $0.1 million at December 31, 2013 (2012: $0.2 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 $5.3 million at December 31, 2013 (2012: $5.6 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 this lease was approximately $10.1 million at December 31, 2013 (2012: $6.2 million).

Our outstanding interest bearing debt as of December 31, 2013, is repayable as follows:

($ in millions)	CAPITAL LEASE	OTHER DEBT	TOTAL
Year ending December 31			
2014	2.9	148.0	150.9
2015	2.8	579.6	582.4
2016	2.6	10.4	13.0
2017	2.3	6.3	8.6
2018	0.9	2.3	3.2
Thereafter	3.9	2.8	6.7
Total debt	**15.4**	**749.4**	**764.8**

Note 17 — Other Current Liabilities
Our other current liabilities are comprised of the following:

($ in millions)	DECEMBER 31	
	2013	2012
Accounts payable	110.7	142.9
Accrued expenses and prepaid revenues	145.2	149.5
Taxes payable	17.1	21.2
Employee withheld taxes, social security and vacation payment	40.3	39.0
Other current liabilities	11.7	10.7
Total other current liabilities	**325.0**	**363.3**

Note 18 — Other Non-current Liabilities
Our other non-current liabilities are comprised of the followings:

($ in millions)	DECEMBER 31	
	2013	2012
Accrued pension and early retirement obligation	50.2	37.1
Other non-current liabilities	8.7	3.1
Total other non-current liabilities	**58.9**	**40.2**

Note 19 — Commitments and Contingencies

Purchase commitments

As of December 31, 2013, we have committed to purchase obligations including capital expenditures amounting to $127.7 million, of which $127.4 million is payable in 2014 and $0.1 million is payable in 2015 to 2017 ($121.6 million of the commitment relates to a contract for six new build land drilling rigs in Argentina which are due for delivery in the second half of 2014). We also have remaining commitments totalling $60.2 million in respect to our second new build modular rig the Archer Topaz, which is scheduled for delivery during the first half of 2014.

Guarantees

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

($ in millions)	DECEMBER 31	
	2013	2012
Guarantees to customers of the Company's own performance	55.2	69.2
Guarantee in favour of banks	14.2	10.5
Other guarantees	1.7	–
	71.1	**79.7**

Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of December 31, 2013, 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.

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 non-payment 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. On April 5, 2013, the Court entered an Order granting preliminary approval of the settlement agreement entered into between the parties. The class settlement was given final approval by the Court in November 2013 and the settlement was funded by December 31, 2013.

Three class actions have been filed against a number of our subsidiaries all alleging violations of the FLSA relating to non-payment of overtime pay. These cases are in the early stages of discovery and, although litigation is inherently uncertain, management believes these cases are 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 defendants 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 20 – Share Capital

($ in millions)	DECEMBER 31			
	2013		2012	
	All shares are common shares of $1.00 par value each		All shares are common shares of $2.00 par value each	
	SHARES	**$ MILLION**	**SHARES**	**$ MILLION**
Authorised share capital	1,200,000,000	1,200.0	600,000,000	1,200.0
Issued, outstanding and fully paid share capital	579,159,787	579.2	366,659,120	733.3

Archer shares are traded on the Oslo Børs 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.

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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.

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 authorised 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.

Note 21 — 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, 2013, Archer has two active option programs, in addition to two programs which were acquired and have been continued following the merger with Allis-Chalmers.

Accounting for share-based compensation

The fair value of the share options granted is recognised as personnel expenses. During 2013, $1.1 million has been expensed in our Statement of Operations ($4.1 million in 2012). If the option will be exercised, social security related to the exercise will be expensed at the exercise date.

The following summarises share option transactions related to the Archer programs in 2013 and 2012:

($ in millions)	2013		2012	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK
Outstanding at beginning of year	10,033,905	18.18	12,812,572	19.75
Granted	5,680,000	4.33	2,430,000	14.88
Exercised	–	–	(249,998)	10.00
Forfeited/expired	(3,156,299)	16.40	(4,958,669)	21.00
Outstanding at end of year	**12,557,606**	**12.36**	**10,033,905**	**18.18**
Exercisable at end of year	4,892,606	19.04	5,372,905	17.86

No income was received in 2013 as a result of share options being exercised ($435,000 in 2012).

Options issued under the Allis-Chalmers 2003 Program may be exercised up to March 5, 2019. The exercise price is between NOK 6.03 and NOK 72.26. At December 31, 2013, all 784,769 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program may be exercised up to April 21, 2020. The exercise price is between NOK 18.48 and NOK 19.22. At December 31, 2013, all 1,152,837 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

Options issued under the 2009 & 2010 Programs may be exercised up to December 31, 2015. The exercise price is between NOK 10.00 and NOK 22.00 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2013, all 1,135,000 options outstanding under the 2009 & 2010 Program were exercisable.

Options issued under the 2011, 2012 & 2013 Programs may be exercised up to December 31, 2018. The exercise price is between NOK 3.79 and NOK 20.00 per share, and may be exercised one fifth each year beginning twelve months after they were granted. At December 31, 2013, a total of 9,485,000 options were outstanding under the 2011, 2012 & 2013 Programs and 1,820,000 of these were exercisable. On January 7, 2012, a total of 5.6 million of the options granted in 2011, with an exercise price between NOK 21.91 and 40.30, which were re-priced to NOK 20.00.

The weighted average grant-date fair value of options granted during 2013 is NOK 1.90 per share (2012: NOK 8.56 per share).

As of December 31, 2013, total unrecognised compensation costs related to all unvested share-based awards totalled $17.8 million, which is expected to be recognised as expenses in 2014, 2015, 2016 and 2017 by, $9.5 million, $5.7 million, $1.8 million and $0.8 million, respectively.

The weighted average remaining contractual life of outstanding options is 45 months (2012: 42 months), and their weighted average fair value was NOK 4.70 per option (2012: NOK 0.37 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 behaviour 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% (2012: 1.7%);
- volatility 50% (2012: 50.0%);
- dividend yield 0% (2012: 0%);
- option holder retirement rate 10% (2012: 10%); and
- expected term 3.5 years (2012: 2.7 years).

Note 22 — Pension Benefits

Defined benefits plan
We have a defined benefit pension plan covering all Norwegian offshore employees as of December 31, 2013. This plan is administered by a life insurance company. Offshore employees in Norway have retirement and long-term disability pension of approximately 60 percent of salary at retirement age of 67, with a pre-retirement pension arrangement from age of 62.

The defined benefit plan for onshore employees in Norway was terminated in July 2013 and all employees in that plan were transferred to a defined contribution plan. Employees will be compensated for calculated estimated future loss that employees could have related to the transfer from the defined benefit plan, to the defined contribution plan. As part of the conversion, each employee was given a paid-up certificate and remaining assets in the plan was transferred to the new defined contribution plan.

Annual pension cost

($ in millions)	2013	2012
Benefits earned during the year	9.2	12.6
Interest cost on prior years' benefit obligation	4.4	4.8
Gross pension cost for the year	**13.6**	**17.4**
Expected return on plan assets	(3.0)	(3.4)
Administration charges	0.5	0.4
Net pension cost for the year	**11.1**	**14.4**
Social security cost	1.6	2.0
Amortisation of actuarial gains/losses	0.3	1.1
Amortisation of prior service cost	–	–
Gains on curtailment	(3.8)	(4.3)
Total net pension cost	**9.2**	**13.2**

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The funded status of the defined benefit plan

($ in millions)	DECEMBER 31	
	2013	2012
Projected benefit obligations	118.6	111.0
Plan assets at market value	(73.3)	(78.5)
Accrued pension liability exclusive social security	**45.3**	**32.5**
Social security related to pension obligations	6.4	4.6
Accrued pension liabilities	**51.7**	**37.1**

Change in benefit obligations

($ in millions)	2013	2012
Benefit obligations at beginning of year	111.0	125.6
Interest cost	4.4	4.8
Current service cost	9.3	12.6
Curtailments	(11.9)	(20.2)
Benefits paid	(1.1)	(1.3)
Change in unrecognised actuarial gain	12.1	(18.5)
Translation adjustments	(5.2)	8.0
Benefit obligations at end of year	**118.6**	**111.0**

Change in pension plan assets

($ in millions)	2013	2012
Fair value of plan assets at beginning of year	78.5	75.1
Estimated return	3.0	3.4
Contribution by employer	12.8	14.5
Administration charges	(0.6)	(0.4)
Curtailments	(9.0)	(11.4)
Benefits paid	(0.6)	(0.5)
Change in unrecognised actuarial gain	(7.2)	(7.7)
Translation adjustments	(3.6)	5.5
Fair value of plan assets at end of year	**73.3**	**78.5**

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 utilising the asset allocation classes held by the plan's portfolios. In determining the discount rate, we utilised 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

	2013	2012
Rate of compensation increase at the end of year	3.75%	3.50%
Discount rate at the end of year	4.00%	4.40%
Prescribed pension index factor	1.60%	1.40%
Expected long term rate of return on plan assets	4.40%	4.00%
Turnover	4.00%	4.00%
Expected increases in Social Security Base	3.50%.	3.25%

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

	DECEMBER 31	
	2013	**2012**
Equity securities	6.3%	9.2%
Debt securities	48.7%	50.3%
Real estate	14.8%	17.8%
Money market	26.2%	22.3%
Other	4.0%	0.4%
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 maximise 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 2013 (2012: 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 2014–2023. The expected payments are based on the assumptions used to measure our obligations at December 31, 2013, and include estimated future employee services.

($ in millions)	
2014	10.7
2015	14.5
2016	15.9
2017	17.2
2018	18.5
2019-2023	108.0
Total payments expected during the next 10 years	**184.8**

Defined Contributions Plans

We contribute to a private defined contribution pension plan for our UK onshore workforce in addition to our employees working offshore on the UK continental shelf. 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 2013 we contributed $2.6 million (2012: $1.8 million) to the plan.

We also contribute to the 401(k) Profit Sharing Plan adopted for the US employees. The plan is a defined contribution savings plans designed to provide retirement income to eligible employees. It is funded by voluntary pre-tax contributions from employees up to statutory limits based on percentage of salary. We fund the plans with matching contributions. In 2013 we contributed $3.4 million to 401(k) plans for our employees (2012: $2.9 million).

Note 23 — Related Party Transactions

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

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

During the year ended December 31, 2013, we supplied Seadrill Limited and affiliates with services amounting to $3.4 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2013, Seadrill owed us $0.1 million related to these services.

In March 2013, Seadrill provided Archer with a $10.0 million subordinated term-loan facility which was repaid in April 2013. In November 2012, Seadrill provided Archer with a $55.0 million subordinated term-loan facility to assist in the funding of a required $100 million principal payment on multi-currency term and revolving facility. This facility was repaid in February 2013 along with interest of $0.8 million. In June 2012, Seadrill provided us with a $20.0 million subordinated 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 2012 along with $.01 million of interest. The loan was due June 30, 2018, and had interest at LIBOR plus 5.5%.

Seadrill has provided a guarantee of $200.0 million to the lenders of our multicurrency term and revolving facility (see Note 16). Seadrill is charging us an annual guarantee fee of 1.25% of the guaranteed amount and as of December 31, 2013, we had not yet paid the fees as they are due at the end of the guarantee period. The guarantee fees are being amortised and are included in our interest expense.

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The following related parties, being companies in which Archer's principal shareholders, Seadrill and/or Hemen Holding Ltd. have a significant interest:

- Frontline Management (Bermuda) Limited, or Frontline
- North Atlantic Drilling Ltd., or NADL

Frontline provides management support and administrative services to us, and we have recorded fees of $0.8 million for these services in the year ended December 31, 2013. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations. At December 31, 2013, we owe Frontline $0.1 million related to these services.

During the year ended December 31, 2013, we supplied NADL with services amounting to $3.3 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2013, NADL owed us $0.4 million related to these services.

Amounts due from related parties are included in accounts receivable in the consolidated balance sheet.

Note 24 — Reporting and Geographical Segment Information

Following the significant expansion of the business in 2011, the management structure of the group was reorganised 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 reorganisation took effect January 1, 2012.

The split of our organisation 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.

The following segmental information reflects the four reporting segments as they existed as of December 31, 2013.

($ in millions)	FOR THE YEARS ENDED DECEMBER 31	
	2013	**2012**
Revenues from external customers		
North America	507.3	556.3
Latin America	561.6	527.3
North Sea	638.9	648.6
Emerging Markets & Technologies	333.5	322.5
Total	**2,041.3**	**2,054.7**
Depreciation and amortisation		
North America	77.9	78.4
Latin America	33.8	34.8
North Sea	14.7	10.3
Emerging Markets & Technologies	35.0	32.2
Total	**161.4**	**155.7**
Operating income / (loss) — net loss		
North America	(374.0)	(274.6)
Latin America	5.6	(53.6)
North Sea	27.8	21.7
Emerging Markets & Technologies	(96.2)	24.8
Stock compensation costs	(1.1)	(4.0)
Operating loss	**(437.9)**	**(285.7)**
Total financial items	(73.7)	(35.7)
Income taxes	2.6	(5.5)
Discontinued operations, net of tax	(9.6)	(48.9)
Net loss	**(518.6)**	**(375.8)**

Capital expenditures – fixed assets

North America	24.9	130.4
Latin America	28.6	43.8
North Sea	42.4	48.2
Emerging Markets & Technologies	29.2	31.7
Total	**125.1**	**254.1**

($ in millions)		**AS OF DECEMBER 31**
	2013	**2012**
Total assets		
North America	451.6	1,114.9
Latin America	457.9	478.9
North Sea	498.7	479.6
Emerging Markets & Technologies	386.7	513.9
Total	**1,794.9**	**2,587.3**

Goodwill

($ in millions)	NAM	LAM	NRS	EMT	TOTAL
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**
Acquisitions	–	–	–	–	–
Disposals	(13.3)	–	–	–	(13.3)
Impairment	(305.7)	–	–	(72.9)	(378.6)
Exchange rate fluctuations on goodwill measured in foreign currency	–	–	(8.6)	(11.5)	(20.1)
Balance at December 31, 2013	**5.5**	**–**	**132.8**	**155.8**	**294.1**

Geographic information by country

($ in millions)		**FOR THE YEARS ENDED DECEMBER 31**
	2013	**2012**
Revenue		
Norway	491.8	550.4
United States	707.5	717.7
Argentina	486.6	427.4
United Kingdom	201.2	146.5
Other	154.2	212.7
Total	**2,041.3**	**2,054.7**

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($ in millions)	AS OF DECEMBER 31	
	2013	2012
Property plant and equipment		
United States	335.0	594.0
Argentina	242.1	204.4
New Zealand	78.5	78.6
Norway	68.9	76.1
Brazil	33.9	47.9
Other	41.6	58.4
Total	**800.0**	**1,059.4**

Note 25 — Risk Management and Financial Instruments
Our reporting currency is US 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 favourable 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 utilise 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, 2013, we have interest swap agreements which fix our variable interest payable covering NOK 300 million of our NOK interest bearing loan and $300 million of our USD interest bearing loan, effectively fixing the interest rate on approximately 46% of the debt. At December 31, 2012, we had no outstanding interest rate swap agreements. We have not elected to hedge account for our current interest rate swaps, accordingly any changes in the fair values of the swap agreements are reported within our income statement. The total fair value loss relating to interest rate swaps in 2013 amounted to $0.4 million.

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 recognised in "Other financial items" on our Consolidated Statement of Operations in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction loss relating to foreign exchange movements recognised in the Consolidated Statement of Operations in 2013 amounted to $20.5 million (2012: gain of $13.7 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 non-performance 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			
	2013		2012	
Assets/(Liabilities)	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Non-derivatives				
Cash and cash equivalents	49.5	49.5	58.2	58.2
Restricted cash	16.5	16.5	11.9	11.9
Current portion of interest bearing debt	(150.9)	(150.9)	(329.5)	(329.5)
Long-term interest bearing debt	(613.9)	(613.9)	(889.8)	(889.8)
Interest rate swap agreement	(0.4)	(0.4)	–	–

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, 2013	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	49.5	49.5	–	–
Restricted cash	16.5	16.5	–	–
Interest rate swap agreements	(0.4)	–	(0.4)	–
Liabilities:				
Multicurrency term revolving facility, excluding current portion	569.2	–	569.2	–
Other loans and capital leases, excluding current portion	44.7	–	44.7	–

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, 2013 and 2012. 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 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 summarises revenues from our major customers as a percentage of total revenues (revenues in excess of 10 percent for the period):

CUSTOMER	2013	2012
Pan American Energy	14%	12%
StatoilHydro	10%	15%
Customer <10%	76%	73%
Total	**100%**	**100%**

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Note 26 — Lease Obligations

In addition to capital leases (See Note 16), 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 $17.4 million in 2013 (2012: $17.9 million).

Estimated future minimum rental payments are as follows:

($ in millions)	OPERATING LEASES	CAPITAL LEASES	TOTAL
YEAR			
2014	22.8	3.7	26.5
2015	20.7	3.4	24.1
2016	17.2	3.1	20.3
2017	10.2	2.6	12.8
2018	7.1	1.1	8.2
Thereafter	35.0	5.3	40.3
Total	**113.0**	**19.2**	**132.2**

Note 27 — Restructuring costs

In December 2013 we implemented a restructuring plan in order to accelerate the margin improvements and to adapt to a highly competitive North American land market. The plan included staff reductions mainly in management and support functions, rationalisation of offices and operational bases, closure of businesses or locations with negative margins and a reduction in other costs. Restructuring costs of $5.6 million were provided for in the fourth quarter of 2013, the expense being recognised in operating expenses. In addition to these costs we expect a further $1.0 million in severance payments in the first quarter of 2014, and $1.5 million costs in respect of office closures, which will be recognised in operating expenses when the leases are terminated and the buildings vacated. We anticipate that almost all of the restructuring costs will be paid in the first quarter of 2014.

The total anticipated cost of the restructure is detailed below:

($ in millions)								
Business	Costs recognised in 2013				Costs to complete			
Segment	Severance payments	Office Closure	Other	TOTAL	Severance payments	Office Closure	Other	TOTAL EXPECTED RESTRUCTURING COSTS
NAM	1.0	–	–	**1.0**	1.0	1.4	–	**3.4**
LAM	0.8	–	1.9	**2.7**		–	–	**2.7**
NRS	0.8	–	–	**0.8**	–	–	–	**0.8**
EMT	0.6	0.2	0.2	**1.0**	–	–	–	**1.0**
Corporate	0.1	–	–	**0.1**	0.1	0.1	–	**0.3**
Total	3.3	0.2	2.1	**5.6**	1.1	1.5	–	**8.2**

The following table shows the movement in the recognised liability for the restructuring costs.

($ in millions)	LIABILITY PROVIDED	PAID IN 2013	ADDITIONAL COSTS ACCRUED IN 2013	EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	LIABILITY AS AT DECEMBER 31, 2013
Severance	3.3	(0.5)	–	–	2.8
Office closure	0.2	–	–	–	0.2
Other	2.1	–	–	–	2.1
Total	5.6	(0.5)	–	–	5.1

Some foreign exchange effect arises because the provisions for the restructuring costs in the North Sea segment are denominated in NOK. In addition, some of the costs accrued in the LAM segment are in Argentinian pesos and some of the costs accrued in the EMT segment are denominated in SGD, AUD and GBP.

Note 28 — Subsequent Events
Subsequent events have been incorporated to related notes where appropriate. Other subsequent events are disclosed in this note.

On February 4, 2014, we announced that the Argentinean branch of our wholly-owned subsidiary DLS Argentina Limited has signed an agreement with YPF S.A. for the provision of five new built drilling rigs to support YPF's development of unconventional shale resources in the Neuquén area in Argentina. The agreed contract period is for an initial period of five years, valued at a total of approximately $400 million, plus three optional years. We are currently in advanced discussions with various lenders, to establish an efficient financing structure based on this project. Seadrill Limited, the major shareholder of Archer Limited, confirmed that it will support Archer in obtaining suitable financing up to and including a financial guarantee.

On February 10, 2014, the Board granted restricted stock units (RSUs) to members of Archer's management team. The RSUs will vest one quarter on March 1 for each of the next four years. The total number of RSUs issued at the date of this report is 6,370,000, which is also the total number of RSUs outstanding.

On March 4, 2014, the Board granted share options to members of our executive management and senior managers. The share options are each granted at a subscription price of NOK 7.18 per share following the close of Oslo Stock Exchange on March 3, 2014. The options will vest one third on March 1 for each of the next three years. The options have a term life from the grant date until March 1, 2020. The total number of options outstanding in Archer Limited at the date of this report is 22,631,606.

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
Archer Limited is a limited liability company registered in Bermuda and listed on the Oslo Stock Exchange (Oslo Børs). The foundation for Archer's governance structure are Bermuda law as well as regulations for foreign companies listed on the Olso Stock Exchange. In line with the directions given by the Board of Directors, Archer conducts its business on the basis of three fundamental values:

- Safety: The Company is committed individually and as a team, to protect the health and safety of its employees, customers and communities.
- Integrity: Archer is committed to maintaining an environment of trust, built upon honesty, ethical behaviour, respect and candour.
- Performance: We are committed to efficiently and effectively perform to all Archer standards and those of our customers.

Archer's Board of Directors reviews the actual performance for all the values mentioned above and, where applicable, compares the key performance indicators against the plan on a quarterly basis. With regard to integrity, Archer has implemented a Code of Conduct and a Compliance and Business Ethics Manual in 2012, which is available on its website. It is Archer's policy that an employee who becomes aware of a possible violation of the Company's policies regarding legal or ethical business conduct must report the violation. This includes possible violations of policies set forth in this Manual, or other policies, manuals, or guides distributed by the Company. On a quarterly basis, the Audit Committee reviews reported potential violations of the Company's Code of Conduct and discusses required actions, if any.

The Board has reviewed the overall performance of the Company, compared to its values and its corporate governance for the financial year 2013, in line with the Norwegian Code of Practice for Corporate Governance and confirms it is in compliance with the Code.

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 authorised to repurchase treasury shares, and to issue any unissued shares within the limits of the authorised 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 authorised 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 authorisations to increase the share capital. The Board will propose to the shareholders that they consider and, if necessary, resolve to increase the authorised 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 authorisation to 10% of the issued share capital. Any increase of the authorised 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 pre-emptive 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. 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.

Other than related party transactions disclosed in Note 23, the Company did not enter into any transactions with its shareholders or closely associated entities.

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 are 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 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 five-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. Two of our five directors, Cecilie Fredriksen and Giovanni Dell' Orto, are independent of our two largest shareholders, Lime Rock Partners and Seadrill. Two of our directors, Tor Olav Trøim and Kate Blankenship, may be deemed affiliated, under the Code, with our largest shareholder, Seadrill. Our chairman John Reynolds is affiliated with our second largest shareholder, Lime Rock Partners. We accordingly deviate from the Code Section 8.

Section 9
The Board sets an annual plan for its work in December for the following year which includes a review of strategy, objectives and their implementation, 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.

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 our chairman John Reynolds and director Kate Blankenship, 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.

Section 10
Archer's Board of Directors ensures that the Company follows guidelines to minimise the overall risk to the company and its shareholders and implements and complies with an adequate internal control framework. Archer's 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.

We have implemented clear 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. We have also implemented a process to assess the Company's projected financing needs and compliance with covenants under its financing arrangements. The result is being presented and discussed with the Board of Directors on a regular basis so adequate corrective measures can be taken, if and when necessary.

Integrity is part of our core values and high ethical standards are paramount to achieve our business objectives. Our Code of Conduct describes Archer's commitment related to ethics for both personal and business matters. Archer will comply with applicable laws and regulations and act in an ethical and socially responsible manner. Our Code of Conduct applies to everyone working for Archer, including the members of the Board of Directors. The Code of Conduct is available at www.archerwell.com. Archer has implemented a dedicated ethics helpline that can be used by employees who wish to express concerns or seek advice regarding the legal and ethical conduct of our business.

We comply with the code related to this section.

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 US 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.

Appendix A
Corporate governance

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 US 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 recommendations related to takeovers, which requires that all shareholders are given sufficient information and time to form an independent view of a potential takeover offer.

Section 15
The Board's Audit Committee is responsible for ensuring that the group is subject to an independent and effective audit. Our independent registered public accounting firm (independent auditor) is independent in relation to Archer and is appointed by the general meeting of shareholders. The general meeting authorises the Directors to determine the remuneration of the independent auditor. The Board of Directors approves a range for the independent auditors fees, allowing the Company's Management to determine the exact amount within this range.

The Audit Committee is approved by the Board of Directors, and the Audit Committee is responsible for ensuring that the Company is subject to an independent and effective external and internal audit. On an annual basis the independent auditor presents a plan for the Audit Committee for the execution of the independent auditor's work.

The independent auditor participates in all meetings of the Audit Committee and participates in reviewing the Company's internal control procedures, including identified weaknesses and proposals for improvement.

When evaluating the independent auditor, emphasis is placed on the firm's competence, capacity, local and international availability, and the size of its fee. The Audit Committee evaluates and makes a recommendation to the Board of Directors, the corporate assembly and the general meeting of shareholders regarding the choice of independent auditor, and it is responsible for ensuring that the independent auditor meets the requirements in Norway.

The Audit Committee considers all reports from the independent auditor before they are considered by the Board of Directors. The Audit Committee holds regular meetings with the independent auditor without the Company's management being present.

We comply with the Code related to this section.

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 authorisations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised 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 our chairman John Reynolds and director Kate Blankenship. 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 our chairman John Reynolds and director Tor Olav Trøim. 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 direct management to conduct our business with no accidents, injuries or losses in an environmentally 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 the Corporate Secretary, Archer Limited, Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda. 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 party 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 or 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 Brasil Servicos de Petroleo Ltda.	100%	Drilling service operations
Archer Drilling LLC	100%	Platform drilling and engineering
Archer Emerald (Bermuda) Ltd.	100%	Owns and operates modular rig
Archer Leasing and Procurement LLC	100%	Acquires equipment for lease
Archer Management Limited (UK)	100%	Provides management services
Archer Norge AS	100%	Drilling and well service operations and management services
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 Services Limited	100%	Provides crew services
Archer Survey and Inspection LLC	100%	Performs rig inspections
Archer Topaz Limited	100%	Acquiring a modular rig
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 and management company
Archer Well Services Nigeria Limited	100%	Dormant
Archer Wireline LLC (previously Gray Wireline Service, Inc.)	100%	Provides wireline services
AWC Frac Valves Inc.	100%	Sells and services frac valves
BCH Energy do Brasil 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
Great White Pressure Control LLC	100%	Provides pressure control services
PT Archer	100%	Well service operations
Tanus Argentina S.A.	100%	Provides drilling mud services

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Independent Auditor's Report

To the Board of Directors and Shareholders of Archer Limited:

We have audited the accompanying financial statements of Archer Limited (parent company alone), which comprise the balance sheets as of December 31, 2013 and December 31, 2012, and the related statements of operations, comprehensive loss, shareholders' equity and cash flows for the year then ended.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America which were prepared solely to comply with the reporting requirements of Section 5.5 of the Norwegian Securities Trading Act. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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.

Opinion
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, 2013 and December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
The Company prepares consolidated financial statements, which are its primary financial statements. The financial statements of Archer Limited (parent company alone), with investments in subsidiaries stated at equity, have been prepared solely to comply with the reporting requirements of Section 5.5 of the Norwegian Securities Trading Act.

PricewaterhouseCoopers LLP
London
United Kingdom
April 29, 2014

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Appendix C
Supplemental parent company only information

Archer Limited Statement of Operations

($ in millions, except share and per share data)	YEAR ENDED DECEMBER 31	
	2013	2012
Revenues		
Operating revenues	2.1	2.4
Total revenues	**2.1**	**2.4**
Expenses		
General and administrative expenses	1.4	0.8
Total expenses	**1.4**	**0.8**
Operating income	**0.7**	**1.6**
Financial items		
Interest income	0.1	0.6
Interest expenses	(15.7)	(15.2)
Interest/dividends from subsidiaries	37.8	52.5
Share of loss from subsidiaries	(520.8)	(434.5)
Other financial items	(20.7)	19.2
Total financial items	**(519.3)**	**(377.4)**
Loss before income taxes	**(518.6)**	**(375.8)**
Income taxes	–	–
Net loss	**(518.6)**	**(375.8)**
Basic loss per share ($)	**(0.94)**	**(1.03)**
Diluted loss per share ($)	**(0.94)**	**(1.03)**
Weighted average number of shares outstanding (in thousands)		
Basic	549,468	366,572
Diluted	549,468	366,572

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

Archer Limited Statements of Comprehensive Loss

	YEAR ENDED DECEMBER 31	
	2013	2012
Net loss	**(518.6)**	**(375.8)**
Other comprehensive (loss)/income		
Change in unrealised (loss)/gain relating to subsidiary pension plans	(15.5)	14.4
Change in unrealised foreign exchange differences	(6.5)	(5.0)
Interest swap gain	-	1.2
Other comprehensive (loss)/income	**(22.0)**	**10.6**
Total comprehensive loss	**(540.6)**	**(365.2)**

Accumulated Other Comprehensive (loss) / income

	SUBSIDIARY PENSION PLANS- UNRECOGNISED (LOSS) / GAIN	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	OTHER COMPREHENSIVE (LOSS) / INCOME	TOTAL
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**
Net changes in gains and losses and prior service costs	(15.5)	–	–	(15.5)
Foreign exchange differences	–	(6.5)	–	(6.5)
Balance at December 31, 2013	**(22.7)**	**2.7**	**–**	**(20.0)**

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)	DECEMBER 31	
	2013	2012 (REVISED)
ASSETS		
Current assets		
Cash and cash equivalents	0.5	22.3
Amounts due from subsidiaries	21.3	–
Other current assets	2.1	–
Total current assets	**23.9**	**22.3**
Non-current assets		
Capitalised debt fees	3.8	7.4
Amounts due from subsidiaries, long term	740.7	598.5
Investments in subsidiaries	32.6	575.2
Total non-current assets	**777.1**	**1,181.1**
Total assets	**801.0**	**1,203.4**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Amounts due to subsidiaries	–	12.3
Related party subordinated loan	–	55.0
Other current liabilities	1.0	1.2
Total current liabilities	**1.0**	**68.5**
Non-current liabilities		
Long-term interest bearing debt	164.4	208.7
Other long-term liabilities	1.0	–
Total non-current liabilities	**165.4**	**208.7**
Shareholders' equity		
Common shares of par value $1.00 per share: 1,200,000,000 shares authorised: 579,159,787 outstanding shares at December 31, 2013 (December, 31 2012: par value $2.00 per share: 600,000,000 shares authorised: 366,659,120 shares outstanding)	579.2	733.3
Additional paid in capital	816.1	779.6
Accumulated deficit	(902.2)	(383.6)
Accumulated other comprehensive (loss)/income	(20.0)	2.0
Contributed surplus / (deficit)	161.5	(205.1)
Total shareholders' equity	**634.6**	**926.2**
Total liabilities and shareholders' equity	**801.0**	**1,203.4**

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

Archer Limited Statements of Cash Flows

($ in millions)	YEAR ENDED DECEMBER 31	
	2013	**2012**
Cash Flows from Operating Activities		
Net loss	**(518.6)**	**(375.8)**
Adjustment to reconcile net loss to net cash used in operating activities:		
Share of results of subsidiaries	520.8	434.5
Share-based compensation expenses	1.1	0.6
Amortisation of loan fees	5.2	3.0
Interest income applied to loan balances	(37.8)	–
Unrealised foreign currency gains	20.7	(19.2)
Changes in operating assets and liabilities, net of acquisitions		
Increase in amounts owed by subsidiaries	(27.5)	(41.2)
Change in other operating assets and liabilities, net	35.4	(13.0)
Net cash used in operating activities	**(0.7)**	**(11.1)**
Cash Flows from Investing Activities		
Net cash invested in subsidiaries	(142.8)	(36.8)
Net cash used in investing activities	**(142.8)**	**(36.8)**
Cash Flows from Financing Activities		
Proceeds from long-term debt	20.0	48.8
Repayment of long-term debt	(50.0)	(34.9)
Proceeds from related party debt	–	75.0
Repayment of related party debt	(55.0)	(20.0)
Debt issuance costs	(1.6)	(0.8)
Proceeds from issuance of equity, net	208.3	0.5
Net cash provided by financing activities	**121.7**	**68.6**
Net (decrease) / increase in cash and cash equivalents	**(21.8)**	**20.7**
Cash and cash equivalents at beginning of the year	22.3	1.6
Cash and cash equivalents at the end of the year	**0.5**	**22.3**
Interest paid	(10.8)	(12.7)
Taxes paid	–	–

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)	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	(ACCUMULATED DEFICIT) / RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	CONTRIBUTED (DEFICIT) / SURPLUS	TOTAL SHAREHOLDERS' EQUITY
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 – unrecognised 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**
Recapitalisation	(366.6)	–	–	–	366.6	–
Private placement	212.5	35.4	–	–	–	247.9
Foreign exchange differences	–	–	–	(6.5)	–	(6.5)
Pension – unrecognised loss	–	–	–	(15.5)	–	(15.5)
Share based compensation	–	1.1	–	–	–	1.1
Net loss	–	–	(518.6)	–	–	(518.6)
Balance at December 31, 2013	**579.2**	**816.1**	**(902.2)**	**(20.0)**	**161.5**	**634.6**

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, organisation, 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 Børs 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 (US 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 has been applied consistently to all periods in these financial statements.

Reclassifications
Certain amounts in prior years' consolidated financial statements has been reclassified to conform to the current year presentation. Specifically, refer to Note 5 for explanation of revision of amounts in 2012 comparative between Amounts due from subsidiaries, long-term and Investment in subsidiaries.

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 non-current classification
Assets and liabilities are classified as current assets and current 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.

Capitalised debt fees
Loan related costs, including debt arrangement fees, incurred on the initial arrangement of loan finance and any subsequent amendments, are capitalised and amortisation over the term of the related loan using the straight-line method, which approximates the interest method. Amortisation of loan related costs are included in interest expense. Recurring loan costs, such as commitment fees, are recognised 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.

Appendix C
Supplemental parent company only information

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 recognised in periods when the change is enacted.

Earnings per share, or EPS
Basic earnings per share are 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 recognised 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 recognised 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
The Financial Accounting Standards Board (FASB) issued the following applicable Accounting Standards Updates (ASU):
In February 2013 the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" that requires additional disclosures regarding amounts reclassified out of accumulated other comprehensive income by component. This requirement is effective for fiscal years and interim periods beginning after December 15, 2012. We adopted these provisions in the first quarter of 2013 and the adoption had no material impact on our consolidated financial statements.

In March 2013 the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity" which requires that when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent should release the cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity; and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Upon the occurrence of those events, the cumulative translation adjustment should be released into net income. The amendments in this ASU are effective prospectively for fiscal years beginning after December 15, 2013 and for interim reporting periods within those years, with early adoption being permitted. We plan to adopt these provisions in the first quarter of 2014 and do not expect the adoption to have a material impact on our consolidated financial statements.

In July 2013 the FASB issued ASU No. 2013-11 "Income Taxes: Presentation of an Unrecognised Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This pronouncement provides explicit guidance on the financial statement presentation of an unrecognised tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This pronouncement is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2013. We will adopt the provisions of ASU No. 2013-11 on January 1, 2014. We do not anticipate the provisions of ASU No. 2013-11 to have a material impact on our consolidated financial statements.
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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:

($ in millions)	NET LOSS	WEIGHTED AVERAGE SHARES OUTSTANDING	(LOSS) PER SHARE (IN $)
2013			
Loss per share	(518.6)	549,467,913	(0.94)
Effect of dilutive options*	–	–	–
Diluted	(518.6)	549,467,913	(0.94)

($ in millions)	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE (IN $)
2012			
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)

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

Note 4 – Other current assets

Other current assets include:

($ in millions)	DECEMBER 31	
	2013	2012
Accrued revenue	2.1	–
Total other current assets	**2.1**	**–**

Note 5 – Investments in subsidiaries

We had the following direct participation in investments:

COMPANY NAME	PERCENT HOLDING AS OF DECEMBER 31	
	2013	2012
Archer Management AS (merged with Archer Norge AS., a subsidiary of Archer Assets UK Ltd.)	0%	100%
Archer Management Limited	100%	100%
Archer Management (Bermuda) Ltd.	100%	100%
Archer Overseas Contracting Limited	100%	100%
Archer Services Limited	100%	100%
Archer Assets UK Limited	100%	100%
Archer Well Company (Singapore) Pte. Ltd.	100%	100%
Archer Emerald (Bermuda) Limited	100%	100%
Archer Topaz Limited	100%	100%
Archer Management (US) LLC (merged with Archer Well Company Inc., a subsidiary of Archer Assets UK Ltd)	100%	100%

Rig Inspection Services Pte. Ltd. was amalgamated with Archer Well Company (Singapore) Pte. Ltd. on December 31, 2012. On December 31, 2012, we sold Allis-Chalmers Energy Inc., or Allis-Chalmers, to Archer Assets 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.

Appendix C
Supplemental parent company only information

In 2013 we reclassified a credit balance of $205.1 million which was previously included in Amounts due from subsidiaries, long-term, to Investment in subsidiaries. We have revised the classification of the 2012 comparative balances to be consistent with the current classification.

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. During 2013, this facility was settled in full.

Note 7 — Long-term, Interest Bearing Debt

	DECEMBER 31	
($ in millions)	**2013**	**2012**
Long-term debt:		
Multicurrency term and revolving facility	164.4	208.7
Total long-term debt	**164.4**	**208.7**
Less: current portion	—	—
Long-term portion of interest bearing debt	**164.4**	**208.7**

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. 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 pre-pay the $100.0 million instalment 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. The amendment resulted in an increase in interest margin of 20 basis points. The interest rate of the facilities is LIBOR, NIBOR or EURIBOR plus the respective margin.

On March 7, 2013, we entered into a third amendment and restatement agreement at which time $876.9 million was committed by the lenders. Under the terms of the agreement 75% of the net proceeds from the sale of certain assets need to be applied towards the facility. Therefore, we repaid $164.2 million as a result of the sale of our Rental and Tubular businesses and an additional $14.4 million as a result of the sale of assets used in Underbalanced business. Following this prepayment, the total amount available on our main credit facility has been reduced from $876.9 million to $698.2 million. The agreement was amended by Addendum No. 1 thereto dated July 31, 2013, to address the covenant requirements after the divestiture. The facility is shared between Archer Limited and its 100% owned subsidiary Archer Well Company Inc.

The facility is divided into two tranches – tranche A, a revolving facility, is for $398.4 million, and tranche B, a term loan, is for $299.8 million. An instalment of $100.0 million is due in November 2014. The final maturity date of the tranches is November 11, 2015.

Collateral for the two tranches is provided by shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries. In addition, Seadrill Limited, a related party, has granted on-demand guarantees of $200.0 million in favour of the lenders under the multicurrency term and revolving facilities and the lenders of the overdraft facilities, in respect of our obligations under tranche A, tranche B and the overdraft facilities. Our entities that fall under the laws of the United States of America and that are parties to the multicurrency term and revolving facility have executed general security agreements in respect of their assets as further security. The multicurrency term and revolving facility contains certain financial covenants, including, among others:

- Our leverage ratio covenant has been increased in Addendum No.1 referred to above. Our total consolidated net interest bearing debt shall not exceed 5.75x of the last twelve months EBITDA as of December 31, 2013. This leverage ratio has subsequent quarterly reductions of 0.25x until it reaches 4.0x prior to maturity.
- 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).
- We shall ensure that the capital expenditures, on a consolidated basis, measured at the end of each financial year after 2012 shall not exceed $150 million, plus any capital expenditure made under specific, separate, carried out financial agreements.

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

As of December 31, 2013, we are in compliance with all covenants under our debt facilities.

Our long-term interest-bearing debt as of December 31, 2013, is repayable as follows:

($ in millions)	YEAR ENDING DECEMBER 31
2015	164.4
Total debt	**164.4**

Note 8 – Other current liabilities

Other current liabilities comprise the following:

($ in millions)	DECEMBER 31	
	2013	2012
Accrued interest, related party	–	0.4
Accrued expenses	1.0	0.8
Total other current liabilities	**1.0**	**1.2**

Note 9 – Commitments and contingencies

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

	DECEMBER 31	
($ in millions)	2013	2012
Guarantees to customers of the Company's own performance	5.0	7.8
Guarantee in favour of banks	12.5	7.1
	17.5	**14.9**

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			
	2013		2012	
All shares are common shares of $1.00 par value each (2012: $2.00 par value each)	SHARES	$ MILLION	SHARES	$ MILLION
Authorised share capital	1,200,000,000	1,200.0	600,000,000	1,200.0
Issued, outstanding and fully paid share capital	579,159,787	579.2	366,659,120	733.3

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.

Appendix C
Supplemental parent company only information

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.

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. Our five largest shareholders who in aggregate own 68% of our issued and outstanding share capital underwrote the private placement. 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 authorised 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.

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, 2013, Archer has two active option programs, in addition to two programs, which were acquired and have been continued following the merger with Allis-Chalmers.

Accounting for share based compensation
The fair value of the share options granted is recognised as personnel expenses. During 2013, $1.1 million (2012: $0.6 million) has been expensed in our Statement of Operations. There were no effects on taxes in the financial statements.

The following summarises share option transactions related to the Archer plans in 2013 and 2012:

	2013		2012	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK
Outstanding at beginning of year	10,033,905	18.18	12,812,572	19.75
Granted	5,680,000	4.33	2,430,000	14.88
Exercised	–	–	(249,998)	10.00
Forfeited / expired	(3,156,299)	16.40	(4,958,669)	21.00
Outstanding at end of year	**12,557,606**	**12.36**	**10,033,905**	**18.18**
Exercisable at end of year	4,892,606	19.04	5,372,905	17.86

No income was received in 2013, as a result of share options being exercised ($435,000 in 2012).

Options issued under the Allis-Chalmers 2003 Programs may be exercised up to March 5, 2019. The exercise price is between NOK 6.03 and NOK 72.26. At December 31, 2013, all 784,769 outstanding options under the Allis-Chalmers 2003 Programs were exercisable.

Options issued under the Allis-Chalmers 2006 Programs may be exercised up to April 21, 2020. The exercise price is between NOK 18.48 and NOK 19.22. At December 31, 2013, all 1,152,837 options outstanding under the Allis-Chalmers 2006 Programs were exercisable.

Options issued under the 2009 & 2010 Programs may be exercised up to December 31, 2015. The exercise price is between NOK 10.00 and NOK 22.00 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2013, all 1,135,000 options outstanding under the 2009 & 2010 Programs were exercisable.

Options issued under the 2011, 2012 & 2013 Programs may be exercised up to December 31, 2018. The exercise price is between NOK 3.79 and NOK 20.00 per share, and may be exercised one fifth each year beginning twelve months after they were granted. At December 31, 2013, a total of 9,485,000 options were outstanding under the 2011, 2012 & 2013 Programs and 1,820,000 of these were exercisable. On January 7, 2012 a total of 5.6 million of the options granted in 2011, with an exercise price between NOK 21.91 and 40.30, were re-priced to NOK 20.00.

The weighted average grant-date fair value of options granted during 2013 is NOK 1.90 per share (2012: NOK 8.56 per share)

As of December 31, 2013, total unrecognised compensation costs related to all unvested share based awards totalled $17.8 million, which is expected to be recognised as expenses in 2014, 2015, 2016 and 2017 by, $9.5 million, $5.7 million, $1.8 million and $0.8 million, respectively.

The weighted average remaining contractual life of outstanding options are 45 months (2012: 42 months) and their weighted average fair value was NOK 4.70 per option (2012: NOK 0.37 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 behaviour 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% (2012: 1.7%);
- volatility 50% (2012: 50.0%);
- dividend yield 0% (2012: 0%);
- option holder retirement rate 10% (2012: 10%) and
- expected term 3.5 years (2012: 2.7 years)

Note 12 — Related Party Transactions
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 was 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 was recorded as adjustment to equity of $205.1 million, and is reported within Contributed Surplus/(Deficit).

In March 2013 Seadrill provided Archer with a $10.0 million subordinated term-loan facility, which was repaid in April of 2013. 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. 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%. At December 31, 2012, we owed Seadrill the $55.0 million of principal and $0.4 million of accrued interest, which was settled in 2013.

Seadrill has provided a guarantee of $200.0 million to the lenders of our multicurrency term and revolving facility. Seadrill is charging us an annual guarantee fee of 1.25% of the guaranteed amount and as of December 31, 2013, we had not yet paid the fees as they are due at the end of the guarantee period. The guarantee fees are being amortised and are included in our interest expense.

Note 13 — Risk Management and Financial Instruments
Our reporting currency is US 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 favourable 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.

Appendix C
Supplemental parent company only information

The extent to which we utilise 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, 2013 we have interest swap agreements which fix our variable interest payable covering NOK 300 million of our NOK interest bearing loan and $300 million of our USD interest bearing loan, effectively fixing the interest rate on approximately 46% of the debt. At December 31, 2012, we had no interest swap arrangements. We have not elected to hedge account for our current interest rate swaps, accordingly any changes in the fair values of the swap agreements are reported within our income statement. The total fair value loss relating to interest rate swaps in 2013 amounted to $0.4 million.

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 recognised in "Other financial items" in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction loss relating to foreign exchange movements recognised in our Statement of Operations in 2013 amounted to $20.5 million (2012: gain $19.2 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 non-performance 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)	2013		2012	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Non-Derivatives				
Cash and cash equivalents	0.5	0.5	22.3	22.3
Related party subordinated loan	–	–	55.0	55.0
Interest rate swap agreement – long term liability	(0.4)	(0.4)	–	–
Long term interest bearing debt	(164.4)	(164.4)	208.7	208.7

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, 2013	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Assets:				
Cash and cash equivalents	0.5	0.5	–	–
Liabilities:				
Interest rate swap agreement – long term liability	(0.4)	–	(0.4)	–
$1,171.9 million multicurrency term revolving facility	(164.4)	–	(164.4)	–

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, 2013 and 2012. 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.

On February 4, 2014, we announced that the Argentinean branch of our wholly owned subsidiary DLS Argentina Limited has signed an agreement with YPF S.A. for the provision of five new built drilling rigs to support YPF's development of unconventional shale resources in the Neuquén area in Argentina. The agreed contract period is for an initial period of five years, valued at a total of approximately $400 million, plus three optional years. We are currently in advanced discussions with various lenders, to establish an efficient financing structure based on this project. Seadrill Limited, the major shareholder of Archer Limited, confirmed that it will support Archer in obtaining suitable financing up to and including a financial guarantee.

On February 10, 2014, the Board granted restricted stock units (RSUs) to members of Archer's management team. The RSUs will vest one quarter on March 1 for each of the next four years. The total number of RSUs issued at the date of this report is 6,370,000, which is also the total number of RSUs outstanding.

On March 4, 2014, the Board granted share options to members of our executive management and senior managers. The share options are each granted at a subscription price of NOK 7.18 per share following the close of Oslo Stock Exchange on March 3, 2014. The options will vest one-third on March 1 for each of the next three years. The options have a term life from the grant date until March 1, 2020. The total number of options outstanding in Archer Limited at the date of this report is 22,631,606.

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