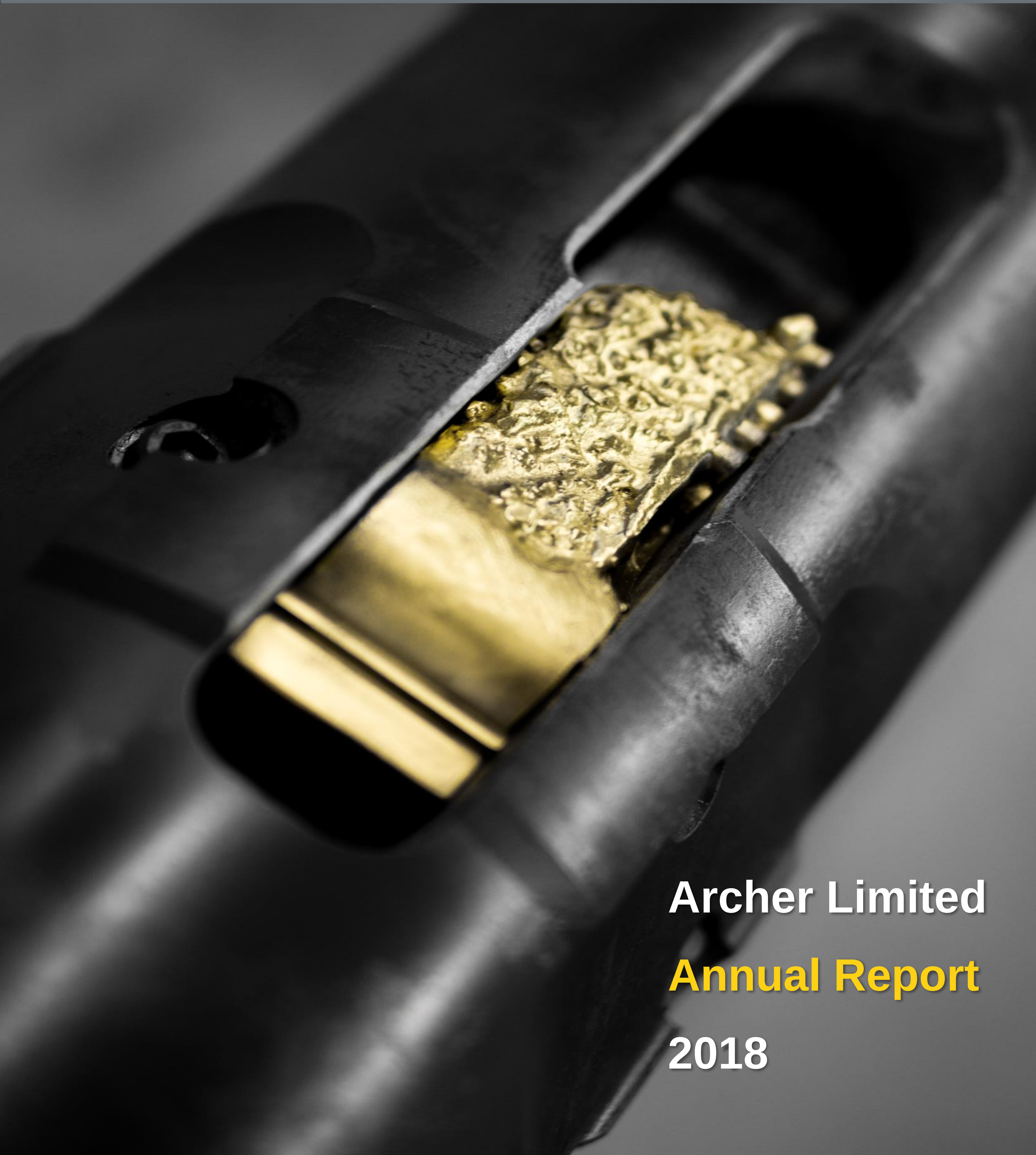
Archer



Archer Limited

Annual Report

2018

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Business overview

Archer Limited (Archer or the Company), along with its subsidiaries (the Group), is a global oil services provider with a heritage in drilling and well services that stretches back over 40 years. We employed approximately 5,000 people in our global drilling and well services operations as of December 31, 2018. We deliver high quality products and services, provided by our experienced workforce, with an outstanding record of performance and safety.

Our comprehensive drilling and work-over services include platform drilling, land drilling, modular drilling rigs, drilling fluids, solids control, engineering services, and equipment rentals as well as a select range of support services and products.

Our global well services capabilities includes a wide range of products and services for, well imaging, well integrity, production logging, well interventions, wellbore and BOP clean outs, casing cutting and sidetracks, and temporary or permanent plugging and abandonments, all of which are aimed at improving well performance and extending well life, while reducing overall service operating time.We support our customers in critical processes such as well construction, well completion, well production and well plugging and abandonment. Our differentiated technologies in well bore imaging, well construction and well integrity are an important and integral part of our strategy to support our customers in delivering better wells.

We operate primarily in Norway, the United Kingdom, Argentina and Bolivia, but we also have operations in the United States, Asia Pacific region, the Middle East, Brazil and West Africa.

Archer Limited 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's registered office is at Par la Ville Place, 14 Par la Ville Road, Hamilton HM 08, Bermuda. Archer is listed on the Oslo Stock Exchange under the ticker symbol ARCHER.NO and our web site is www.archerwell.com.

Principal markets

The Company's principal operations are in Angola, Argentina, Australia, Bolivia, Brazil, Canada, Congo, Indonesia, Malaysia, Nigeria, Norway, Saudi Arabia, the United Arab Emirates, the United Kingdom and the United States.

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

Strategy

Our strategy and focus is to deliver better wells and to be the "supplier of choice" for drilling services, well integrity, well interventions as well as plug and abandonments. We aim to achieve this by continuously improving our service and product quality and by utilizing people who demonstrate Archer's values and deliver excellence. This approach enables us to further broaden our reach, both geographically and technically, and it will be the foundation to secure longer term profitable growth. We will continue to pursue opportunities to benefit from economies of scale, to selectively strengthen our geographical footprint and to develop proprietary technologies.

2018 Operating results

Revenue for the year ended December 31, 2018 was $889.6 million or 5.1% higher compared to the revenue in 2017 with increases in Platform Drilling, Wireline, Oiltools, Engineering and in Land Drilling in Bolivia. Revenue from our operations in Argentina was negatively impacted by the strong depreciation of the Argentine Pesos against USD during 2018. Earnings before Interest and Other financial items, Taxes, Depreciation and Amortization or EBITDA were $72.3 million, an increase of 30.6% compared to 2017. The improvement in reported EBITDA is mainly driven by improvement in our Land Drilling operations in the north of Argentina and in Bolivia and increased activity in Wireline and Engineering.

Eastern Hemisphere revenue was 18.0% higher than in 2017 with increased revenue in all divisions. The increase in activity we saw in our divisions was a consequence of significant contract wins/renewals and increased spending by our key customers in the year. Reported EBITDA increased by 11.8% following increased activity in our Wireline, Platform Drilling, Engineering and Oiltools divisions.

Western Hemisphere revenue decreased 9.4% compared with 2017, reflecting primarily the depreciation of the Argentine Peso against USD over the year, affecting our reported USD revenue in Argentina. In Bolivia, the land drilling operations saw a considerable increase in activity as more rigs were operating. Despite being divested in August 2018, revenue from our frac valves division was $26.4 million, a moderate reduction of 3.3% compared to our full year 2017 revenue from this division. Year

Board of Director's Report
Financial review

on year EBITDA increased by 99.0% due to increased activity and improved margin. Our total operating expenses, including reimbursable expenses, for the year ended December 31, 2018 amounted to $874.1 million, an increase of 1.9% compared to the year ended December 31, 2017.

Our depreciation and amortization expenses for the year ended December 31, 2018 amounted to $55.7 million, a decrease of 12.6% compared to $63.7 million for the year ended December 31, 2017 primarily driven by limited investments in new fixed assets in previous years.

During the fourth quarter of 2018 impairment reviews were conducted for land drilling rigs and modular rigs representing approximately 94.4% of the total value of our fixed assets. The following were considered to be circumstances which, more likely than not, would reduce the fair values of these businesses to below their carrying amount;

1. Reduced pricing and activity levels as a result of lower demand for land drilling services.
2. No backlog or contracts in hand for both the modular rigs.

As a consequence, an impairment charge of $1.1 million relating to land drilling assets was booked in the fourth quarter 2018.

During fourth quarter 2018, we carried out an impairment review on the carrying value of our investment in Quintana Energy Services Inc. (QES) and concluded that the carrying value of our investment was impaired. We based our conclusion on the fall in the QES quoted share price since its initial public offering, or IPO, in February 2018 and the consensus on future share prices among analysts. An impairment adjustment of $35.1 million was recorded against the carrying value of our investment, being the estimated permanent loss in value. The adjustment is reported in share of net losses of unconsolidated associates.

The annual impairment testing of goodwill was conducted during fourth quarter 2018 using a qualitative review which concluded that there were no new indicators suggesting any impairment in 2018.

Our general and administrative expense for the year ended December 31, 2018 amounted to $35.8 million, a decrease of 9.1% compared to $39.4 million for the year ended December 31, 2017. The reduction is primarily due to down-sizing of the support and management structures.

Interest expense for the year ended December 31, 2018 amounted to $41.9 million, a decrease of 8.9% compared to $46.0 million for the year ended December 31, 2017. The reduction in interest expense follows prepayments of our long-term loan facility during 2018 as well as the conversion of interest bearing loans from Seadrill Limited (Seadrill) which were converted to a subordinated convertible loan in 2017, at which time all interest for the full term of the loan was accrued and added to the new loan balance. Net interest-bearing debt was $585.9 million at December 31, 2018, compared to $603.2 million on December 31, 2017.

Other financial items, net for the year ended December 31, 2018, amounted to a loss of $14.3 million, compared to a gain of $121.7 million for the year ended December 31, 2017. The loss in 2018 relates primarily to exchange gains or losses arising on settlement of transactions denominated in currencies other than the functional currency as well as revaluation of outstanding foreign currency balances. We are also exposed to the effect of currency exchange movements on loan balances between our subsidiaries. In particular in 2018, we recorded an exchange loss $8.2 million in relation to an internal loan denominated in NOK recorded in our holding company which reports in USD. The gain in 2017 mainly relates to the refinancing completed in the first half of 2017, and results from forgiveness of subordinated debt and receipts from Seadrill in exchange for release from guarantees. The refinancing in 2017 is discussed more comprehensively in the balance sheet section below.

Our total income tax charges for 2018 amounted to a tax benefit of $14.6 million as compared to a benefit of $10.2 million for 2017. The net tax benefit primarily relates to the net operating losses of our operating entities in Norway, the United Kingdom and the North of Argentina. The net tax benefit is recognized based on the assumption that we can offset these tax losses against future profit in the respective countries.

We have not recognised any deferred tax asset in relation to current and historical operational losses from our North American, Brazilian, Canadian or Argentina South operations due to uncertainty over the timing of future profits against which the assets may be utilised.

Net losses from continuing operations for the year ended December 31, 2018 amounted to $53.0 million, compared to net income of $63.3 million for the year ended December 31, 2017.

We have proposed no dividends for the year ended December 31, 2018.

Board of Director's Report
Financial review

Balance sheet

Our total current assets were $243.9 million at December 31, 2018; a decrease of 19.3% compared to $302.0 million at December 31, 2017, the decrease primarily resulting from the sale of our Frac Valve business during 2018.

Our total noncurrent assets were $666.7 million at December 31, 2018 and consisted primarily of fixed assets used in our operations, goodwill and our financial interests in QES.

As of December 31, 2018, our total assets amounted to $910.6 million, a decrease of $132.3 million, or 12.7%, as compared to December 31, 2017. The reduction is primarily due to depreciation and amortization of fixed and intangible assets, the sale of our Frac Valves business, impairment related to our investment in QES and an appreciation of the USD against both NOK and GBP of around 5%.

Our total current liabilities were $158.3 million at December 31, 2018 and consisted primarily of accounts payable and accrued expenses. The current part of our interest bearing debt was reduced to $4.7 million as at December 31, 2018 compared to $7.2 million at December 31, 2017.

Our total noncurrent liabilities were $605.1 million at December 31, 2018 and consisted primarily of long-term interest-bearing debt and subordinated related party loan.

In 2017 we completed a comprehensive debt refinancing and a private placement. The 2017 refinancing extended the maturity of our revolving credit facility until the end of September 2020. For further information about our financing arrangements please see Note 17 to the financial statements. In addition, in 2017, we agreed with Seadrill to convert $125 million of subordinated debt and $21 million of accrued interest and fees, to a new $45 million subordinated convertible loan maturing at the end of 2021. As part of the reorganisation Seadrill was released from their guarantee obligations to our lenders in exchange for a settlement payment amounting to 10% of the outstanding guarantees. The comprehensive debt refinancing and private placement in 2017 reduced net interest bearing debt by more than $200 million in 2017, and increased our total equity to $200.4 million at December 31, 2017.

Cash flow

The following table summarises our cash flows from operating, investing and financing activities for the years ended December 31, 2018 and 2017.

In $ millions	**2018**	**2017**
Net cash provided by operating activities	36.9	13.4
Net cash used in investing activities	(1.7)	(19.0)
Net cash (used in)/provided by financing activities	(56.1)	23.3
Effect of exchange rate changes on cash and cash equivalents	(15.3)	14.8
Cash and cash equivalents, including restricted cash at the beginning of the year	67.7	35.2
Cash and cash equivalents, including restricted cash, at the end of the year	**31.5**	**67.7**

Cash flow from operating activities increased in 2018, compared to 2017 due to better operational results. 2017 cash flow from operations was also significantly reduced by severance payments made in 2017, related to restructuring activities which was accrued in 2016.

In 2018 we continued to limit our investments in assets to essential costs for the overhauls/recertification of operational equipment. We invested a further $10 million in our associated company QES. The net cash used in investing activities includes net sale proceeds of $30.2 million from the sale of our Frac Valve business.

In 2018 cash used in financing activities consists mainly of repayments of our long term loan facility. In 2017, we raised net funds of $102.7 million from the private placement and subsequent offering of our common shares. $76.2 million was used to repay our overdraft facilities and to prepay $40 million of our term loan.

Parent company results 2018

Net loss from operations for the year was $53.0 million, corresponding to loss per share of $0.36.

Board of Director's Report
Financial review

Going concern

Our Board of Directors confirms their assumption of the Group as a going concern for the foreseeable future, being a period of not less than 12 months from the date of this report. This assumption is based on the liquidity position of the Group, forecast operating results, and the market outlook for the oil service sector as at December 31, 2018. The Board believes the annual report provides a fair presentation of the Group's assets and debt, financial position and financial performance.

Key figures

	2018	**2017**
Revenue *In $ millions*	890	847
EBITDA [1] *In $ millions*	72	55
EBITDA before exceptional items[2] *In $ millions*	89	67
Net (loss) / income from continuing operations *In $ millions*	(53)	63
Net interest bearing debt *In $ millions*	586	603
Employees at December 31	5,039	4,792

[1] EBITDA is defined as earnings before Interest and Other financial items, Taxes, Depreciation, Amortization and Impairments.

[2] Exceptional items include severance payments, costs of idle personnel in Latin America and office closure costs which are non-recurring and are not directly related to our current business operations.

Board of Director's Report
Health, Safety and environment

Archer's Health, Safety and Environmental, or HSE, philosophy is to establish and maintain an incident-free work place where accidents, injuries or losses are always seen as preventable. The primary responsibility is to ensure employees are sufficiently trained and competent to identify, eliminate or mitigate risks while planning and undertaking their work activities.

Archer's expectations are that all employees will remain committed to maintaining a safe working environment while recognizing that they have an individual and collective responsibility to support the Company in achieving the goal of establishing an incident-free work place. In accordance with our core values, we will continue to safeguard against all accidents through continuous training and improvement measures so we keep our employees and contractors safe.

In 2018 Archer continued the Safety Commitment Initiative. All business lines have been involved in the initiative through the year and on a quarterly basis employees state their safety commitments that are distributed internally via the company website. In 2018 the Vice Presidents also contributed as a part of this program, with their own commitments.

Archer continued to reinforce the need for active participation from employees and contractors in near miss and proactive reporting programs. These efforts resulted in a continued increase in participation levels compared to 2017 numbers for collected and analysed proactive reports. Proactive reporting will also have continued focus in 2019, as Archer believes that this tool helps to build a positive safety culture, through greater safety awareness, both individually and collectively.

Archer experienced a stable trend throughout the year in the majority of the HSE Key Performance Indicators. Several business lines and several locations have gone through the year without any personnel injuries. In addition to this, there was a positive trend for dropped objects from 2017 to 2018. The proactive focus we have had on potential dropped objects and shared learning, ensuring we identify and eliminate drops before they materialize, is having the intended positive result

During 2018 we worked a total of 11.5 million (2017: 12 million) man-hours. Despite our best efforts, we incurred 4 (2017:7) lost time incidents. This indicates that even though there were positive developments, there is still room for improvement in order for Archer to achieve the goal of realizing an incident free work place. Management and employees will continue to work tirelessly to identify and mitigate work place hazards and risks.

Archer continues to analyse the reason why incidents occurs to ensure that we learn from and do not repeat our mistakes. This will be a continued focus in 2018 to ensure continued positive improvement towards the incident free workplace objective.

The following table provides a summary of our work injury statistics.

	2018		2017	
Area	**Loss Time Injuries**	**Medical Treatment Cases**	**Loss Time Injuries**	**Medical Treatment Cases**
Eastern Hemisphere	3	17	4	8
Western Hemisphere	1	6	3	12
Archer Total	**4**	**23**	**7**	**20**

The table above illustrates the total amount of recordable personnel injuries in both Eastern and Western Hemisphere. Archer will, via high management focus, continue to work to improve these results.

The Company is actively working to minimise the risk of damage to the environment as a result of operations. This includes the systematic registration of emissions and discharges and pre-emptive action in selecting chemicals that cause minimum harm to environment. However, there are still risks of environmental damage and negative consequences for the Company. In 2018 Archer had 2 recorded spills.

The Archer Management system is certified according to ISO 9001:2015 certificate. In addition the UK and Brazil operations and Wireline Norwegian operations are accredited to the ISO 14001:2015 for Environmental Management Standards. The Company has described the social responsibility in the management system and made clear commitments through the year, but we have not established a separate social responsibility policy.

Board of Director's Report

Health, Safety and environment

Employees and diversity

After focusing on managing headcount from end 2014 until fourth quarter 2016, we experienced a more stable market in 2017 into a year of growth and shift of focus to recruitment and retention for 2018. Overall headcount for Archer had increased with 5.5% during 2018 to 5,039 employees at year end. 5.7% of our employees are females.

In the Eastern Hemisphere, headcount increased by 16% during the year, mainly due to commencement of a new contract with Equinor with extended scope, for the provision of Platform Drilling services in Norway. We successfully on-boarded approximately 400 employees for the four additional platforms awarded: Gullfaks A, B and C as well as Grane. The Survey and Inspection business in Australia was successfully divested out of Archer at March 1st 2018. All employees engaged in the S&I business transferred to the new owner.

All Business units within Eastern Hemisphere experienced an overall increase in headcount due to increased market activity. Platform Drilling increased headcount by 19.8%, Wireline 10.3%, Engineering 23.6% and Oiltools had a small increase of 4% over the year. The UK market did not experience the same increase in activity level as in Norway and our operation in the UK was managed with a headcount decrease of 11%. Platform Drilling in Brazil has been stable during the year.

In the Western Hemisphere overall headcount was reduced by 9.8% during the year impacting mainly Argentina. Bolivia continued the trend we saw in the fourth quarter of 2017 with higher drilling activity, as a result of which our headcount in Bolivia increased by 46% during 2018.

AWC Frac Valves was successfully divested on August 31st 2018 and all Archer staff employed by AWC Archer Frac Valves transferred to the new owners with the sale of the business.

The Group is an equal opportunity employer and exercises 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 and in all the countries in which Archer entities operate.

Board of Director's Report
Risk Factors

Risks relating to the Company's finance

We will need to refinance the remaining debt from our syndicated facility and the Hermes covered term loan before September 30, 2020 as well as the subordinated debt facility before December 31, 2021.

As per our current financing obligations, we will need to make quarterly instalment payments of $10.0 million on our syndicated facility and EUR 4.7 million on our Hermes covered term loan, starting in March 2020 and will further need to refinance the remaining debt from our syndicated facility and the Hermes covered term loan before September 2020 as well as the subordinated debt facility before December 31, 2021, if not otherwise refinanced.

No assurance can be given that the Company's current financing arrangements will be sufficient and that the Group will not require additional funding to fund operations and capital expenditure or for other purposes.

To the extent the Company does not generate sufficient cash from operations the Company and its subsidiaries may need to raise additional funds through public or private debt or equity financing, or refinance its debt facilities. Adequate sources of funds may not be available or available at acceptable terms and conditions, when needed, and the Company may not be able to refinance its debt facilities on acceptable terms and conditions or at all.

The Group has a significant level of debt, and could incur additional debt in the future, which could have significant consequences for its business and future prospects.

As of December 31, 2018, the Group had total outstanding interest-bearing debt of $606 million. This debt represented 64.7% of the Group's total assets. See note 17 to the financial statements for further analysis of our debt. The Group's debt and the limitations imposed on the Group by its existing or future debt agreements could have significant consequences for the Group's business and future prospects, including the following:

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

The Group's Revolving Credit Facility imposes financial covenants and restrictions on the Group that may limit the discretion of management in operating the Group's business and that, in turn, could impair the Group's ability to meet its obligations.

The Group's existing credit facility contains various restrictive covenants that limit management's discretion in operating its business. In particular, these covenants limit its 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 its business;
- 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.

For further information about our financing arrangements please see Note17 to the financial statements.

The Group's results of operations may be adversely affected by currency fluctuations.

Due to its international operations, the Group may experience currency exchange losses when revenues are received and expenses are paid in nonconvertible currencies or when the Group does not hedge an exposure to a foreign currency. The Group may also 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. The Group attempts

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Risk Factors

to limit the risks of currency fluctuation and restrictions on currency repatriation where possible by obtaining contracts providing for payment of a percentage of the contract indexed to the U.S. dollar exchange rate. To the extent possible, the Group seeks to limit its exposure to local currencies by matching the acceptance of local currencies to the Group's local expense requirements in those currencies.

The Group's cost of funding is impacted by changes in the interest rate level.

The Group is generally financed using floating interest rates and changes in the interest rate will impact the cost of financing.

The Group is exposed to credit risk and would be impacted by financial losses if one or more contractual partners do not meet their obligations.

To mitigate this risk the Group trades predominantly with recognized, credit worthy third parties. Receivable balances are monitored on an ongoing basis. The Group enters into derivative transactions only with counterparties with whom it has an established business relationship.

Risks Relating to the Group and the Industry in which the Group Operates

The Group's business depends on the level of activity of oil and natural gas exploration, development and production in the North Sea and internationally.

The Group's business depends on the level of activity of oil and natural gas exploration, development and production in the North Sea and internationally, and in particular, the level of exploration, development and production expenditures of the Group's customers. Demand for the Group's drilling and well 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. Oil and natural gas prices began a rapid and substantial decline in the fourth quarter of 2014 which continued to decline or remain depressed in 2015, 2016 and 2017. A decline in oil and natural gas prices may cause a reduction in drilling, completion and other production activities of the Group's customers and related spending on the Group's products and services. These effects could have a material adverse effect on the Group's financial condition, results of operations and cash flows. In 2018 we experienced an increase in the oil price and more stable oil price level compared to previous year. A more stable oil price could lead to increase in activity as the major operators increase their spending.

Legal requirements, conservation measures and technological advances could reduce demand for oil and natural gas, which may adversely affect the Group's business, financial condition, results of operations and cash flows.

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 gases, and additional restrictions are under consideration by governmental entities.

The Group is experiencing continued challenges in its Argentina operations, and is in part dependent on finding solutions with its customers.

Land drilling activity in Argentina fell significantly in late 2015 and throughout 2016 and 2017, leading to excess or idle personnel on hand. The reduction of personnel in significant quantities requires the cooperation of unions, employees, government ministry and the customer. The Group is working closely with our clients and unions in order to find appropriate solutions to match personnel levels to operational requirements, but to the extent that the Group is unable to reach a satisfactory agreement with its clients and unions, the Company anticipates that the revenue and operational performance could continue to be negatively impacted. We experience more stability for our Land Drilling activity in Argentina during 2018 and we had less rigs being stopped and less employees becoming idle.

Global political, economic and market conditions influence, and could negatively impact, the Group's business.

The Group's operations are affected by global political, economic and market conditions. A worldwide economic downturn could reduce the availability of liquidity and credit to fund business operations worldwide. This could adversely affect the operations of the Group's customers, suppliers and lenders which in turn could affect demand for the Group's services. In addition, an economic downturn could reduce demand for oilfield services negatively and impact the Group's activity levels and pricing of its services and thus adversely affect the Group's financial condition and results of operations.

Board of Director's Report
Risk Factors

Employee and customer labor problems could adversely affect the Group.

Archer and its subsidiaries are parties to collective bargaining agreements material to the Group's operations in Argentina, Brazil, the United Kingdom and Norway. We have experienced strikes, work stoppages or other slowdowns in the past. A prolonged strike, work stoppage or other slowdown by our employees or by the employees of our customers could cause us to experience a disruption of our operations, which could adversely affect our business, financial condition and results of operations.

The Group is subject to numerous governmental laws and regulations, some of which may impose significant liability on the Group for environmental and natural resource damages.

The Group is subject to various local and foreign laws and regulations, including those relating to the energy industry in general and the environment in particular, and may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of governmental authorities and organizations. Moreover, the cost of compliance could be higher than anticipated. The Group's operations are subject to compliance with international conventions and the laws, regulations and standards of other countries in which the Group operates, including anti-bribery regulations. It is also 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 the Group's operating costs or limit the Group's activities or the activities and levels of capital spending by the Group's customers.

The loss of the services of key executives could hurt the Group's operations.

The Group is dependent upon the efforts and skills of certain directors of the Group and executives employed by the Company to manage the Group's business, identify and consummate additional acquisitions and obtain and retain customers.

Severe weather conditions could have a material adverse impact on the Group's business.

The Group's business could be materially and adversely affected by severe weather in the areas where it operates. 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 terrorist attack or armed conflict could harm the Group's business.

Terrorist activities, anti-terrorist efforts and other armed conflicts in, or involving any region of the Group's activities or other oil producing nation may adversely affect local and global economies and could prevent the Group from meeting their financial and other obligations.

The Group has recorded substantial goodwill as the result of its acquisitions and goodwill is subject to periodic reviews of impairment.

The Group performs purchase price allocations to intangible assets when it makes acquisitions. The excess of the purchase price after allocation of fair values to tangible assets is allocated to identifiable intangibles and thereafter to goodwill. The Group conducts periodic reviews of goodwill for impairment in value. Any impairment would result in a non-cash charge against earnings in the period reviewed, which may or may not create a tax benefit, and would cause a corresponding decrease in shareholders' equity. In the event that market conditions deteriorate or there is a prolonged downturn, the Group may be required to record an impairment of goodwill, and such impairment could be material.

The Group's investment in Quintana Energy Services Inc. might be impacted due to the market conditions or other circumstances.

Our investment in Quintana Energy Services Inc. (or QES), which is listed on te New York Stock Exchange, consisting of 28% of the shares, is recorded in our balance sheet to $57 million. The share price of QES may fluctuate considerably depending on the market outlook for the Company and investor sentiment.

The Group has operated at a loss in the past and recently, and there is no assurance of its profitability in the future.

Historically, the Group has experienced periods of low demand for its services and has incurred operating losses. In the future, it may not be able to reduce its costs, increase its revenues, or reduce its debt service obligations sufficient to achieve or maintain

Board of Director's Report
Risk Factors

profitability and generate positive operating income. Under such circumstances, the Group may incur further operating losses and experience negative operating cash flow.

The Group may be subject to litigation if another party claims that the Group has infringed upon its intellectual property rights.

Third parties could assert that the tools, techniques, methodologies, programs and components the Group uses to provide its 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 the Group's core business. Additionally, if any of these claims were to be successful, developing non-infringing technologies and/or making royalty payments under licenses from third parties, if available, would increase the Group's costs.

The Group could be adversely affected if it fails to keep pace with technological changes and changes in technology could have a negative result on the Group's market share.

The Group provides drilling and well services in increasingly challenging onshore and offshore environments. To meet its clients' needs, the Group must continually develop new, and update existing, technology for the services it provides. 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 the Group's market share.

The Group may be subject to claims for personal injury and property damage, which could materially adversely affect the Group's financial condition and results of operations.

Substantially all of the Group's 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, suspension of operations, or environmental damage. The Group may also 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 the Group's products or services are used or provided may cause the Group to be named as a defendant in lawsuits asserting potentially large claims. Generally, the Group's contracts provide for the division of responsibilities between the Group and its customer, and consistent with standard industry practice, the Group's clients generally assume, and indemnify the Group against, some of these risks. There can be no assurance, however, that these clients will necessarily be financially able to indemnify the Group against all risks. Also, the Group may be effectively prevented from enforcing these indemnities because of the nature of the Group's relationship with some of its larger clients. Additionally, from time to time the Group may not be able to obtain agreement from its customers to indemnify the Group for such damages and risks.

To the extent that the Group is unable to transfer such risks to customers by contract or indemnification agreements, the Group generally seeks protection through customary insurance to protect its business against these potential losses. However, the Group has 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 the Group against liability from all of the consequences of the hazards and risks described above. The occurrence of an event for which the Group is not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses.

The Group's insurance coverage may become more expensive, may become unavailable in the future, and may be inadequate to cover the Group's losses.

The Group's 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 the Group's operations

Archer Limited is a holding company, and as a result is dependent on dividends from its subsidiaries to meet its obligations.

Archer Limited is a holding company and does not conduct any business operations of its own. Archer Limited's principal assets are the equity interests it owns in its operating subsidiaries, either directly or indirectly. As a result, the Archer Limited 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 Limited 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.

Board of Director’s Report
Risk Factors

Archer’s subsidiaries are separate and distinct legal entities. Any right that Archer Limited has to receive any assets of or distributions from any subsidiary upon the bankruptcy, dissolution, liquidation or reorganization of such subsidiary, or to realize proceeds from the sale of the assets of any subsidiary, will be junior to the claims of that subsidiary’s creditors, including trade creditors.

The Group’s tax liabilities could increase as a result of tax audits, inquiries or settlements.

The Group’s operations are, and may in the future become, subject to audit, inquiry and possible re-assessment 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 the Group’s filed tax return, and makes additional provisions for probable risks if appropriate. As forecasting the ultimate outcome includes some uncertainty, the risk exists that adjustments will be recognized to the Group’s tax provisions in later years as and when these and other matters are finalized with the appropriate tax authorities.

The Group’s operations are subject to a significant number of tax regimes, and changes in legislation or regulations in any one of the countries in which the Group operates could negatively and adversely affect the Group’s results of operations.

The Group’s operations are carried out in several countries across the world, and the Group’s 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 the Group’s operations means that the Group routinely has 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, the Group’s 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.

Cyber attacks could adversely a*ffect the Group’s business.*

The Group’s operations are subject to the risk of cyber-attacks. If the Group’s systems for protecting against cybersecurity risks are circumvented or breached, this could result in the loss of the Group’s intellectual property or other proprietary information, including customer data, and disruption of its business operations, which could adversely affect the Group’s financial condition and results of operation.

The Group has a significant operation in the UK, which could be impacted by the ongoing Brexit-negotiation and could have a material impact to our consolidated revenue, earnings and cash flow

The United Kingdom held a referendum on June 23, 2016 in which a slim majority voted in favor of leaving the European Union (EU) in an action commonly referred to as Brexit. Although the terms of any future treaties are unknown, the effects of Brexit to Archer’s operation will depend on any agreements the UK makes to retain access to EU markets either during a transitional period or more permanently.

In the case of a hard Brexit, our exposure to disruptions to our supply chain and that of our customers, the imposition of tariffs and currency devaluation in the UK could result in a material impact to our consolidated revenue, earnings and cash flow.

Board of Director's Report

Share Capital issues

At December 31, 2018, our authorised share capital was $10,000,000 consisting of 1,000,000,000 shares each with a par value of $0.01. All of our shares are of the same class.

On February 28, 2017, we completed a private placement under which we issued 84,000,000 common shares of par value $0.01 each, at a subscription price of NOK 10.00, raising gross proceeds of NOK 840 million or $99.1 million. This initial issue was followed up by a subsequent offering, as a result of which a further 4,925,171 ordinary $0.01 shares have been allotted at an issue price of NOK 10, each, raising additional capital of $5.8 million. Following these issuances Archer's issued share capital was increased to $1,472,818.87 divided into 147,281,887 ordinary shares of $0.01 par value each.

At December 31, 2018, the number of shares issued was 147,462,012 corresponding to a share capital of $1.5 million.

The issued shares are fully paid, and all issued shares represent capital in the Company. The shares are equal in all respects and each share carries one vote at our General Meeting of shareholders. 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, as registered in the Norwegian Central Securities Depository (VPS), was as per the table below.

Shareholder overview as of December 31, 2018

Seadrill	15.7%
Hemen Holdings	8.2%
Lime Rock	4.5%
Others	71.6%

Hemen Holding Ltd, or Hemen, a Cyprus holding company is indirectly controlled by trusts established by Mr. John Fredriksen, for the benefit of his immediate family. Mr Fredriksen is the Chairman and President of Seadrill, which is our largest shareholder.

Corporate governance

The Board has reviewed our compliance with various rules and regulations, such as the 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 Director's Report
Board of Directors

Composition of the Board

Overall responsibility for the management of the Company and its subsidiaries rests with the Board. Our bye-laws provide that the Board shall consist of a minimum of two directors and the shareholders have currently approved 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.

Mrs. Kate Blankenship served as a Director since our incorporation in August 2007 up until her resignation in September 2018.

Mr. Alf Ragnar Løvdal served as a Director from September 2015. Mr. Løvdal resigned from the Board in September 2018.

Kjell-Erik Østdahl
Executive Chairman of the Board

Kjell-Erik Østdahl joined Archer as Chairman of the Board in September 2018, prior to which he spent 21 years at Schlumberger in a number of senior positions within operations, business development, marketing and executive management in China, Norway, UK, France and US. He served as Executive Vice President, Operations, Schlumberger from 2011 to 2013 and was senior partner at HitecVision from 2014 to 2015. Mr. Østdahl is a professional investor in technology start-up companies and real estate. In addition, he is a senior advisor at Blackstone Investment Firm and EY. Mr Østdahl serves as Chairman on the Boards of Sekal AS and Cannseal AS and is a board member of Olympic Subsea ASA and Seadrill Limited. Mr. Østdahl holds an MSc in Electrical Engineering from the Norwegian University of Science and Technology (NTNU). Mr. Østdahl is a Norwegian citizen and resides in Norway.

John Reynolds
Director
Mr. Reynolds has served as a Director since February 2011 and as Chairman of the Board of the Company between July 2013 and September 2015. Mr. Reynolds cofounded Lime Rock Partners in 1998 and is currently 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 Blackjewell LLC 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., Tesco Corporation, Torch Offshore Inc., EnerMech Ltd., Revelation Energy Holdings LLC, Tercel Oilfield Products and VEDCO Holdings Inc. Mr. Reynolds is a U.S. citizen, resident in the United States.

James O'Shaughnessy
Director
Mr. James O'Shaughnessy has served as Director and Chairman of the Audit Committee since September 2018. Prior to joining the Archer board of directors, Mr O'Shaughnessy served as Executive Vice President, Chief Accounting Officer and Corporate Controller of Axis Capital Holdings Limited since March, 2012. Prior to that Mr. O'Shaughnessy has amongst other served as Chief Financial Officer of Flagstone Reinsurance Holdings and as Chief Accounting Officer and Senior Vice President of Scottish Re Group Ltd., and Chief Financial Officer of XL Re Ltd. at XL Group plc. Mr. O'Shaughnessy received a Bachelor of Commerce degree from University College, Cork, Ireland in 1985 and is both a Fellow of the Institute of Chartered Accountants of Ireland and an Associate Member of the Chartered Insurance Institute of the UK. Mr. O'Shaughnessy earned a Master's Degree in Accounting from University College Dublin in 1986. Mr. O'Shaughnessy is an Irish and Bermudan citizen, residing in Bermuda.

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 non-executive 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 Switzerland.

Board of Director's Report
Board of Directors

Dag Skindlo
Director
Mr. Skindlo joined Archer in April 2016 as Chief Financial Officer and Executive Vice President, Strategy, a role in which he still serves. He was appointed to the board later in April 2016.

Mr. Skindlo is a business-oriented executive with more than 25 years in the Oil and Gas industry. He joined Schlumberger in 1992 where he held various financial and operational positions before he joined the Aker Group of companies in 2005. His experience from Aker Kvaerner, Aker Solutions and Kvaerner includes both global CFO roles and Managing Director roles for several large industrial business divisions. Prior to joining Archer Mr. Skindlo was the Chief Executive Officer of Aquamarine Subsea, a HitecVision owned company. Mr. Skindlo brings with him extensive international experience including working for more than twelve years in countries like the US, Indonesia, Scotland, and China. Mr. Skindlo currently serves as Director of the NYSE listed oilfield service company Quintana Energy Services. Mr. Skindlo is a Norwegian citizen with a Master of Science in Economics and Business Administration from the Norwegian School of Economy and Business Administration (NHH).

Board independence

The Chairman of the Company's five-member Board of Directors is elected by the Board of Directors and not by the shareholders as recommended in the Norwegian Code of Practice. This is in compliance with normal procedures under Bermuda law. Archer is not fully in compliance with section 8 of the Norwegian Code of Practice with respect to independence of board members. The Norwegian Code of Practice 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 Norwegian Code of Practice also recommends that at least two of the members of the board should be independent of the company's main shareholders. Dag Skindlo, a director of the Company, also holds the position as CFO and Executive Vice President Strategy in the Company. Two of the Company's five directors, Giovanni Dell'Orto, and James O'Shaughnessy, are independent of the Company's two largest shareholders, Lime Rock Partners L.P and Seadrill Limited. One of the Company's directors, John Reynolds, is affiliated with Archer's second largest shareholder, Lime Rock Partners. Archer accordingly deviates from section 8 of the Norwegian Code of Practice.

Board of Director's Report

Senior management

John Lechner
Chief Executive Officer

Mr. Lechner served as Chief Executive Officer since April 2016 until his resignation in March 2019.

Dag Skindlo
Chief Financial Officer and Executive Vice President, Strategy

Mr. Skindlo has served as Chief Financial Officer, Executive Vice President, Strategy and Board Director since April 2016. More details are included under Board Members above.

Adam Todd
General Counsel

Mr. Todd was appointed General Counsel in September 2017. He holds a Juris Doctor Law degree from the University of Alberta Canada and has since gained broad legal and commercial experience through Canadian law firms Bishop & McKenzie LLP and McLennan Ross LLP prior to joining Aker Solutions in 2009.

Board of Director's Report
Responsibility Statement

We confirm that, to the best of our knowledge, the financial statements for 2018 have been prepared in accordance with the current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss for the Group as a whole.

We also confirm that the Board of Director's Report includes a true and fair review of the development and performance of the business and the position of the Group, together with a description of the financial risks and uncertainties facing the Group.

April 2019

The Board of Archer Limited

Kjell-Erik Østdahl
(Chairman)

John Reynolds
(Director)

James O'Shaughnessy
(Director)

Giovanni Dell' Orto
(Director)

Dag Skindlo
(Director)

Independent auditors' report to the members of Archer Limited

Report on the audit of the financial statements

Opinion

In our opinion, Archer Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018, and of the group's and the company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"); and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

We have audited the financial statements, included within the Annual Report (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2018; the consolidated and company statements of operations and statements of comprehensive income/(loss), the consolidated and company statements of accumulated other comprehensive loss, the consolidated and company statements of cashflows, and the consolidated and company statements of changes in shareholders' equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

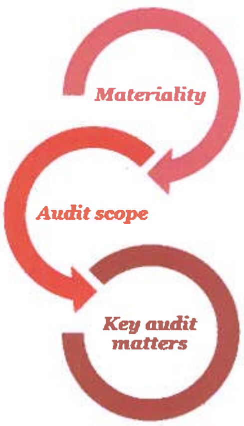
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall group materiality: $8.9 million (2017: $8.5 million), based on 1% of revenue.
- Overall company materiality: $6.4 million (2017: $8.5 million), based on 1% of total assets.

- We conducted full scope audit work over 4 components in which the group has significant operations (Scotland, Norway and Argentina North and South).
- In addition, we performed procedures on specific balances at 5 non-significant components.
- During the year, the group engagement team visited all components where full scope audits were performed.

- Valuation of certain modular and land based rigs (Group).
- Valuation of the investment in QES (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of certain modular and land based rigs The value of the group's land and modular rigs is material and we identified a risk that the carrying value of the assets may not be recoverable. Due to the general downturn in the industry, management has assessed the carrying values for impairment by reference to the sum of the undiscounted cash flows that the asset is expected to generate, including any estimated disposal proceeds. Where the undiscounted cash flows for a rig are less than its carrying value, management have adjusted the carrying value, by recording an impairment, to its estimated recoverable value. An impairment of $1.1m has been recorded in 2018 to reduce the carrying value of certain land rigs to their estimated recoverable values. For the remaining rigs, management concluded that the recoverable amount was higher than the carrying value. We focused on this area due to the significant carrying value of the rigs and the judgement inherent in the impairment review.	Our procedures included the following: • We evaluated management's impairment assessment and the process by which this was performed. • We assessed management's accounting policy against US GAAP and obtained explanations from management as to how the specific requirements of the standards were met. • We assessed the significant assumptions management used in their forecast. This included tracing input data to actual contracts and budgets approved by the board of directors; and considering whether estimated utilisation rates and day rates were consistent with historical performance and our knowledge of the industry. We also performed a sensitivity analysis on the assumptions made by management using various "worst case" scenarios. • In order to assess management's estimate of the fair value of the land rigs, we considered the evidence obtained from an external valuation firm and also the objectivity and competence of that firm to provide reliable estimates. From the evidence obtained we found the assumptions and methodology used to be appropriate.
Valuation of the investment in QES The carrying value of the group's equity investment in QES was $57m at 31/12/18. QES reported losses of $18.4 million for the year ended 31/12/18 ($21.2 million in 2017). Since completing an IPO in February 2018, QES shares are quoted on the New York Stock Exchange. The shares were valued at $10 per share at the time of the IPO, and have fallen in price since then. The continued fall in the share price led management to consider whether the carrying value of the investment was impaired at 31/12/18. As a result of this assessment, management recorded an impairment charge of $35.4m to the investment in QES in 2018. We focused on this area due to the significant carrying value of the investment in QES and the judgement inherent in the impairment review and the identification of an other than temporary reduction in the carrying value of the investment.	Our procedures included the following: • We evaluated management's impairment assessment and the process by which this was performed. • We assessed management's accounting policy against US GAAP and obtained explanations from management as to how the specific requirements of the standards were met. • We evaluated management's consideration of the current and historical share price of QES, and also the published views of analysts covering the business, in determining what element of the reduction in share value in 2018 was considered to be other than temporary. We also agreed these data points back to an independent source. From the evidence obtained we found the methodology used to be appropriate and supportive of the impairment charge recorded in 2018.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Archer Limited has its corporate headquarters in Norway, and separate divisional headquarters in Scotland, Norway and Argentina.

The Group engagement team is based in the UK and supported by component teams elsewhere in the UK, as well as in Norway and Argentina.

Where work was performed by component teams, we determined the level of independent involvement needed at those local operations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We issued formal, written instructions to the component teams setting out the work to be performed by each of them and maintained regular communication throughout the audit cycle. These interactions included participating in the planning and clearance meetings with our teams in Scotland, Norway and Argentina, holding regular conference calls, as well as reviewing work papers and assessing matters reported.

We performed full scope audits at the significant components in Scotland, Norway and Argentina. We performed certain specified audit procedures across 5 non-significant components to gain sufficient audit coverage over financial statement line items in the consolidated financial statements. The financial statement line items covered at each individual component varied based on their size, but consisted of some or all of the following: revenues, impairments, share of results of affiliates, property plant and equipment, deferred taxes, and trade receivables.

In total the audit work performed accounted for approximately 91% of consolidated net revenue and approximately 86% of consolidated fixed assets. At the group level, we also carried out analytical and other procedures on the components not covered by the procedures described above. The group engagement team also performed audit procedures over the consolidation.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	***Company financial statements***
Overall materiality	$8.9 million (2017: $7.5 million).	$6.4 million (2017: $8.5 million).
How we determined it	1% of revenue.	1% of total assets.
Rationale for benchmark applied	Total revenues are one of the key measures monitored by management to assess the recurring financial performance of the group as it best represents results from underlying operations. Revenues are included in the monthly management pack, with current month and year-to-date revenue compared to the prior year and forecast.	We consider total assets to be one of the principal considerations for the members of Archer Limited in assessing the parent company's financial position.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between $1.7 million and $8.0 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $885,000 (Group audit) (2017: $846,000) and $635,000 (Company audit) (2017: $846,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear and it is difficult to evaluate all of the potential implications on the group's and company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained in the Responsibility Statement set out on page 18 and as set out below, the directors are responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as permitted by the Companies Act 1981 (Bermuda), and for being satisfied that they give a true and fair view of the state of affairs of the group and the company as at 31 December 2018, and of the profit and loss for the year then ended. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for selecting suitable accounting policies and then applying them consistently, stating whether applicable accounting principles generally accepted in the United States of America have been followed, making judgements and accounting estimates that are reasonable and prudent, assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, as well as keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, 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 these opinions, accept or assume responsibility for any other 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 consent in writing.

Greg Briggs

Gregory Briggs
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants Uxbridge
12 April 2019

1. The maintenance and integrity of the group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Financial Statements 2018

Archer Limited and subsidiaries
Consolidated statement of operations

($ in millions, except share and per share data)	YEAR ENDED DECEMBER 31	
	2018	**2017**
Revenues		
Contract revenues	784.8	762.4
Reimbursable revenues	78.4	57.1
Other revenues	26.4	27.3
Total revenues	**889.6**	**846.8**
Expenses		
Operating expenses	707.4	699.0
Reimbursable expenses	74.1	52.9
Depreciation and amortization	55.7	63.7
Net gain on sale of assets	-	(0.7)
Impairment of goodwill and other assets	1.1	3.2
General and administrative expenses	35.8	39.4
Total expenses	874.1	857.5
Operating income / (loss)	**15.5**	**(10.7)**
Financial items		
Interest income	3.7	3.0
Interest expense	(41.9)	(46.0)
Share of net losses of unconsolidated associates	(39.4)	(14.9)
Gain on sale of Frac Valve business	8.8	-
Other financial items, net	(14.3)	121.7
Total financial items	**(83.1)**	**63.8**
(Loss) / income from continuing operations before income taxes	**(67.6)**	**53.1**
Income tax benefit	14.6	10.2
(Loss) / income from continuing operations	**(53.0)**	**63.3**
Loss from discontinued operations, net of tax	**-**	**(2.2)**
Net (Loss) / income	**(53.0)**	**61.1**
Basic (loss)/earnings per share ($) - from continuing operations	**(0.36)**	**0.48**
- from discontinued operations	**-**	**(0.02)**
Diluted (loss)/earnings per share ($) - from continuing operations	**(0.36)**	**0.48**
- from discontinued operations	**-**	**(0.02)**
Weighted average number of shares outstanding *(In thousands)*		
Basic	147,428,948	131,416,088
Diluted	147,428,948	131,677,396

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

Archer Limited and subsidiaries
Consolidated statement of comprehensive income/(loss)

($ in millions)	YEAR ENDED DECEMBER 31	
	2018	**2017**
Net (loss)/income	**(53.0)**	**61.1**
Other comprehensive (loss) / income, net of tax		
Change in residual pension liability	0.7	(0.7)
Foreign currency translation differences	(1.6)	7.2
Other comprehensive (loss)/income, net	**(0.9)**	**6.5**
Total comprehensive (loss)/income, net of tax	**(53. 9)**	**67.6**

Archer Limited and Subsidiaries
Consolidated statement of accumulated other comprehensive loss

	PENSION – UNRECOGNISED GAIN/(LOSS)	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	TOTAL
Balance at December 31, 2016	-	**(7.7)**	**(7.7)**
Change in residual pension liability	(0.7)	-	(0.7)
Foreign currency translation differences	-	7.2	7.2
Balance at December 31, 2017	**(0.7)**	**(0.5)**	**(1.2)**
Change in residual pension liability	0.7	-	0.7
Foreign currency translation differences	-	(1.6)	(1.6)
Balance at December 31, 2018	-	**(2.1)**	**(2.1)**

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

Archer Limited and subsidiaries
Consolidated balance sheet

($ in millions)	DECEMBER 31	
	2018	**2017**
ASSETS **Current assets**		
Cash and cash equivalents	20.2	59.0
Restricted cash	11.3	8.7
Accounts receivables, net of allowance for doubtful accounts of $1.0 million and $2.3 million respectively	137.0	140.4
Inventories	51.9	58.0
Other current assets	23. 5	35.9
Total current assets	**243.9**	**302.0**
Noncurrent assets		
Investments in unconsolidated associates	57.0	82.6
Loans to associates	9.5	17.6
Property plant and equipment, net	392.5	432.2
Deferred tax, net of valuation allowance	26.9	21.2
Goodwill	172.6	181.9
Other intangible assets	1.1	2.0
Other noncurrent assets	7.1	3.4
Total noncurrent assets	**666.7**	**740.9**
Total assets	**910.6**	**1,042.9**
LIABILITIES AND SHAREHOLDERS' EQUITY **Current liabilities**		
Current portion of interest-bearing debt	4.7	7.2
Other current liabilities	153.6	170.6
Total current liabilities	**158.3**	**177.8**
Long-term interest-bearing debt	543.0	596.7
Subordinated related party loan	58.3	58.3
Deferred tax	2.8	7.3
Other noncurrent liabilities	1.0	2.4
Total noncurrent liabilities	**605.1**	**664.7**
Shareholders' equity		
Common shares of par value $0.01 per share; 1.0 billion shares authorised, 147,462,012 outstanding shares at December 31, 2018 (December 31, 2017: 147,281,887 shares of $0.01 par value)	1.5	1.5
Additional paid-in capital	926.7	926.0
Accumulated deficit	(1,519.0)	(1,466.0)
Accumulated other comprehensive loss	(2.1)	(1.2)
Contributed surplus	740.1	740.1
Total shareholders' equity	**147.2**	**200.4**
Total liabilities and shareholders' equity	**910.6**	**1,042.9**

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

Archer Limited and subsidiaries
Consolidated statement of cashflows

($ in millions)	YEAR ENDED DECEMBER 31	
	2018	**2017**
Cash Flows from Operating Activities		
Net (loss) / income	**(53.0)**	**61.1**
Net loss from discontinued operations	**-**	**2.2**
Net (loss) / income from continuing operations	**(53.0)**	**63.3**
Adjustment to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	55.7	63.7
Gain on debt restructure	-	(121.1)
Debt fees paid and expensed	-	7.4
Share-based compensation expenses	0.7	0.5
Net loss / (gain) on sale of assets	0.2	(0.7)
Gale on sale of Frac Valve business	(8.8)	-
Gain recorded on QES IPO	(2.3)	-
Impairment of goodwill and other assets	1.1	3.2
Share of losses of unconsolidated affiliates	39.4	14.9
Amortization of loan fees and senior note premium	1.1	2.3
Foreign currency (loss)/gain	18.6	(8.9)
Changes in operating assets and liabilities		
Decrease in trade accounts receivable and other short-term receivables	10.7	9.5
(Increase) / decrease in inventories	(2.0)	2.5
Decrease in trade accounts payable and other short-term liabilities	(7.6)	(7.9)
Change in other operating assets and liabilities, net	(16.9)	(13.1)
Cash used in operating activities of discontinued operations	-	(2.2)
Net cash provided by operating activities	**36.9**	**13.4**
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(24.5)	(12.5)
Proceeds from sale of property, plant and equipment	1.2	2.3
Proceeds from disposal of subsidiary and liquidation of equity investment	33.2	-
Investment in / loans to associates	(11.6)	(8.8)
Net cash used in investing activities	**(1.7)**	**(19.0)**
Cash Flows from Financing Activities		
Borrowings under revolving facilities	9.4	3.7
Repayments under revolving facilities	(63.6)	(36.2)
Proceeds from debt	0.8	0.5
Repayment of debt	(2.7)	(40.0)
Debt issuance costs	-	(7.4)
Net proceeds from private placement and subsequent offering	-	102.7
Net cash (used in) / provided by financing activities	**(56.1)**	**23.3**
Effect of exchange rate changes on cash and cash equivalents	(15.3)	14.8
Net (decrease) / increase in cash and cash equivalents	**(36.2)**	**32.5**
Cash and cash equivalents, including restricted cash, at beginning of the year	67.7	35.2
Cash and cash equivalents, including restricted cash, **at the end of the year**	**31.5**	**67.7**
Interest paid	(40.9)	(40.0)
Taxes paid	(3.5)	(3.8)

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

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

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($ in millions)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	CONTRIBUTED SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2016	**0.6**	**823.7**	**(1,527.1)**	**(7.7)**	**740.1**	**29.6**
Proceeds from private placement	0.8	98.3	-	-	-	99.1
Proceeds from subsequent offering	0.1	5.7	-	-	-	5.8
Costs of share issue	-	(2.2)	-	-	-	(2.2)
Foreign currency translation differences	-	-	-	7.2	-	7.2
Change in residual pension liability	-	-	-	(0.7)	-	(0.7)
Share-based compensation	-	0.5	-	-	-	0.5
Net income	-	-	61.1	-	-	61.1
Balance at December 31, 2017	**1.5**	**926.0**	**(1,466.0)**	**(1.2)**	**740.1**	**200.4**
Foreign currency translation differences	-	-	-	(1.6)	-	(1.6)
Change in residual pension liability	-	-	-	0.7	-	0.7
Share-based compensation	-	0.7	-	-	-	0.7
Net loss	-	-	(53.0)	-	-	(53.0)
Balance at December 31, 2018	**1.5**	**926.7**	**(1,519.0)**	**(2.1)**	**740.1**	**147.2**

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

Note 1 — General Information

Archer is an international oilfield service company providing a variety of oilfield products and services through its global organisations. Services include Platform Drilling, Land Drilling, Modular Rigs, Engineering services, Wireline services, 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, USD, or $ rounded to the nearest million, unless otherwise stated.

We present our financial statements on a continuing business basis and separately present 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 generally consolidated in our financial statements.

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 unconsolidated associates.

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 the prior years’ consolidated financial statements are reclassified when necessary to conform to the current year presentation. We have reclassified $7 million of corporate costs, which were reported in operational costs in 2017, to Selling general and administration costs.

Going concern

Our Board of Directors confirms their assumption of the Group as a going concern for the foreseeable future, being a period of not less than 12 months from the date of this report. This assumption is based on the liquidity position of the Group, forecast operating results, and the market outlook for the oil service sector as at December 31, 2018. The Board believes the annual report provides a fair presentation of the Group’s assets and debt, financial position and financial performance.

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 amortization, income taxes and valuation allowances and purchase price allocations. The accounting estimates used in the preparation of the consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes.

Revenue from contracts with customers

The activities that primarily drive the revenue earned from our drilling contracts include:

- Providing specialist crew for the operation of, or repair, maintenance or modifications of Customer's platform rigs;
- Providing land drilling rigs and modular rigs, and the crew and supplies necessary to operate the rigs;
- Mobilizing and demobilizing land rigs between well sites;
- Wireline services; and
- Rental of equipment.

Consideration received for performing these activities consist primarily of contract dayrates. We account for our integrated services as a single performance obligation that is (i) satisfied over time and (ii) comprised of a series of distinct time increments. Occasionally we receive lump mobilisation fees and fixed fees for engineering projects.

We recognize consideration for activities that correspond to a distinct time increment within the contract term in the period when the services are performed. We recognize consideration for activities that are (i) not distinct within the context of our contracts and (ii) do not correspond to a distinct time increment, rateably over the estimated contract term.

We determine the total transaction price for each individual contract by estimating both fixed and variable consideration expected to be earned over the term of the contract. The amount estimated for variable consideration may be constrained and is only included in the transaction price to the extent that it is probable that a significant reversal of previously recognized revenue will not occur throughout the term of the contract. When determining if variable consideration should be recognized, we consider whether there are factors outside of our control that could result in a significant reversal of revenue as well as the likelihood and magnitude of a potential reversal of revenue. We re-assess these estimates each reporting period as required. Refer to Note 3 - Revenue from Contracts with Customers.

Dayrate Drilling Revenue - Our contracts generally provide for payment on a dayrate basis, with higher rates for periods when the drilling unit is operating and lower rates or zero rates for periods when drilling operations are interrupted or restricted. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis. Such dayrate consideration is allocated to the distinct hourly increment it relates to within the contract term, and therefore, recognized in line with the contractual rate billed for the services provided for any given hour.

Mobilization Revenue - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the mobilization of our rigs. These activities are not considered to be distinct within the context of the contract and therefore, the associated revenue is allocated to the overall performance obligation and recognized rateably over the expected term of the related drilling contract. We record a contract liability for mobilization fees received, which is amortized rateably to contract drilling revenue as services are rendered over the initial term of the related drilling contract.

Demobilization Revenue - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the demobilization of our rigs. Demobilization revenue expected to be received upon contract completion is estimated as part of the overall transaction price at contract inception and recognized over the term of the contract. In most of our contracts, there is uncertainty as to the likelihood and amount of expected demobilization revenue to be received. For example, the amount may vary dependent upon whether or not the rig has additional contracted work following the initial contract. Therefore, the estimate for such revenue may be constrained, as described above, depending on the facts and circumstances pertaining to the specific contract. We assess the likelihood of receiving such revenue based on past experience and knowledge of the market conditions.

Revenues Related to Reimbursable Expenses - We generally receive reimbursements from our customers for the purchase of supplies, equipment, personnel services and other services provided at their request in accordance with a drilling contract or other agreement. Such reimbursable revenue is variable and subject to uncertainty, as the amounts received and timing thereof are highly dependent on factors outside of our influence. Accordingly, reimbursable revenue not recorded and not included in the total transaction price until the uncertainty is resolved, which typically occurs when the related costs are incurred on behalf of a customer. We are generally considered a principal in such transactions and record the associated revenue at the gross amount billed to the customer, at a point in time, as "Reimbursable revenues" in our Consolidated Statements of Operations.

Foreign currencies

For subsidiaries that have functional currencies other than the USD, 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 the functional currency of the respective entity at the rates of exchange in effect on the date of the transaction. Foreign currency assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

Current and noncurrent classification

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

Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with an original 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 irrecoverable. If a previously written off debt is subsequently recovered it is recorded as a credit to bad debt expense.

Net bad debt expense for 2018 was $0.2 million (2017: $0.5 million).

Inventories

Inventories are valued at the lower of first-in, first-out cost or market value. 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.

Equity Method Investments

Investments in which we have the ability to exercise significant influence, but do not control, are accounted for under the equity method of accounting and are reported under Investments in unconsolidated associates in the Consolidated Balance Sheet. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors such as representation on the investee's Board of Directors and the nature of commercial arrangements are considered in determining whether the equity method of accounting is appropriate.

Under this method of accounting, our share of the net earnings or losses of the investee, together with other-than-temporary impairments in value and gain/loss on sale of investments, is reported under Share of gains/losses of unconsolidated associates in the Consolidated Statement of Operations.

We evaluate our equity method investments whenever events or changes in circumstance indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, a loss is recorded in earnings in the current period.

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:

- Buildings 3 – 40 years
- Drilling and well service equipment 2 – 30 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 mobilization and commissioning costs. No charge for depreciation is made until commissioning of the new builds has been completed and it is ready for its intended use.

Capital leases

We lease office space and equipment at various locations. Our Oiltools division also leases operating equipment which in turn 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 amortization 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 amortization. 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 amortization period. Once fully amortised, the intangible’s cost and accumulated amortization 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 aggregate certain components with similar economic characteristics.

The goodwill impairment test involves an initial qualitative analysis to determine whether it is more likely than not that the carrying value of our goodwill exceeds its fair value. If we conclude that our goodwill is more likely than not impaired, we continue with our analysis which involves 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 and capital expenditures. The discount rate is based on our specific risk characteristics, its weighted average cost of capital and its underlying forecasts. There are inherent risks and uncertainties involved in the estimation process, such as determining growth and discount rates.

Impairment of long-lived assets and intangible assets

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

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 meets the definition of an intangible asset is capitalised and amortised.

Defined benefit pension plans

We previously operated one defined benefit plan that provided retirement, death and termination benefits. In 2017 we transferred the majority of our employees covered by the defined benefits plan to a defined contribution plan, as part of our strategy to discontinue the defined benefits plan. At December 31, 2017 a few employees remained in the defined benefit plan, until they could be transferred in 2018. At December 31, 2018 the defined benefit plan has been terminated.

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, including vested restricted stock units. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments, for which we include share options and unvested restricted stock units.

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. Amortization 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 expense” in the period in which they are incurred. Unamortised loan costs are presented as a reduction of the carrying value of the related debt.

Share-based compensation

We have established a stock option plan under which employees, directors and officers of the Archer 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.

The Board has from time to time granted restricted stock units, or RSU’s, to members of Archer’s management team. The RSUs vest typically with 1/4th on each date falling approximately one, two, three and four years after grant date. At December 31, 2018 a total of 2,266,400 RSUs was outstanding.

Compensation cost in respect of share options and RSUs is initially recognised based upon grants expected to vest with appropriate subsequent adjustments to reflect actual forfeitures. National insurance contributions will arise from such incentive programs in some tax jurisdictions. We accrue for estimated contribution over the vesting periods of the relevant instruments.

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 in each period is recognized in the “Accumulated other comprehensive 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.

Discontinued operations

The disposal of a component of an entity or a group of components of an entity is reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.

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.

We are presenting our business under two reporting segments:

- Eastern Hemisphere
- Western Hemisphere

Western Hemisphere comprises our land drilling and related operations in Latin America, plus our Frac Valve producing facility in North America (which was sold during 2018) and our 28% interest in QES. The Eastern Hemisphere segment contains Platform Drilling operations in the North Sea, plus our global Oiltools and Wireline Service divisions In addition we report corporate costs, and assets as separate line items.

Segmental information is presented in Note 25.

The accounting principles for the segments are the same as for our consolidated financial statements.

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

We adopted the following accounting standard updates ("ASUs") in the year:

ASU 2014-09 - Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09, which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. Under the new guidance, revenue is recognized when a customer obtains control of promised goods or services and in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services.

We adopted ASU 2014-09 and its related amendments, or collectively Topic 606, effective January 1, 2018 using the modified retrospective method. Accordingly, we have applied the five-step method outlined in Topic 606 for determining when and how revenue is recognized to all contracts that were not completed as of the date of adoption. Revenues for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported under the previous revenue recognition guidance. For contracts that were modified before the effective date, we have considered the modification guidance within the new standard and determined that the revenue recognized and contract balances recorded prior to adoption for such contracts were not impacted. While Topic 606 requires additional disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, its adoption has not had a material impact on the measurement or recognition of our revenues and so no further disclosure of the impact of adoption has been presented.

See Note 3 - Revenue from contracts for further information.

ASU 2016-18 Statement of Cash Flows - Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, to address classification of activity related to restricted cash and restricted cash equivalents in the cash flows. The standard eliminates the presentation of transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the cash flows to the related captions in the balance sheet are required, either on the face of the cash flow or in the notes to the Consolidated Financial Statements. Additional disclosures are required for the nature of the restricted cash and restricted cash equivalents.

The standard is effective for fiscal years beginning after 15 December 2017. We have adopted the new standard effective January 1, 2018 under the retrospective approach. The result of this adoption was a classification adjustment on our Consolidated Statement of Cash Flows for each of the years presented.

Other ASUs

We adopted the following ASUs in the year, none of which had any impact on our consolidated financial statements and related disclosures:

- ASU 2016-15 Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments
- ASU 2017-01 Business Combinations (Topic 805)— Clarifying the Definition of a Business
- ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323)
- ASU 2017-04 Intangibles (Topic 350)— Simplifying the Test for Goodwill Impairment
- ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)
- ASU 2017-07 Compensation - Retirement Benefits (Topic 715)
- ASU 2017-09 Compensation - Stock Compensation (Topic 718)
  ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220)
- ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)
- ASU 2018-04 Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980)
- ASU 2018-05 Income Taxes (Topic 740)

- ASU 2018-06 Codification Improvements to (Topic 942)
- ASU 2018-19 Codification Improvements to (Topic 326)

Recently Issued Accounting Standards

The FASB have issued the following ASUs that we have not yet adopted but which could affect our consolidated financial statements and related disclosures in future periods.

- ASU 2016-02 Leases (Topic 842) (also 2018-01, 2018-10, 2018-11, 2018-20)
- ASU 2016-13 Financial Instruments — Credit Losses (Topic 326)
- ASU 2018-07 Compensation-Stock Compensation (Topic 718)
- ASU 2018-13 Fair Value Measurement (Topic 820)
- ASU 2018-16 Derivatives and Hedging (Topic 815)
- ASU 2018-17 Consolidation (Topic 810)

ASU 2016-02 - Leases (also 2018-01, 2018-10, 2018-11. 2018-20)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. It also offered specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal year.

Effective January 1, 2019, we will adopt Topic 842 using the modified retrospective application through a cumulative-effect adjustment to retained earnings at January 1, 2019. We have elected the following transition practical expedients, which will be applied consistently to all leases that commenced before January 1, 2019:

1. We will not reassess whether any expired or existing contracts are or contain leases.
2. We will not reassess the lease classification for any expired or existing leases.
3. We will not reassess initial direct costs for any existing leases.
4. We will use hindsight in determining the lease term and in assessing impairment of the right-of-use assets.

We have determined that adoption of this standard will result in increased disclosure of our leasing arrangements. Additionally, we will recognize lease liabilities and corresponding right-of-use assets for leasing arrangements where we are a lessee. We expect to recognize an aggregate lease liability of between $40 million to $50 million on adoption. We have provided a summary of our commitments under operating leases at December 31, 2018 in Note 27 - Operating lease obligations.

ASU 2016-13 - Financial Instruments - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted only from January 1, 2019. Entities are required to apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as at the beginning of the first reporting period in which the guidance is adopted.

We are in the early stage of evaluating the impact of this standard update. Our customers are international oil companies, national oil companies and large independent oil companies. Our financial assets are primarily held with counter parties with high credit standing and we have historically had a low incidence of bad debt expense. Therefore, we do not currently expect this guidance to significantly affect our consolidated financial statements and related disclosures when we adopt it.

ASU 2018-07 Compensation - Stock Compensation

In June 2018, the FASB issued ASU 2018-07, Stock Compensation (Topic 718): Improvements to non-employee share-based payment accounting, which intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to non-employees. The guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures.

ASU 2018-13 Fair Value Measurement - Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The update is intended to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the US GAAP information requirements that are most important to users of an entity's financial statements. The guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted.

We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures.

Other accounting standard updates issued by the FASB

The FASB have issued several further updates not included above. We do not currently expect any of these updates to materially affect our consolidated financial statements and related disclosures either on transition or in future periods.

Note 3 — Revenue from contracts with customers

The following table provides information about receivables, contract assets and contract liabilities from our contracts with customers:

(In $ millions)	December 31, 2018	December 31, 2017
Accounts receivable net	137.0	140.4

Practical expedient - We have applied the disclosure practical expedient in ASC 606-10-50-14A(b) and have not included estimated variable consideration related to wholly unsatisfied performance obligations or to distinct future time increments within our contracts, including dayrate revenue. The duration of our performance obligations varies by contract.

Impact of Topic 606 on *Financial Statement Line Items* - Adopting Topic 606 did not have a material effect on the Consolidated Statement of Operations, or Consolidated Statement of Cash Flows for the period from January 1, 2018 through December 31, 2018 or the Consolidated Balance Sheets as of December 31, 2018. Refer to Note 2 – Accounting policies for more information on the adoption of Topic 606.

Note 4 — Restructuring costs

In 2017 and 2018 we have continued our focus on cost reductions. We continued to downsize our operations in Argentina according to current reduced levels of activity, rationalise our corporate function, and consolidate office facilities, closing offices in UAE, the United States and the United Kingdom. In total we expensed $16.4 million in connection with our restructuring actions in 2018 and $12.6 million in 2017.

An analysis of these costs is tabulated below:

($ in millions)	Year ended December 31, 2018			Year ended December 31, 2017		
	Severance costs	Office closure	Other costs	Severance costs	Office closure	Other costs
Eastern Hemisphere	0.2	-	0.4	1.2	1.9	-
Western Hemisphere	16.2	-	(0.4)	7.0	-	0.3
Discontinued operations				-	2.2	-
Total	16.4	-	-	8.2	4.1	0.3

At December 31 2018, and 2017, we have provided for the following restructuring costs:

$ in millions	**2018**	**2017**
Severance costs	3.0	0.6
Office Closure costs	-	2.7
Total	**3.0**	**3.3**

Note 5 — Impairments

Our long-lived assets predominantly consist of Land drilling rigs and equipment utilised by our Land drilling division in South America, and our two modular rigs. The carrying values of these assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular asset, or group of assets, may not be fully recoverable, and at least once each year as part of our annual reporting routine.

In 2018 we have recognised total impairment charges of $1.1 million in respect of land drilling rigs and equipment utilised in our Land drilling division in Latin America. Our test of our most significant fixed assets, conducted during the fourth quarter of 2018, involved a two-step process. The recoverability of the carrying values was first compared to total expected future cash flows expected to be generated by the assets. Where step one indicated that the carrying value may not be fully recoverable, a second exercise compared carrying values with estimated fair values in order to quantify any impairment loss.

As stated in our accounting policy, we use various methods to estimate the fair value of our assets, each of which involves significant judgement. The current economic climate is adding to uncertainties in the assumptions involved in valuations based on the future performance of assets. We use the most relevant data available, including specific independent valuations for our land rigs. The key inputs and assumptions used in the various valuations included future market growth rates, EBITDA margins, discount factors and asset lives. Reasonable variations in these assumptions could give rise to additional impairment, particularly in relation to the modular rigs and the Latin America drilling rigs.

Whilst acknowledging the uncertainty and the level of judgment involved in our estimates of value, we believe our determination of impairment charges to be reasonable and prudent.

In 2017 we recognised total impairment charges of $3.2 million in respect of land drilling rigs and equipment utilised in our Land drilling division in Latin America.

Please refer to Note 14 for further details on the calculation of goodwill impairments.

Note 6 — Other Financial Items

	YEARS ENDED DECEMBER 31	
($ in millions)	**2018**	**2017**
Foreign exchange (loss) / gain	(18.6)	8.9
Gain on debt restructure	-	121.1
Other items, net	4.3	(8.3)
Total other financial items, net	**(14.3)**	**121.7**

Foreign exchange gains and losses relate in the main to an intercompany loan balance denominated in Norwegian Kroner. The intercompany loan receivable is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact on the entity with a Norwegian Kroner functional currency is classified as other comprehensive income.

During the second quarter of 2017 we completed a comprehensive restructuring of our debt by the signing of an amendment and restatement agreement with the lenders under our multicurrency revolving credit facility, and the signing of certain amendment agreements with Seadrill in relation to the subordinated loans. The restructure is described in more detail in note 17. The debt restructure resulted in the recognition of a gain of $121.1 million in the second quarter of 2017.

The gain reported arose from the following elements of the refinancing agreement described in Note 17.

($ in millions)	
Forgiveness of subordinated debt owed to Seadrill	80.0
Forgiveness of guarantee fees owed to Seadrill	10.5
Forgiveness of accrued interest on subordinated debt owed to Seadrill	14.1
Cash settlement from Seadrill received as consideration for release from Guarantees	28.0
Up front accrual of interest on new loan up to maturity	(11.5)
Total gain	121.1

Note 7 — Income Taxes

Our income tax consists of the following:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2018**	**2017**
Current tax expense	2.2	1.0
Deferred tax benefit	(16.8)	(11.2)
Total income tax (benefit), net	**(14.6)**	**(10.2)**

Tax benefit is impacted by the de-recognition of deferred tax assets which we do not expect to be able to utilise within the foreseeable future. We have booked valuation allowances against deferred tax relating to net operating losses and foreign tax credits in Argentina, Brazil, Canada and North America, and other timing differences in Norway and the UK.

The Company, including its subsidiaries, is taxable in several jurisdictions based on its operations. A loss in one jurisdiction may not be offset against taxable income in another jurisdiction. Thus, the Company may pay tax within some jurisdictions even though it might have losses in others.

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

	YEARS ENDED DECEMBER 31	
($ in millions)	**2018**	**2017**
North America	1.3	0.1
South America	(7.0)	(6.2)
Europe	(9.7)	(4.9)
Others	0.8	0.8
Total	**(14.6)**	**(10.2)**

The income taxes for the years ended December 31 2018 and 2017 differed from the amount computed by applying the statutory income tax rate of 0-34% as follows:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2018**	**2017**
Income taxes at statutory rate	-	-
Effect of taxable losses from continuing operations*	(23.1)	(30.0)
Effect of taxable losses from discontinued operations	-	(2.2)
Effect of Impairment charges	0.2	0.5
Effect of other non-deductible expenses	3.7	1.8
Effect of share of losses of unconsolidated subsidiaries	0.1	2.4
Effect of pension plan curtailment	-	-
Effect of tax exempted income and credits	3.3	8.5
Effect of foreign exchange rate differences	-	4.2
Effect of valuation allowances	-	4.7
Effect of adjustments from prior years	(0.1)	-
Effect of state and withholding taxes	1.4	0.4
Actual tax (benefit)/expense recognized	**(14.6)**	**(10.2)**

**Figures exclude non-taxable income in Bermuda (net gain of $61.2 million)*

Deferred Income Taxes

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 consist of the following:

	DECEMBER 31	
($ in millions)	**2018**	**2017**
Pension	0.2	0.2
Tax losses carry forward	984.3	669.7
Impairments of tangible and intangible assets	(5.7)	4.5
Property differences	14.2	27.4
Provisions	12.2	78.9
Other	31.2	30.4
Gross deferred tax asset basis	**1,036.3**	**811.1**
Other	-	4.5
Gross deferred tax liability basis	**-**	**4.5**
Net deferred tax asset basis before valuation allowance	**1,036.3**	**806.6**
Valuation allowance	(926.6)	(755.8)
Net deferred tax asset basis	109.7	50.8
Net deferred tax asset	**24.1**	**13.9**

The deferred tax asset of $984.3 million shown in the above table under Tax losses carry forward, principally relates to carried forward tax losses of $761.2 million originating in the United States, and which expire over a period of 20 years, and tax losses of $49.2 million originating in Brazil. The Brazilian tax losses can be carried forward indefinitely.

Overall, deferred tax assets increased in 2018 due to additional tax losses incurred in 2018, mainly in United Kingdom, Norway and Argentina North. For tax losses incurred in 2018 for the South of Argentina, Canada and in the United States increase in deferred tax assets are offset by an increase in the valuation allowance, resulting in no net effect in the 2018 financial statements.

In total, the valuation allowance is a provision against deferred tax assets relating to tax operating losses, 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 against future tax liabilities.

Deferred taxes are classified as follows:

	DECEMBER 31	
($ in millions)	**2018**	**2017**
Deferred tax asset	26.9	21.2
Deferred tax liability	(2.8)	(7.3)
Net deferred tax asset	**24.1**	**13.9**

No provision has been made in respect of deferred tax on unremitted earnings from subsidiaries (2017: $Nil). No tax would be expected to be payable if unremitted earnings were repatriated to the ultimate parent.

The 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 Argentina, Brazil, Malaysia, Norway and the UK with the earliest periods under audit or open and subject to examination by the tax authorities being 2013, 2014, 2015, 2016, 2017 and 2018.

As in previous years, all benefits and expenses in relation to uncertain tax positions have been analysed in terms of quantification and risk, and we have provided for uncertain benefits and expense where we believe is more likely than not that they will crystalize.

The Group's accounting policy is to include interest and penalties in relation to uncertain tax positions within tax expense. Withholding taxes are expensed as and when withheld, and are credited to the income statement if and when recovered.

Note 8 – Discontinued Operations

In 2017 $2.2 million of costs reported in discontinued operations related to the final termination of the use of office facilities in United States by Archer, which had previously housed the headquarters of the North American operations which were contributed to QES at the end of 2016.

Note 9 — Earnings Per Share, or EPS

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

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2018			
Basic loss per share from continuing operations	(53.0)	147,428,948	(0.36)
Effect of dilutive options *	—	-	—
Diluted gain per share	(53.0)	147,428,948	(0.36)

	INCOME/(LOSS) *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	INCOME/(LOSS) PER SHARE (IN $)
2017			
Basic income per share from continuing operations	63.3	131,416,088	0.48
Effect of dilutive options	—	261,308	—
Diluted loss per share	63.3	131,677,396	0.48
Basic income per share from discontinued operations	(2.2)	131,416,088	(0.02)
Effect of dilutive options*	—	261,308	—
Diluted loss per share	(2.2)	131,677,396	(0.02)

* Share-based compensation of approximately 269,753 shares were excluded from the computation of diluted earnings per share for the year ended 2018 as the effect would have been anti-dilutive due to the net loss for the period.

Note 10— Inventories

Our inventories include the following:

	DECEMBER 31	
($ in millions)	**2018**	**2017**
Manufactured:		
Raw materials	3.4	-
Finished goods	4.9	16.5
Work in progress	0.6	1.8
Total manufactured	**8.9**	**18.3**
Drilling supplies	15.2	14.2
Chemicals	2.1	3.5
Other items and spares	25.7	22.0
Total inventories	**51.9**	**58.0**

Note 11 — Other Current Assets

Our other current assets include:

	DECEMBER 31	
($ in millions)	**2018**	**2017**
Prepaid expenses	7.6	10.7
VAT and other taxes receivable	8.9	12.8
Other short term receivables	7.0	12.4
Total other current assets	**23.5**	**35.9**

Note 12 — Investments in Unconsolidated Associates

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

	2018	2017
C6 Technologies AS	50.00%	50.00%
Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.)	50.00%	50.00%
Quintana Energy Services Inc.	28.1%	42.00%
TAQA Archer Services LLC	-	51.00%

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

	DECEMBER 31	
($ in millions)	**2018**	**2017**
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services Inc.	57.0	74.3
TAQA Archer Services LLC	-	8.3
Total investments in unconsolidated associates	**57.0**	**82.6**

The components of investments in unconsolidated associates are as follows:

($ in millions)	2018				
	QES	**C6**	**Rawabi**	**TAQA**	**Total**
Net book balance at beginning of year	74.3	-	-	8.3	82.6
Additional capital investment	10.0	-	-	-	10.0
Share of (losses) / income	(5.2)	0.8	-	-	(4.4)
Conversion of loan balance	10.7	-	-	-	10.7
Adjustment to carrying value as a result of IPO	2.3	-	-	-	2.3
Allocation of investment to settle trading balances	-	-	-	(2.7)	(2.7)
Final cash distribution on liquidation	-	-		(5.4)	(5.4)
Impairment adjustment and other write-offs/adjustments	(35.1)	(0.8)	-	(0.2)	(36.1)
Carrying value of investment at end of year	57.0	-	-	-	57.0
Carrying value of loan to associate at end of year	-	9.5	-	-	9.5

($ in millions)	2017				
	QES	**C6**	**Rawabi**	**TAQA**	**Total**
Net book balance at beginning of year	85.2	-	-	9.7	94.9
Additional capital investment	-	2.6	-	-	2.6
Share in results of associates	(10.9)	(2.6)	-	(1.5)	(14.9)
Carrying value of investment at end of year	74.3	-	-	8.3	82.6
Carrying value of loan to affiliate at end of year	11.0	6.6	-	-	17.6

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

Investment in QES

As part of the IPO conducted by Quintana Energy Service Inc. (“QES”),in February 2018, we received 8,494,306 shares in QES in consideration for our existing holdings in QES which comprised, 42% of the common units in Quintana Energy Services LLP, the outstanding loan owed by the partnership including accrued interest, and all penny warrants held by Archer. We valued our investment after the IPO at the offer price of $10.00 per share. In addition to the shares issued to us in respect of our existing investment, we purchased an additional 1 million shares at $10.00 per share under the IPO, after which our total shareholding is close to 9.5 million shares, or 28.1%. We continue to account for our shareholding in QES using the equity method of accounting, recognising our share of results of our investment within financial items and adjusting the carrying value of the investment accordingly.

Since completing the IPO the shares of QES have fallen in value and have led us to consider whether the carrying value of our investment was impaired as at December 31, 2018. We do not believe the total fall in in the share price is a permanent loss in value. We were guided by professional analysts’ estimates of future value, which resulted in our recognising an impairment charge relating to the reduction which we believe is other than temporary, reducing our carrying value of QES shares to an amount equivalent to $6.0 per share. At the time of filing the share price was $4.34 per share.

Summarised financial information for QES is detailed in the table below:

($ in millions)	At December 31 2018	At December 31 2017
Current assets	160.1	133.9
Non-current assets	164.4	141.8
Current liabilities	89.5	149.3
Non-current liabilities	33.2	41.4

	Year ended December 31, 2018	Year ended December 31, 2017
Total revenue	604.4	438.0
Operating loss	5.7	10.5
Net loss	18.2	21.2

Investment in C6 Technologies AS

In addition to our capital investment in C6 Technologies AS, we have made an additional investment by way of a loan which, at December 31, 2018, had a carrying value of $9.5 million (2017 $6.6 million). The loan is repayable in 2021. Our equity share of the losses incurred by C6 in 2018 is greater than the remaining carrying value of our capital investment. We have applied the remaining share of the losses as a reduction of the carrying value of this loan due from the entity.

Investment in Rawabi Archer Company Ltd.

Rawabi Archer Company Ltd., or Rawabi, is a joint venture with an unrelated Saudi Arabian company, Rawabi Holding Company Ltd. The joint venture was formed, to provide oilfield services, including directional drilling, tubular services, underbalanced services, production services, and rental, drilling and completion services in Saudi Arabia. Currently, the joint venture is providing rental, fishing, milling and thru tubing services in Saudi Arabia.

We have determined that Rawabi 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 and have accounted for our investment using the equity method.

In 2012, the carrying value of our investment in Rawabi was impaired to zero due to sustained historical losses. The entity has had limited activity.

Investment in TAQA

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

Although we owned a majority of the voting shares of the joint venture, as a result of the above evaluation, we have not consolidated the entity. Instead we accounted for the joint venture using the equity method of accounting.

During 2017 the directors of TAQA took the decision to close down the joint venture. The liquidation of TAQA was completed in 2018. By agreement some of the final distribution to TAQA investors took account of trading balances owed to/by the investors. After application of the cash received to trading balances, and carrying value of our investment in the joint venture, the liquidation resulted in a residual write off of the investment of $0.2 million which is reported within other financial items.

Note 13 — Property Plant and Equipment

($ in millions)	OPERATIONAL EQUIPMENT	OTHER FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
As of December 31, 2018				
Cost	851.0	31.0	3.0	885.0
Accumulated depreciation and impairments	(466.5)	(26.0)	-	(492.5)
Net book value	**384.5**	**5.0**	**3.0**	**392.5**
Depreciation for 2018	53.9	1.0	-	54.9
As of December 31, 2017				
Cost	878.9	33.0	4.8	916.7
Accumulated depreciation and impairments	(456.5)	(28.0)	-	(484.5)
Net book value	**422.4**	**5.0**	**4.8**	**432.2**
Depreciation for 2017	58.7	3.5	-	62.2

Operational equipment includes drilling and well services equipment. Included in the cost of operational equipment is $25.3 million in respect of assets held under capital leases (2017: $25.6 million). Other fixed assets include land and buildings, office furniture and fixtures, and motor vehicles. At December 31, 2018, $1.6 million of fixed assets have been pledged in respect of finance agreements for their acquisition (2017: $4.5 million)

During 2018 we recognised total impairment losses of $1.1 million relating to rigs and land drilling equipment in in our South American business. Step one of our testing of the two modular rigs, which uses expected consolidated cash flows, indicated that the rigs are not impaired.

In 2017 we recognised total impairment losses of $3.2 relating to rigs and land drilling equipment used in our South American business. Step one of our testing of the two modular rigs, which uses expected consolidated cash flows, indicated that the rigs were not impaired.

The testing for impairment of our modular rigs, and other long lived assets, involves significant judgment and assumptions to be made in connection with the future performance of the various components of our business operations, including assumptions about future cash flows, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates and other assumptions used to estimate our assets' fair value and future reductions in our expected cash flows, current market conditions worsening or persisting for an extended period of time could lead to future material non-cash impairment charges in relation to our major assets.

Note 14 — Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired, which relates primarily to intangible assets pertaining to the acquired workforce and expected future synergies.

($ in millions)	**2018**			**2017**		
	Asset value	Impairment	**Net Value**	Asset value	Impairment	**Net Value**
Value at beginning of year	866.5	(684.5)	181.9	857.1	(684.5)	172.6
Currency adjustments	(9.3)	-	(9.3)	9.3	-	9.3
Net book balance at end of year	**857.2**	**(684.5)**	**172.6**	**866.4**	**(684.5)**	**181.9**

We test goodwill for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The testing of the valuation of goodwill can involve significant judgment and assumptions to be made in connection with the future performance of the various components of our business operations, including assumptions about future cash flows of each reporting unit, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates, gross profit performance, and other assumptions used to estimate our reporting units' fair value, future reductions in our expected cash flows, should current market conditions worsen or persist for an extended period of time, could lead to a future material non-cash impairment charge in relation to our remaining goodwill.

In 2018, our initial qualitative analysis of possible indicators of impairment of our goodwill did not lead to a conclusion that it was more likely than not that the carrying value of our goodwill was impaired. The main factors which lead us to this conclusion were

- The upturn in the Oilfield service sector, with a steadily increasing oil price, and our solid contract backlog within the North Sea, driven by the Platform Drilling division where we secured significant key contract renewals and expansion during 2018: and
- The significant headroom indicated by our prior year testing in respect of our remaining goodwill;

Note 15 — Other Intangible Assets

The following table discloses our other intangible assets:

($ in millions)	TECHNOLOGY	CUSTOMER RELATIONSHIPS	TRADE NAMES	PATENTS	OTHER	TOTAL
Estimated useful lives	8–10 years	4–11 years	Indefinite	9–20 years	Indefinite	
Remaining average amortization period, December 31, 2018	-	-		3.7 years		
As of December 31, 2018						
Cost	8.2	13.0	1.3	2.7	0.1	25.3
Accumulated amortization and impairments	(8.2)	(13.0)	(1.3)	(1.6)	(0.1)	(24.2)
Net book value	**-**	**-**	**-**	**1.1**	**-**	**1.1**
Amortization and impairments for 2018	0.4	0.2	-	0.3	-	0.9
As of December 31, 2017						
Cost	8.7	13.2	1.3	2.9	0.1	26.2
Accumulated amortization and impairments	(8.3)	(13.1)	(1.3)	(1.4)	(0.1)	(24.2)
Net book value	**0.4**	**0.1**	**-**	**1.5**	**-**	**2.0**
Amortization and impairments for 2017	0.6	0.6	-	0.3	-	1.5

We completed our review of long-lived assets for impairment in the fourth quarter of 2018 and concluded that none of our intangible assets were impaired.

The judgment and assumptions employed in the testing of our intangible assets for impairment are subject to similar uncertainties as those involved in the testing of goodwill discussed above.

Note 16 — Other Noncurrent Assets

Our other noncurrent assets are composed of the following:

($ in millions)	DECEMBER 31	
	2018	**2017**
Deferred mobilisation costs	-	1.8
Other	7.1	1.6
Total other noncurrent assets	**7.1**	**3.4**

Note 17 — Interest-bearing Debt

($ in millions)	December 31, 2018			December 31, 2017		
	Loan balance	Unamortised debt issuance costs	Long-term debt less unamortised debt issuance costs	Loan balance	Unamortised debt issuance costs	Long-term debt less unamortised debt issuance costs
Multicurrency revolving credit facility	510.0	(1.6)	508.4	566.8	(2.5)	564.3
Related party subordinated loans	58.3	-	58.3	58.3	-	58.3
Hermes-covered term loans	24.5	(0.3)	24.2	25.5	(0.5)	25.0
Other loans and capital lease liability	15.1	-	15.1	14.6	-	14.6
Total loans and capital lease liability	**607.9**	**(1.9)**	**606.0**	**665.2**	**(3.0)**	**662.2**
Less: current portion	(5.8)	1.1	(4.7)	(8.3)	1.1	(7.2)
Long-term portion of interest bearing debt	**602.1**	**(0.8)**	**601.3**	**656.9**	**(1.9)**	**655.0**

Multicurrency term and revolving credit facilities

The total amount available under the Multicurrency term and revolving credit facilities (the “Facilities”) is $610.8 million, split between $372.8 million under a term loan and $238.0 million in a revolving facility. A total of $510.0 million was drawn at December 31, 2018 under the Facilities and $100.8 million remains available. The Facilities are secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

The interest payable on the Facilities is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA. In March 2020 quarterly instalments of $10 million commence, and the final maturity date of the Facilities is September 30, 2020.

The Facilities contain certain financial covenants, including, among others:

- Archer will ensure that the 12 months rolling Nominal EBITDA (after certain adjustments) of the Group is at least $55 million in 2018, $65 million in 2019 and $85 million in 2020.
- Archer shall ensure that the 12 months rolling EBITDA (as reported) for the Group is positive.
- Archer shall maintain $30 million in freely available cash (including undrawn committed credit lines).
- Archer shall ensure that the capital expenditures shall not exceed $40 million per year.

The Facilities contain 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, 2018, the Company is in compliance with all covenants as agreed with its lenders under the Facilities.

Related party subordinated loan

We established a subordinated convertible loan with face value of $45 million in Q2 2017 from Seadrill Ltd., or Seadrill. The loan matures on December 31, 2021, and bears payment-in-kind interest of 5.5% per year. The conversion rights attached to the loan are exercisable from January 1, 2021, and entitle Seadrill to convert the debt at a rate of 0.48 ordinary shares in Archer for each $1.00 of loan and accrued interest.

Interest up to the maturity date has been accrued on the loan balance, increasing the book value of the loan form $45 million to $58.3 million.

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 financing of the modular rig, Archer Topaz. The agreement was amended and restated on October 6, 2017. The loan matures September 2020, and contains covenants aligned to those of the Facilities. The interest rate applied to this loan is 1.45% above EURIBOR. At December 31, 2018 the equivalent of $24.5 million was outstanding under this facility.

Other loans and capital leases

We have two $11.7 million overdraft facilities and at December 31, 2018, net borrowing under these facilities amounted to $4.6 million.

At December 31, 2018 we have borrowed $5.7 million under a long term facility in Argentina, and we have borrowed a further $2.7 million under local short term facilities in Latin America.

We have finance arrangements relating to equipment in our Oiltools division and insurance premiums. At December 31, 2018, the balance due under these arrangements was $2.1 million.

Our outstanding interest bearing debt as of December 31, 2018, is repayable as follows:

($ in millions)	CAPITAL LEASE	OTHER DEBT	TOTAL
Year ending December 31			
2019	1.4	4.4	5.8
2020	0.2	540.8	541.0
2021	-	60.1	60.1
2022 and thereafter	-	1.0	1.0
Total debt	**1.6**	**606.3**	**607.9**

Note 18 — Other Current Liabilities

Our other current liabilities are comprised of the following:

	DECEMBER 31	
($ in millions)	**2018**	**2017**
Accounts payable	45.5	53.6
Accrued restructuring costs	3.0	3.3
Accrued expenses and prepaid revenues	80.6	85.0
Taxes payable	0.2	3.8
VAT, employee and other taxes	24.3	24.9
Total other current liabilities	**153.6**	**170.6**

Note 19 — Other Noncurrent Liabilities

Our other noncurrent liabilities are comprised of the followings:

	DECEMBER 31	
($ in millions)	**2018**	**2017**
Accrued pension and early retirement obligation	-	0.6
Other noncurrent liabilities	1.0	1.8
Total other noncurrent liabilities	**1.0**	**2.4**

Note 20 — Commitments and Contingencies

Purchase commitments

As of December 31, 2018, we have committed to purchase obligations including capital expenditures amounting to $3.3 million, (2017: $9.4 million). During 2018 and 2017 we have significantly reduced our expenditure, both capital and operational, in response to the continued depressed market conditions within the oil and gas industry.

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)	**2018**	**2017**
Guarantees to customers of the Company's own performance	75.3	94.3
Guarantee in favour of banks	13.5	17.9
Other guarantees	3.3	4.8
	92.1	**117.0**

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, 2018, 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.

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 21 — Share Capital

	DECEMBER 31			
	2018		**2017**	
	All shares are common shares of $0.01 par value each		*All shares are common shares of $0.01 par value each*	
	SHARES	**$ MILLION**	**SHARES**	**$ MILLION**
Authorized share capital	1,000,000,000	10.0	1,000,000,000	10.0
Issued, outstanding and fully paid share capital	147,462,012	1.5	147,281,887	1.5

Archer shares are traded on the Oslo Stock exchange under the symbol "ARCHER.OL."

On February 28, 2017, we completed a private placement under which we issued 84,000,000 common shares of par value $0.01 each, at a subscription price of NOK 10.00, raising NOK 840 million or approximately $99 million, followed up by a subsequent offering, as a result of which a further 4,925,171 ordinary $0.01 shares were allotted at an issue price of NOK 10, or approximately $1.17, each, raising gross proceeds of $5.8 million.

The Board have indicated that no dividend will be distributed in respect of the results for the financial year 2018.

Note 22 — Share Option Plans

We have granted share options to our senior management and directors that provide the management 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 vest over a period of one to five years.

As of December 31, 2018, Archer has two active option programs, in addition to two programs which were acquired and have been continued following our merger with Allis-Chalmers in 2011.

The following summarises share option transactions related to the Archer programs in 2018 and 2017:

	2018		2017	
	OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE - NOK**	**OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE - NOK**
Outstanding at beginning of year	**1,532,433**	**31.28**	**721,633**	**98.65**
Vested/granted	-	-	1,200,000	10.00
Forfeited/expired	(63,000)	66.16	(398,200)	90.50
Outstanding at end of year	**1,469,433**	**30.00**	**1,532,433**	**31.28**
Exercisable at end of year	669,433	53.89	321,633	110.62

No income was received in 2018 as a result of share options being exercised (2017: $ nil).

Options issued under the Allis-Chalmers 2003 Program may be exercised up to March 5, 2019. The exercise price is between NOK 60.30 and NOK 722.60. At December 31, 2018, all 14,146 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 184.80 and NOK 192.20. At December 31, 2018, all 115,286 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

Options issued under the 2014 Program may be exercised up to March 1, 2020. The exercise price is between NOK 28.72 and NOK 71.80 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2018, all 140,001 options outstanding under the 2014 Program were exercisable.

Options issued under the 2017 Program may be exercised up to March 1, 2022. The exercise price is NOK 10.00 per share, and may be exercised one third each year beginning twelve months after March 1, 2018. At December 31, 2018, 1,200,000 options were outstanding under the 2017 Program and 400,000 of the options were exercisable.

The weighted average remaining contractual life of outstanding options is 34 months (2017: 45 months).

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 usually 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 pay-outs.

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.

We did not grant any new options in 2018. The parameters used in calculating weighted fair values for option granted during 2017 were as follows:

- average risk-free interest rate 0.7%
- volatility 70.0%
- dividend yield 0%
- option holder retirement rate 10%
- expected term 3.0 years

Restricted Stock units

The Board has from time to time granted restricted stock units, or RSU's, to members of Archer's management team. The RSUs typically vest, 33% on each of the dates falling approximately one, two and three years after the grant date. At December 31, 2018 a total of 2,266,400 RSUs was outstanding.

RSU awards do not receive dividends or carry voting rights during the performance period. The fair value of the restricted stock award is the quoted market price of Archer's stock on the date of grant.

The following table summarizes information about all restricted stock transactions:

	2018		2017	
	RSU's	Weighted average grant date fair value NOK	RSU's	Weighted average grant date fair value NOK
Unvested at beginning of year	**333,750**	5.56	**552,000**	4.09
Granted	2,128,900	7.22	70,000	11.51
Vested/released	(181,000)		(197,125)	
Forfeited	(15,250)		(91,125)	
Unvested at end of year	**2,266,400**	7.21	**333,750**	5.56

Accounting for share-based compensation

The fair value of the share options and RSUs granted is recognised as personnel expenses. During 2018, NOK 5.8 million ($0.7 million) has been expensed in our Statement of Operations ($0.5 million in 2017).

As of December 31, 2018, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 15.0 million ($1.8 million), which is expected to be recognised as expenses in 2019, 2020 and 2021 of, NOK 9.2 million ($1.1 million) NOK 4.2 million ($0.5million) and NOK 1.6 million ($0.2 million), respectively.

Note 23 — Pension Benefits

Defined benefit plan

The defined benefit plan for offshore employees in Norway was terminated in September 2017.

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 2018 we contributed $4.6 million (2017: $3.5 million) to the plan.

In Norway we also have a defined contribution pension plan both for our Norwegian onshore workforce in addition to our employees working offshore on the Norwegian continental shelf from 2018. For onshore employees we contribute 5% of salary between 1 and 6 G and 8% of salary between 6 and 12 G. For offshore employees we contribute 3% of salary up to 7.1 G and 15% of salary between 7.1 and 12 G. (G represents the minimum base salary used in the Norwegian National Insurance scheme, and for 2018 is equivalent to approximately $12,000). In 2018 we contributed $6.5 million (2017: $1.2 million) to the plan in Norway.

Note 24 — Related Party Transactions

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

Transactions with Seadrill;

At December 31, 2018, Seadrill is our largest shareholder, owning 15.7% of our common shares.

During the year ended December 31, 2018, we supplied Seadrill Limited and affiliates with services amounting to $1.8 million, mainly relating to the provision of offshore equipment and rental of warehouse space to Seadrill by our Aberdeen facility. This amount has been included in operating revenue.

A NOK 33 million (equivalent to $4.0 million) performance guarantee is provided to Conoco Phillips by Seadrill on behalf of Archer AS. We were charged guarantee fees of $25 thousand during the year ended December 31, 2018.

On April 28, 2017 as part of a comprehensive restructuring of our financing arrangements, contracts were signed to agree the following with Seadrill:

1. The principal amounts outstanding under two subordinated loans, which totalled $125 million, were replaced with the $45 million, interest bearing convertible loan described in Note 17
2. The balance owed for accrued interest as at the effective date of the amendment agreement totalling $15.6 million was reduced to $2.0 million.
3. The balance owed for accrued guarantee fees as at the effective date of the amendment agreement totalling $10.6 million was reduced to $30,521.
4. In consideration for the release from its guarantees described above, Seadrill made payments totalling $28 million to our lenders. Under the overall restructuring scheme, our lenders have allocated their receipts from Seadrill as prepayments of our outstanding loans. The resultant reductions in our loan balances have been recorded as part of the gain recognised on the debt restructuring, discussed in Notes 6 and 17.

Transactions with C6 Technologies AS:

We own 50% of C6 Technologies AS, an oilfield technology company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have included its financial results using the equity method of accounting since its creation in 2010.

In the year ended December 31, 2018 we have advanced $1.9 million as additional loan to C6, and applied $0.7 million interest to the loan balance. During 2018 we have supplied C6 with personnel and facility services amounting to $0.2 million.

Transactions with other associated companies

Our relationship with Rawabi is described in note 12 above. We have provided $0.2 million of parts and spare parts to Rawabi during the year. At December 31, 2018 we have a balance of $0.1 million owed to us by Rawabi.

Transactions with other related parties

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

Frontline Management (Bermuda) Limited, ("Frontline")

Seatankers Management Company Limited ("Seatankers")

North Atlantic Drilling Ltd, or ("NADL")

Frontline and Seatankers provide management support and administrative services to us, and we have recorded fees of $0.4 million and $0.3 million for these services from these two companies respectively in the year ended December 31, 2018. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

During the year ended December 31, 2018, we supplied NADL with services amounting to $2.1 million, including reimbursable material. This amount has been included in operating revenues.

Note 25 — Reporting and Geographical Segment Information

We manage and present our business under two reporting segments:

- Eastern Hemisphere
- Western Hemisphere

The Eastern Hemisphere segment contains Platform Drilling, Engineering, Wireline and Oiltools service divisions.

Western Hemisphere comprises our land drilling operations in Latin America, our Frac Valve business (divested in August 2018) in North America and our 28% interest in QES.

We report our corporate costs and assets separately and do not allocate them to the segments. Corporate costs include costs for the corporate management team, director's fees, corporate audit fees, stock-based compensation costs and other related costs which are centrally managed.

($ in millions)	FOR THE YEARS ENDED DECEMBER 31	
	2018	**2017**
Revenues from external customers		
Eastern Hemisphere	526.1	445.6
Western Hemisphere	363. 5	401.2
Total	**889.6**	**846.8**
Depreciation and amortization		
Eastern Hemisphere	23.0	28.6
Western Hemisphere	32.7	35.1
Total	**55.7**	**63.7**
Net Operating (loss)/income		
Eastern Hemisphere	22.5	12.1
Western Hemisphere	(6.2)	(21.8)
Corporate costs	(0.1)	(0.5)
Stock compensation costs	(0.7)	(0.5)
Operating income/(loss)	**15.5**	**(10.7)**
Total financial items	(83.1)	63.8
Income taxes	14.6	10.2
Discontinued operations, net of tax	-	(2.2)
Net (loss)/income	**(53.0)**	**61.1**
Capital expenditures – fixed assets		
Eastern Hemisphere	11.0	4.3
Western Hemisphere	13.5	8.2
Total	**24.5**	**12.5**

($ in millions)	AS OF DECEMBER 31	
	2018	**2017**
Total assets		
Eastern Hemisphere	515.2	522.0
Western Hemisphere	394.7	520.4
Corporate	0.6	0.5
Total	**910.6**	**1,042.9**

Goodwill

($ in millions)	EASTERN HEMISPHERE	WESTERN HEMISPHERE	TOTAL
Balance at December 31, 2016	**172.6**	**—**	**172.6**
Exchange rate fluctuations on goodwill measured in foreign currency	9.3	—	9.3
Balance at December 31, 2017	**181.9**	**—**	**181.9**
Exchange rate fluctuations on goodwill measured in foreign currency	(9.3)	—	(9.3)
Balance at December 31, 2018	**172.6**	**—**	**172.6**

Geographic information by country

	FOR THE YEARS ENDED DECEMBER 31	
($ in millions)	**2018**	**2017**
Revenue		
Norway	321.9	244.4
Argentina	314.2	365.4
United Kingdom	133.4	135.9
Other	120.1	101.1
Total	**889.6**	**846.8**

	AS OF DECEMBER 31	
($ in millions)	**2018**	**2017**
Property plant and equipment		
United States	1.0	7.5
Argentina	278.9	298.7
Norway	71.3	78.7
United Kingdom	39.7	44.8
Other	1.6	2.5
Total	**392.5**	**432.2**

Note 26 — Risk Management and Financial Instruments

Our functional and 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 related to the Norwegian kroner 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 kroner, 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 those 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, 2018, we have interest swap agreements which fix our variable interest payable covering NOK 500 million of our NOK interest bearing loan (2017: NOK 500 million), effectively fixing the interest rate on approximately 11% of the debt (2017: 11%). 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 consolidated statement of operations. The total fair value loss relating to the interest rate swap in 2018 amounted to $0.3 million (2017: $1.2 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. 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 recognised in the Consolidated Statement of Operations in 2018 amounted to $18.6 million (2017: $8.9 million gain).

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			
	2018		**2017**	
Assets / (Liabilities)	**FAIR VALUE**	**CARRYING VALUE**	**FAIR VALUE**	**CARRYING VALUE**
Non-derivatives				
Cash and cash equivalents	20.2	20.2	59.0	59.0
Restricted cash	11.3	11.3	8.7	8.7
Accounts receivable	137.0	137.0	140.4	140.4
Accounts payable	(45.5)	(45.5)	(53.6)	(53.6)
Current portion of interest bearing debt	(4.7)	(4.7)	(7.2)	(7.2)
Long term interest bearing debt	(543.0)	(543.0)	(596.7)	(596.7)
Subordinated related party loan	(58.3)	(58.3)	(58.3)	(58.3)
Interest rate swap agreement	(0.3)	(0.3)	(1.2)	(1.2)

The above financial assets and liabilities are disclosed at fair value as follows:

($ in millions)	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	DECEMBER 31 2018	**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	20.2	20.2	—	—
Restricted cash	11.3	11.3	—	—
Accounts receivable	137.0	—	137.0	
Liabilities:				
Accounts payable	(45.5)	—	(45.5)	—
Current portion of interest bearing debt	(4.7)	—	(4.7)	—
Long term interest bearing debt	(543.0)	—	(543.0)	—
Subordinated related party loan	(58.3)	—	(58.3)	—
Interest rate swap agreements	(0.3)	—	(0.3)	—

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, 2018, and 2017. 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. 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.

The fair value of the subordinated related party debt is considered not to be materially different from its carrying value as the fixed interest rate payable on the loan is considered a fair market rate as at December 31, 2018.

We consider the effect of Archer's own credit risk when estimating the fair value of our financial instruments.

Retained risk

We retain the risk, through self-insurance, for deductibles relating to physical damage insurance on our capital equipment. 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 from continuing operations (revenues in excess of 10 percent for the period):

CUSTOMER	2018	2017
Pan American Energy	21%	34%
Equinor	21%	18%
YPF SA	11%	6%
Customer <10%	47%	42%
Total	**100%**	**100%**

Note 27— Operating Lease Obligations

In addition to capital leases (See Note 17), we have significant operating leases for certain premises, office equipment and operating equipment. The most significant lease agreements are related to offices in Norway and the United Kingdom. Rental expenses amounted to $10.3 million in 2018 (2017: $12.6 million).

Estimated future minimum rental payments are as follows:

($ In millions)	OPERATING LEASE OBLIGATIONS
YEAR	
2019	12.5
2020	11.2
2021	9.1
2022	4.3
2023	3.8
Thereafter	18.0
Total	**59.0**

Note 28 — Sale of AWC Frac Valves LLC

Our Frac Valves division was sold on August 31, 2018 to an unrelated party. Proceeds from this sale were $30 million. The division’s net assets at disposal date were $22.5 million.

Note 29 — Subsequent Events

Mr. John Lechner, Chief Executive Officer, resigned in March 2019.

As used herein, unless otherwise required by the context, the terms “Archer”, “Company”, “we”, “our” and “us” refer to Archer Limited and its consolidated subsidiaries. The Norwegian Code of Practice for Corporate Governance as revised on October 17, 2018 (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 Implementation and reporting on corporate governance

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 is Bermuda law as well as regulations for foreign companies listed on the Oslo Stock Exchange. In line with the directions given by the Board of Directors of Archer, (the “Board”), Archer conducts its business on the basis of three fundamental values:

- Safety: We are committed individually and as a team, to protect the health and safety of its employees, customers and communities.
- Integrity: We are 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 reviews the actual performance for all the values mentioned above and where applicable compares the key performance indicators against the plan regularly. With regard to integrity, Archer has implemented a code of conduct and a compliance and business ethics manual, which is available on its website (www.archerwell.com). 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 the code of conduct and compliance and business ethics 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 conducts and discusses required actions, if any.

The Board has defined clear objectives, strategies, and risk profiles for our business activiites and integrates considerations related to our stakeholders to create value and deliver results. The board of directors evaluates these objectives, strategies and risk profiles at regular intervals.

The Board has reviewed the overall performance of the Company compared to its values and its corporate governance for the financial year 2018 in line with the Norwegian Code of Practice for Corporate Governance and confirms it is in compliance with the code, except for deviations which are highlighted in the detailed description of the main provisions of the code below:

Section 2 Business

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 Equity and dividends

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 of our shareholders, we do not currently have a formal dividend policy.

The Board ensures that the Company has a capital structure that is appropriate to the Company’s objective, strategy and risk profile.

Section 4 Equal treatment to shareholders and transactions with close associates

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 a fraction 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 4. 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 24, the Company did not enter into any transactions with its shareholders or closely associated entities.

Section 5 Shares and negotiabiity

We do not limit any party's ability to own, trade or vote for shares in the company. As such, we are in compliance with Section 5 of the Code.

Section 6 General meetings

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

Section 7 Nomination committee

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 Board of directors: composition and independence

The Chairman of our five-member Board has been elected by the Board and not by the shareholders as recommended in the Code. We are not fully in compliance with the Code with respect to independence of board members. The Code recommends that the Board should not include executive personnel. Dag Skindlo, a director of the Company, also holds the position as CFO and Executive Vice President Strategy in the Company.

The Code also recommends that at least two of the members of the board should be independent of the company's main shareholders. In the period up to September 21, 2018, three of the five directors, Kate Blankenship, Alf Ragnar Løvdal, and John Reynolds were affiliated, or may be deemed affiliated with the Company's largest shareholders, Seadrill Limited and Lime Rock Partners L.P, respectively. We accordingly do not comply with the Code in this respect. Current from September 21, 2018, we are compliant with the Code respecting the independence of at least two members of the Board from the Company's main shareholders.

In the period up to September 21, 2018, the Company considers Giovanni Dell'Orto as an independent director. Current from September 21, 2018, the Company considers Giovanni Dell' Orto, Kjell-Erik Østdahl, and James O'Shaughnessy as independent directors.

Section 9 The work of the board of directors

The Board sets an annual plan for the upcoming year in December which includes a review of strategy, objectives and their implementation, the review and approval of the annual budget and review and monitoring of our current year financial performance. The Board meets at least four times a year, with further meetings 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 Company's executive management by the means of a delegation of authority guideline.

The Board has established an Audit Committee, which has a formal charter and terms of reference approved by the Board. The Audit Committee, which, from September 21 2018, is comprised of directors John Reynolds and James O'Shaughnessy (prior to September 21, 2018 the Audit Committee was comprised of Kate Blankenship and John Reynolds), The committee is responsible for ensuring Archer has an independent and effective external audit system. In addition we have an internal audit program. 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 with 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.

The board of directors ensure through an internal check that members of the board and executive personnel advise the company of any material interests that they may have in items to be considered by the board of directors.

Section 10 Risk management and internal control

Archer's Board 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 results are presented to and discussed with the Board 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. We comply with applicable laws and regulations and acts in an ethical and socially responsible manner. Our Code of Conduct applies to everyone working for Archer, including the members of the Board. 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 Remuneration of the board of directors

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 United States generally accepted accounting principles ("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.

Section 12 Remuneration of executive personnel

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 and 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 Information and communications

The Board has established guidelines requiring interim financial reporting on a quarterly basis according to a financial calendar that is publically available. We 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 requests us to hold investor meetings allowing for more detailed information. The information shared in such meetings is published on our website.

Section 14 Take-overs

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

We comply with the Code related to this section.

Section 15 Auditor

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 independent auditor's fee must be approved by the general meeting of shareholders.

The Audit Committee is approved by the Board and is responsible for ensuring that the Company is subject to an independent and effective external 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, 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. 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. The Board 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. 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 US GAAP. 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 US GAAP, and that 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 James O'Shaughnessy and John Reynolds. The Audit Committee assists our Board 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 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 role of a Compensation Committee is currently performed by all members of the Board. The Board formulates and oversees the execution of our compensation strategies, including making recommendations with respect to compensation arrangements for senior management, directors and other key employees. The Board also administers our stock compensation plans.

Communications with the Board

Stockholders and other interested parties wishing to communicate with the Board 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 or any of its committees, or it relates to routine or insignificant matters that do not warrant the attention of the Board, or is an advertisement or other commercial solicitation or communication, or 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.

We publish annual and quarterly reports on our website. We acknowledge the importance of providing shareholders, and the equity market in general, with correct and relevant information about us and our activities.

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

Name	Country of Incorporation	Holding	Field of Activity
Archer (UK) Limited Abu Dhabi (Branch)	Abu Dhabi	100%	Drilling and well service operations
DLS-Archer Ltd. S.A.	Argentina	100%	Land drilling operations
DLS Argentina Ltd. Argentina (Branch)	Argentina	100%	Land drilling operations
DLA Argentina Fluidos S.A.	Argentina	100%	Provides fluids services
Archer Well Company (Australia) Pty Ltd	Australia	100%	Well service operations
Archer Well Company International Azerbaijan (Branch)	Azerbaijan	100%	Oiltools services
Archer Emerald (Bermuda) Limited	Bermuda	100%	Owns modular rig
Archer Topaz Limited	Bermuda	100%	Owns modular rig
Archer DLS Corporation Bolivia (Branch)	Bolivia	100%	Land drilling operations
Archer do Brasil Serviços de Petróleo Ltda	Brasil	100%	Guarantor company
BCH Energy do Brasil Serviços de Petróleo Ltda	Brasil	100%	Drilling service operations
Archer DLS Corporation	BVI	100%	Holding company
DLS Argentina Limited	BVI	100%	Land drilling operations
Archer BCH (Canada) Ltd	Canada	100%	Oiltools services and land rigs owner
Archer Oil Tools AS Congo (Branch)	Congo	100%	Oiltools services
Archer Offshore Denmark AS	Denmark	100%	Well service operations
Archer (UK) Limited France (Branch)	France	100%	Oiltools services
Archer Services Limited	Hong Kong	100%	Provides international personnel services
PT Archer	Indonesia	95%	Well service operations
Archer Well Company (M) SDN BHD	Malaysia	100%	Well service operations
Archer AS	Norway	100%	Drilling and well service operations
Archer Consulting AS	Norway	100%	Provides engineering and crew services
Archer Norge AS	Norway	100%	Drilling and well service management
Archer Oil Tools AS	Norway	100%	Oiltools services
Bergen Technology Center AS	Norway	100%	Research and development
C6 Technologies AS	Norway	50%	Research and development
Rawabi Archer Company	Saudi Arabia	50%	Oiltools services
Archer Well Company (Singapore) Pte Ltd	Singapore	100%	Well service operations
Archer (UK) Limited Jebel Ali Free Zone (Branch)	UAE	100%	Well service operations
Archer (UK) Limited	UK	100%	Drilling and well service operations
Archer Assets UK Limited	UK	100%	Holding company
Archer Consulting Resources Limited	UK	100%	Drilling service operations
Archer Management Limited	UK	100%	Provides management services
Survey and Inspection Limited	UK	100%	Performs rig inspections
Archer Well Company International Ltd	UK	100%	Well service operations
Limay Drilling Rigs Ltd	UK	100%	Land rig owning company
Archer Holdco LLC	USA	100%	Holding Company
Archer Oiltools LLC	USA	100%	Oiltools services
Archer Well Company Inc.	USA	100%	Holding and management company
Quintana Energy Services Inc. *	USA	28%	Drilling and well service operations

* see note 12 for explanation of Quintana Energy Services Inc.

Appendix C – Supplemental parent company only information
Archer Limited

Company Statement of operations

($ in millions, except share and per share data)	**YEAR ENDED DECEMBER 31**	
	2018	**2017**
Revenues		
Operating revenues	1.5	1.6
Total revenues	**1.5**	**1.6**
Expenses		
General and administrative expenses	1.5	2.1
Total expenses	**1.5**	**2.1**
Operating loss	**-**	**(0.5)**
Financial items		
Interest expenses	(20.9)	(29.9)
Interest/dividends from subsidiaries	57.9	61.6
Share of loss from subsidiaries	(84.8)	(102.8)
Other financial items	(5.2)	132.7
Total financial items	**(53.0)**	**61.6**
Income/(loss) before income taxes	**(53.0)**	**61.1**
Income taxes		-
Net (loss)/income	**(53.0)**	**61.1**
Basic (loss)/earnings per share ($)	**(0.36)**	**0.48**
Diluted (loss)/earnings per share ($)	**(0.36)**	**0.48**
Weighted average number of shares outstanding (in millions)		
Basic	147.4	131.4
Diluted	147.4	131.7

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

Company Statement of comprehensive income/(loss)

	YEAR ENDED DECEMBER 31	
($ in millions)	**2018**	**2017**
Net (loss)/income	**(53.0)**	**61.1**
Other comprehensive income/(loss)		
Change in residual pension liability	0.7	(0.7)
Foreign currency translation differences	(1.6)	7.2
Other comprehensive (loss)/income, net	**(0.9)**	**6.5**
Total comprehensive (loss)/income	**(53.9)**	**67.6**

Company Statement of accumulated other comprehensive loss

($ in millions)	PENSION-UNRECOGNISED (LOSS)/GAIN	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	TOTAL
Balance at December 31, 2016	-	**(7.7)**	**(7.7)**
Change in residual pension liability	(0.7)	-	(0.7)
Foreign currency translation differences	-	7.2	7.2
Balance at December 31, 2017	**(0.7)**	**(0.5)**	**(1.2)**
Change in residual pension liability	0.7	-	0.7
Foreign currency translation differences	-	(1.6)	(1.6)
Balance at December 31, 2018	**-**	**(2.1)**	**(2.1)**

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

Appendix C – Supplemental parent company only information

Archer Limited

Company balance sheet

($ in millions)	DECEMBER 31	
	2018	**2017**
ASSETS **Current assets**		
Cash and cash equivalents	0.1	-
Amounts due from subsidiaries	1.1	1.3
Other current assets	2.1	-
Total current assets	3.3	1.3
Noncurrent assets		
Amounts due from subsidiaries, long term	631.2	1,161.5
Total noncurrent assets	**631.2**	**1,161.5**
Total assets	**634.5**	**1,162.8**
LIABILITIES AND SHAREHOLDERS' EQUITY **Current liabilities**		
Other current liabilities	1.9	4.2
Total current liabilities	**1.9**	**4.2**
Noncurrent liabilities		
Accumulated losses of unconsolidated subsidiaries in excess of investment	423.6	334.2
Long-term loans from subsidiaries	3.5	1.4
Long-term interest bearing debt	-	564.3
Related party subordinated loan	58.3	58.3
Total noncurrent liabilities	**485.4**	**958.2**
Shareholders' equity		
Common shares of par value $0.01 per share: 1.0 billion shares authorised: 147,462,012 outstanding shares at December 31, 2018 (December 31, 2017: 147,281,887 shares of $0.01 par value)	1.5	1.5
Additional paid in capital	926.7	926.0
Accumulated deficit	(1,519.0)	(1,466.0)
Accumulated other comprehensive loss	(2.1)	(1.2)
Contributed surplus	740.1	740.1
Total shareholders' equity	**147.2**	**200.4**
Total liabilities and shareholders' equity	**634.5**	**1,162.8**

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

Appendix C – Supplemental parent company only information

Archer Limited

Company Statement of cashflows

($ in millions)	YEAR ENDED DECEMBER 31	
	2018	**2017**
Cash Flows from Operating Activities		
Net income/(loss)	**(53.0)**	**61.1**
Adjustment to reconcile net income/(loss) to net cash used in operating activities:		
Share of loss of subsidiaries	84.8	102.8
Share-based compensation expenses	0.5	0.5
Gain on debt reorganisation	-	(117.9)
Amortization of debt fees	0.6	1.4
Debt fees expensed	-	7.4
Interest income applied to loan balances	(58.6)	(59.0)
Foreign currency loss/(gain)	7.2	(25.4)
Changes in operating assets and liabilities, net of acquisitions		
Increase in amounts owed by subsidiaries	0.4	122.2
Change in other operating assets and liabilities, net	2.0	(1.2)
Net cash (used in)/provided by operating activities	**(16.1)**	**91.9**
Cash Flows from Investing Activities		
Net cash repaid by/(invested in) subsidiaries	197.4	(781.3)
Net cash provided by/(used in) investing activities	**197.4**	**(781.3)**
Cash Flows from Financing Activities		
Proceeds from loans from subsidiary	2.0	1.3
Net funds advanced to subsidiaries	-	(3.5)
Proceeds from external debt	-	625.0
Repayment of external debt	(183.2)	(31.4)
Debt amendment fees	-	(7.4)
Proceeds from issuance of equity	-	102.7
Net cash (used in)/provided by financing activities	**(181.2)**	**686.7**
Effect of exchange rate changes on cash and cash equivalents	-	(0.1)
Net increase/(decrease) in cash and cash equivalents	**0.1**	**(2.6)**
Cash and cash equivalents at beginning of the year	-	2.6
Cash and cash equivalents at the end of the year	**0.1**	**-**
Interest paid	19.6	29.8

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

The above amounts for $197.4 and $183.2 represent internal restructuring, involving the transfer of our main facility to our subsidiaries. The amounts of $781.3 million and $625 million in 2017, present the gross impact of the restructuring of our main finance facilities on current and long term liabilities.

Appendix C – Supplemental parent company only information

Archer Limited

Company Statement of changes in shareholders' equity

($ in millions)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	CONTRIBUTED SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2016	**0.6**	**823.7**	**(1,527.1)**	**(7.7)**	**740.1**	**29.6**
Proceeds from private placement	0.8	98.3	-	-	-	99.1
Proceeds from subsequent offering	0.1	5.7	-	-	-	5.8
Costs of share issue	-	(2.2)	-	-	-	(2.2)
Foreign currency translation differences	-	-	-	7.2	-	7.2
Change in residual pension liability	-	-	-	(0.7)	-	(0.7)
Share-based compensation	-	0.5	-	-	-	0.5
Net income	-	-	61.1	-	-	61.1
Balance at December 31, 2017	**1.5**	**926.0**	**(1,466.0)**	**(1.2)**	**740.1**	**200.4**
Foreign currency translation differences	-	-	-	(1.6)	-	(1.6)
Change in residual pension liability	-	-	-	0.7	-	0.7
Share-based compensation	-	0.7	-	-	-	0.7
Net loss	-	-	(53.0)	-	-	(53.0)
Balance at December 31, 2018	**1.5**	**926.7**	**(1,519.0)**	**(2.1)**	**740.1**	**147.2**

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

Appendix C

Notes to supplemental parent Company only information
Archer Limited

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, USD, or $ rounded to the nearest million, unless otherwise stated.

Going concern

Our Board of Directors confirms their assumption of the Group as a going concern for the foreseeable future, being a period of not less than 12 months from the date of this report. This assumption is based on the liquidity position of the Group forecast operating results, and the market outlook for the oil service sector as at December 31, 2018. The Board believes the annual report provides a fair presentation of the Company's assets and debt, financial position and financial performance.

Note 2 — Accounting Policies

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

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

As of December 31, 2018, several of our subsidiaries have a functional currency in USD. For subsidiaries that have functional currencies other than USD, we use the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year-end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

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

Current and noncurrent classification

Assets and liabilities are classified as current assets and 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 an original 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 amortised over the term of the related loan using the straight-line method, which approximates the interest method. Amortization 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 subsidiary. Distributions received from the investee reduce the carrying amount of the investment.

If our share in results of our equity investments exceeds their carrying value then we either reduce the carrying value of our other investment in those entities, in the form of loans receivable from subsidiaries or disclose as a separate line in the balance sheet, within liabilities, under the heading Accumulated losses of unconsolidated subsidiaries in excess of investment.

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.

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 expense” in the period in which they are incurred. Unamortised loan costs are presented as a reduction of the carrying value of the related debt.

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 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

We adopted the following accounting standard updates ("ASUs") in the year:

ASU 2014-09 - Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09, which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. Under the new guidance, revenue is recognized when a customer obtains control of promised goods or services and in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services.

Appendix C

Notes to supplemental parent Company only information
Archer Limited

We adopted ASU 2014-09 and its related amendments, or collectively Topic 606, effective January 1, 2018 using the modified retrospective method. Accordingly, we have applied the five-step method outlined in Topic 606 for determining when and how revenue is recognized to all contracts that were not completed as of the date of adoption. Revenues for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported under the previous revenue recognition guidance. For contracts that were modified before the effective date, we have considered the modification guidance within the new standard and determined that the revenue recognized and contract balances recorded prior to adoption for such contracts were not impacted. While Topic 606 requires additional disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, its adoption has not had a material impact on the measurement or recognition of our revenues.

ASU 2016-18 Statement of Cash Flows - Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, to address classification of activity related to restricted cash and restricted cash equivalents in the cash flows. The standard eliminates the presentation of transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the cash flows to the related captions in the balance sheet are required, either on the face of the cash flow or in the notes to the Consolidated Financial Statements. Additional disclosures are required for the nature of the restricted cash and restricted cash equivalents.

The standard is effective for fiscal years beginning after 15 December 2017. We have adopted the new standard effective January 1, 2018 under the retrospective approach. The result of this adoption was a classification adjustment on our Consolidated Statement of Cash Flows for each of the years presented.

Other ASUs

We adopted the following ASUs in the year, none of which had any impact on our consolidated financial statements and related disclosures:

- ASU 2016-15 Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments
- ASU 2017-01 Business Combinations (Topic 805)— Clarifying the Definition of a Business
- ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323)
- ASU 2017-04 Intangibles (Topic 350)— Simplifying the Test for Goodwill Impairment
- ASU 2017-05 Other Income—Gains and Losses from the De-recognition of Nonfinancial Assets (Subtopic 610-20)
- ASU 2017-07 Compensation - Retirement Benefits (Topic 715)
- ASU 2017-09 Compensation - Stock Compensation (Topic 718)
  ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220)
- ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)
- ASU 2018-04 Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980)
- ASU 2018-05 Income Taxes (Topic 740)
- ASU 2018-06 Codification Improvements to (Topic 942)
- ASU 2018-19 Codification Improvements to (Topic 326)

Recently Issued Accounting Standards

The FASB have issued the following ASUs that we have not yet adopted but which could affect our consolidated financial statements and related disclosures in future periods.

- ASU 2016-13 Financial Instruments — Credit Losses (Topic 326)
- ASU 2018-07 Compensation-Stock Compensation (Topic 718)
- ASU 2018-13 Fair Value Measurement (Topic 820)

ASU 2016-13 - Financial Instruments - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted only from January 1, 2019. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as at the beginning of the first reporting period in which the guidance is adopted.

We are in the early stage of evaluating the impact of this standard update, however,

Notes to supplemental parent Company only information

Archer Limited

we do not currently expect this guidance to significantly affect our consolidated financial statements and related disclosures when we adopt it.

ASU 2018-07 Compensation - Stock Compensation

In June 2018, the FASB issued ASU 2018-07, Stock Compensation (Topic 718): Improvements to non-employee share-based payment accounting, which intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to non-employees. The guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures.

ASU 2018-13 Fair Value Measurement - Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The update is intended to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the US GAAP information requirements that are most important to users of an entity's financial statements. The guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted.

We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures.

Other accounting standard updates issued by the FASB

The FASB have issued several further updates not included above. We do not currently expect any of these updates to materially affect our financial statements and related disclosures either on transition or in future periods.

Note 3 — Other Financial Items

	YEARS ENDED DECEMBER 31	
($ in millions)	**2018**	**2017**
Foreign exchange (loss)/gain	(7.2)	11.6
Gain on debt restructure	-	117.9
Other items	2.0	3.2
Total other financial items, net	**(5.2)**	**132.7**

During the second quarter of 2017 we completed a comprehensive restructuring of our debt by the signing of an amendment and restatement agreement with the lenders under our multicurrency revolving credit facility, and the signing of certain amendment agreements with Seadrill in relation to the subordinated loans. The debt restructure resulted in the recognition of a gain of $117.9 million in the second quarter. This represented $0.90 of 2017 earnings per share.

In 2018, Other financial items represent predominantly foreign exchange gains on an intercompany loan balance denominated in Norwegian Kroner.

Note 4 — Earnings Per share, or EPS

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

	NET INCOME/ (LOSS)	WEIGHTED AVERAGE SHARES OUTSTANDING	(LOSS)PER SHARE (IN $)
2018			
Basic loss per share from continuing operations	(53.0)	147,428,948	(0.36)
Effect of dilutive options *	—	-	—
Diluted gain per share	(53.0)	147,428,948	(0.36)

Notes to supplemental parent Company only information
Archer Limited

	NET INCOME/ (LOSS)	WEIGHTED AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE (IN $)
2017			
Loss per share	61.1	131,416,088	0.48
Effect of dilutive options	—	261,308	—
Diluted	61.1	131,677,396	0.48

In 2018, loss per share was not adjusted for dilutive in the money share options or unvested RSUs. Share-based compensation of approximately 269,753 shares was excluded from the computation of diluted earnings per share for the year ended December 31, 2018 as the effect would have been anti-dilutive due to the net loss for the period.

Note 5 — Amounts due from subsidiaries

Balances reported under Amounts due from subsidiaries comprise the following:

($ in millions)	DECEMBER 31	
	2018	**2017**
Due from/(to) Archer Norge As	1.1	(0.8)
Due from Archer Management (UK) Ltd. for corporate costs re-charged	-	2.1
Total amounts due from subsidiaries	**1.1**	**1.3**

Note 6 — Investments In Subsidiaries

We had the following direct participation in investments:

COMPANY NAME	PERCENT HOLDING AS OF DECEMBER 31	
	2018	**2017**
Archer Management Limited (dissolved in 2018)	-	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%

Notes to supplemental parent Company only information

Archer Limited

In addition to equity investments we have the following long term loans receivable from our subsidiaries

($ in millions)	DECEMBER 31	
	2018	2017
Archer Norge AS	587.5	1,119.9
Archer Emerald (Bermuda) Limited	34.0	32.2
Archer Topaz Limited	9.7	9.4
Total amounts due from subsidiaries	**631.2**	**1,161.5**

Note 7 — Other Current Liabilities

Our other current liabilities comprise the following:

($ in millions)	DECEMBER 31	
	2018	2017
Short term fair value of financial instruments	-	-
Accrued expenses	1.9	4.2
Total other current liabilities	**1.9**	**4.2**

Note 8 — External multicurrency term and revolving facility

During Q2 2017 we completed the restructuring of our main finance facilities involving the amendment of the agreements relating to our multicurrency term and revolving facility, (the "Facility"), the new terms of which are disclosed below, and our subordinated loan from Seadrill.

In 2018 the drawing under the Facility was transferred to our subsidiaries Archer Assets UK Ltd. and Archer Norge AS.

Note 9 — Related Party Subordinated Loan

A total of $125 million of subordinated loans from Seadrill Limited, were replaced with a subordinated convertible loan with a face value of $45 million in Q2 2017. The loan matures on December 31, 2021, and bears payment in kind interest of 5.5% per year. The conversion rights attached to the renegotiated loan are exercisable from January 1, 2021, and entitle Seadrill to convert the debt at a rate of 0.48 ordinary shares in Archer for each $1.00 of loan and accrued interest.

Under the US GAAP provisions for troubled debt restructuring, interest up to the maturity date has been accrued to the loan balance, increasing the book value of the loan from $45 million to $58.3 million.

The amendments to the finance arrangements agreed with Seadrill are discussed in more detail in Note 14, Related Party Transactions.

Note 10 — 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)	2018	2017
Guarantees to customers of the Company's own performance	46.8	57.7
Guarantee in favour of banks	9.7	10.2
	54.5	**67.9**

Notes to supplemental parent Company only information
Archer Limited

Note 11 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 12 — Share Capital

	DECEMBER 31			
	2018		2017	
	All shares are common shares of $0.01 par value each		*All shares are common shares of $0.01 par value each*	
	SHARES	**$ MILLION**	**SHARES**	**$ MILLION**
Authorized share capital	1,000,000,000	10.0	1,000,000,000	10.0
Issued, outstanding and fully paid share capital	147,462,012	1.5	147,281,887	1.5

Archer shares are traded on the Oslo Børs under the symbol “ARCHER.OL.”

Note 13 — Share Option Plans

We have granted share options to our senior management and directors that provide the management 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 vest over a period of one to five years.

As of December 31, 2018, Archer has two active option programs, in addition to two programs which were acquired and have been continued following our merger with Allis-Chalmers in 2011.

The following summarises share option transactions related to the Archer programs in 2018 and 2017:

	2018		2017	
	OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE - NOK**	**OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE - NOK**
Outstanding at beginning of year	**1,532,433**	**31.28**	**721,633**	**98.65**
Vested/granted	-	-	1,200,000	10.00
Forfeited/expired	(63,000)	66.16	(398,200)	90.50
Outstanding at end of year	**1,469,433**	**30.00**	**1,532,433**	**31.28**
Exercisable at end of year	669,433	53.89	321,633	110.62

No income was received in 2018 as a result of share options being exercised (2017: nil).

Options issued under the Allis-Chalmers 2003 Program may be exercised up to March 5, 2019. The exercise price is between NOK 60.30 and NOK 722.60. At December 31, 2018, all 14,146 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

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Options issued under the Allis-Chalmers 2006 Program may be exercised up to April 21, 2020. The exercise price is between NOK 184.80 and NOK 192.20. At December 31, 2018, all 115,286 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

Options issued under the 2014 Program may be exercised up to March 1, 2020. The exercise price is between NOK 28.72 and NOK 71.80 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2018, all 140,001 options outstanding under the 2014 Program were exercisable.

Options issued under the 2017 Program may be exercised up to March 1, 2022. The exercise price is NOK 10.00 per share, and may be exercised one third each year beginning twelve months after March 1, 2018. At December 31, 2018, 1,200,000 options were outstanding under the 2017 Program and 400,000 of the options were exercisable

The weighted average remaining contractual life of outstanding options is 34 months (2017: 45 months).

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 usually 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 pay-outs.

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.

We did not grant any new options in 2018. The parameters used in calculating weighted fair values for option granted during 2017 were as follows:

- average risk-free interest rate 0.7%
- volatility 70.0%
- dividend yield 0%
- option holder retirement rate 10% and
- expected term 3.0 years

Restricted Stock units

The Board has from time to time granted restricted stock units, or RSU's, to members of Archer's management team. The RSUs typically vest, 33% on each of dates falling one, two and three years after the grant date. At December 31, 2018 a total of 2,266,400 RSUs was outstanding.

RSU awards do not receive dividends or carry voting rights during the performance period. Accordingly, the fair value of the restricted stock award is the quoted market price of Archer's stock on the date of grant.

The following table summarizes information about all restricted stock transactions:

	2018		2017	
	RSU's	**Weighted average grant date fair value NOK**	**RSU's**	**Weighted average grant date fair value NOK**
Unvested at beginning of year	**333,750**	5.56	**552,000**	4.09
Granted	2,128,900	7.22	70,000	11.51
Vested/released	(181,000)		(197,125)	
Forfeited	(15,250)		(91,125)	

Unvested at end of year	**2,266,400**	7.21	**333,750**	5.56

Accounting for share-based compensation

The fair value of the share options and RSUs granted is recognised as personnel expenses. During 2018, NOK 5.8 million ($0.7 million) has been expensed in our Statement of Operations ($0.5 million in 2017).

As of December 31, 2018, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 15.2 million ($1,750,000), which is expected to be recognised as expenses in 2019, 2020 and 2021 of, NOK 9.2 million ($1.06 million) NOK 4.2 million ($490,000) and NOK 1.6 million ($185,000), respectively.

Note 14 — Related Party Transactions

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

<u>Transactions with Seadrill</u>;

At December 31, 2018, Seadrill is our largest shareholder, owning 15.7% of our common shares.

On April 28, 2017 as part of a comprehensive restructuring of our financing arrangements, contracts were signed to agree the following with Seadrill:

1. The principal amounts outstanding under two subordinated loans, which totalled $125 million, were replaced with the $45 million, interest bearing million convertible loan described in Note 9
2. The balance owed for accrued interest as at the effective date of the amendment agreement totalling $15.6 million was reduced to $2.0 million.
3. The balance owed for accrued guarantee fees as at the effective date of the amendment agreement totalling $10.6 million was reduced to $30,521.
4. In consideration for the release from its guarantees described above, Seadrill made payments totalling $28 million to our lenders. Under the overall restructuring scheme, our lenders allocated their receipts from Seadrill as prepayments of our outstanding loans. The resultant reductions in our loan balances were recorded as part of the gain recognised on the debt restructuring in 2017.

Note 15 — 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.

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, 2018, we have no current interest swap agreements.

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 2018 amounted to $7.2 million compared to a gain of $25.4 million in 2017.

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Archer Limited

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)	2018		2017	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Cash and cash equivalents	0.1	0.1	-	-
Long-term interest rate debt	-	-	(568.2)	(568.2)
Related party subordinated loan	(53.8)	(53.8)	(53.8)	(53.8)

The above financial 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 2018	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Related party subordinated loan	53.8		53.8	

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, 2018, and 2017. For certain instruments, including cash and cash equivalents, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

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

The fair value of the subordinated related party debt is considered not to be materially different from its carrying value as the fixed interest rate payable on the loan is considered a fair market rate as at December 31, 2018.

We consider the effect of Archer's own credit risk when estimating the fair value of our financial instruments.

Notes to supplemental parent Company only information
Archer Limited
Note 16 — Subsequent Events

Mr. John Lechner, Chief Executive Officer, resigned in March 2019.