Archer Limited

Annual Report

2017

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Company overview and history

Archer Limited (Archer), along with its subsidiaries (the Group or the Company), is a global oil services provider with a heritage in drilling and well services that stretches back over 40 years. Employing 4,792 people as of December 31, 2017, at 30 locations in 17 countries, from drilling services, well integrity and intervention, plug and abandonment to decommissioning, we are focused on safely delivering the highest quality services and products to the drilling and well service markets.

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

Our well services capabilities include production monitoring, well imaging, well integrity services, and wireline well intervention services, are all aimed at improving well performance and extending well life.

We support our customers in critical processes such as well construction, well completion and production and well plug and abandonment. Our differentiated technologies in well bore imaging, well construction and well integrity as well as our modular rig technology are an important and integral part of our strategy to support our customers.

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 and the office of Archer Management Limited (UK) is New Kings Court, Tollgate, Chandler's Ford, Eastleigh, Hampshire, UK SO53 5LG, telephone +44 1224 767500. Archer is listed on the Oslo Stock Exchange under the ticker symbol ARCHER.NO and our web site is www.archerwell.com.

Board of Director’s Report
Business overview

Principal markets
The demand for our products and services is driven by the price for hydrocarbons in the countries in which we operate. The rapid decline in the price of oil, which started in 2014, led to a downturn in the market for our services and a significant reduction in demand for our services throughout the countries in which we operate. This challenging environment has had a significant negative impact on the demand for and the pricing of our services. In the second half of 2017 we saw an increase in the price of oil and we experienced more stable demand for our services, even though the activity continued to be slow compared to what we saw prior to 2014.

With the signs of improvement at the end of 2017 we believe that the long-term fundamentals for the markets we operate in are sound and will allow the Company to grow.

The Company operates in Angola, Argentina, Australia, Bolivia, Brazil, Canada, Congo, Denmark, Indonesia, Malaysia, Nigeria, Norway, Saudi Arabia, Singapore, 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 is to be the “supplier of choice” for drilling services, well integrity, well intervention as well as plug and abandonment. We aim to achieve this by continuously improving our service and product quality and being recognized for people who demonstrate our values and deliver excellence. This position will enable 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.

2017 Operating results

Revenue for the year ended December 31, 2017 was $846.8 million or 4.1% lower compared to the revenue for 2016 with reductions in all areas except Platform Drilling, Land Drilling in the North of Argentina and AWC Frac Valves Inc., or AWC, in the United States. Earnings before Interest and Other financial items, Taxes, Depreciation and Amortization or EBITDA were $55.5 million, an increase of 13.0% compared to 2016, as a result of the reduction in restructuring costs related to severance in 2017. The improvement in reported EBITDA is mainly driven by Land Drilling in the North of Argentina.

Eastern Hemisphere revenue was reported in-line with 2016, with an increase in revenue for Platform Drilling, but reductions in our other divisions. The reduction in activity which we saw in certain of our divisions was a consequence of reduced spending by our key customers, based on the low price of oil. EBITDA before exceptional items was down 13.3% which was a consequence of the reduction in activity and revenue within Wireline and Oiltools divisions. Costs excluded from EBITDA before exceptional items are restructuring costs related to severance payments, cost related to closing of office facilities and cost related to the Hurricane Harvey in US during Q3 2017. EBITDA was down 11.9% which is a fall through from the reduced activity and revenue from divisions Wireline and Oiltools.

Western Hemisphere revenue decreased 12.4% in comparison with 2016, reflecting a reduction in land drilling activity in Argentina as customers cancelled contracts as well as requesting activity stoppage for an extended period of time, which also triggered price erosion. Our frac valves division experienced a significant increase of 79% to $19.7 million in revenue for 2017 following increased rig count and increased frac intensity. Year on year EBITDA before exceptional items for Western Hemisphere decreased by 30.7% due to reduced margin on lower revenue. EBITDA increased by 87.2% in 2017 as we had the benefit of the significant restructuring initiatives implemented during 2016, with headcount reductions of more than 200 employees together with other cost measurements in order to adjust our workforce and cost level to the current activity levels.

Our total operating expenses, including reimbursable expenses, for the year ended December 31, 2017 amounted to $759.2 million, a decrease of 4.6% compared to the year ended December 31, 2016. This reduction is primarily driven by lower activity levels, cost savings achieved following significant headcount reductions, adjustments to compensation levels, supply chain savings and other restructuring initiatives to align our cost base with lower activity and pricing levels. These favourable movements were partially offset by significantly higher restructuring costs related to severance payments primarily for our Land Drilling business in Argentina, and for our Wireline and Oiltools operations in the Eastern Hemisphere. As at December 31, 2017 we had 4,792 employees as compared to 5,112 employees at December 31, 2016. Other restructuring initiatives during the year included closure/merger of facilities.

Board of Director's Report
Financial review

Our depreciation and amortization expenses for the year ended December 31, 2017 amounted to $63.7 million, a decrease of 12.3% compared to $72.6 million for the year ended December 31, 2016 primarily driven by limited investments in new fixed assets during 2017.

During the fourth quarter of 2017 impairment reviews were conducted for land drilling rigs and modular rigs representing approximately 67% of the total value of our 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 $3.2 million relating to land drilling assets was booked in the fourth quarter 2017.

During fourth quarter 2017, we carried out an impairment review on the carrying value of our investments in Quintana Energy Services LP (QES) and concluded that the carrying value of our investment was not impaired. We based our conclusion on QES forecasts which indicate a recovery which supports our carrying value at December 31, 2017. In addition, in February 2018 QES launched an initial public offering, or IPO, in the United States, pursuant to which we received shares in the newly quoted company. The value of the shares received in the IPO was approximately equal to the carrying value of the investments as at December 31, 2017.

The annual impairment testing of goodwill was conducted during fourth quarter 2017 using a qualitative review which concluded that there were no new indicators suggesting any impairment in 2017.

Our general and administrative expense for the year ended December 31, 2017 amounted to $32.1 million, a decrease of 16.6% compared to $38.5 million for the year ended December 31, 2016. The reduction is primarily due to down-sizing of the support structure in line with the lower level of activity.

Interest expense for the year ended December 31, 2017 amounted to $46.0 million, a decrease of 27.0% compared to $63.0 million for the year ended December 31, 2016. The reduction in interest expense follows the comprehensive refinancing which took place during the first quarter of 2017, and is described under the balance sheet section below. Net interest-bearing debt was $603.2 million at December 31, 2017, compared to $795.9 million on December 31, 2016.

Other financial items, net for the year ended December 31, 2017 amounted to a gain of $121.7 million, compared to a gain of $9.2 million for the year ended December 31, 2016. 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 Limited (Seadrill) in exchange for release from guarantees. The refinance is discussed more comprehensively in the balance sheet section below. Other financial items also include foreign 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. For further information about our financing arrangements please see Note16 to the financial statements.

Our total income tax charges for 2017 amounted to a tax benefit of $10.2 million as compared to a charge of $0.9 million for the year ended December 31, 2016. The net tax benefit relates to the net operating loss for our operating entities primarily in Norway, 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. For the year ended December 31, 2017 we have recognised a net tax benefit of $6.8 million related Norwegian entities, a net tax benefit of $3.7 million relating to our Latin American operations in the North of Argentina, and a net tax benefit of $1.4 million related to our United Kingdom entities.

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

Net income from continuing operations for the year ended December 31, 2017 amounted to $63.3 million, compared to a net loss of $162.5 million for the year ended December 31, 2016.

We have proposed no dividends for the year ended December 31, 2017.

Board of Director's Report
Financial review

Balance sheet

Our total current assets were $302.0 million at December 31, 2017; an increase of 5.2% compared to $287.1 million at December 31, 2016 and consisted primarily of cash received for shares issued in the private placement and subsequent offering early in the year.

Our total noncurrent assets were $740.9 million at December 31, 2017 and consisted primarily of fixed assets used in our operations, goodwill and our financial interests in QES.

As of December 31, 2017, our total assets amounted to $1.042 billion, a decrease of $18 million as compared to December 31, 2016. The reduction is primarily due to depreciation and amortization of fixed and intangible assets. In addition, our working capital has reduced due to lower activity levels.

Our total current liabilities were $177.8 million at December 31, 2017 and consisted primarily of accounts payable and accrued expenses. The current part of our interest bearing debt was reduced to $7.2 million as at December 31, 2017 compared to $131.1 million at December 31, 2016 following the refinancing in 2017.

Our total noncurrent liabilities were $664.7 million at December 31, 2017 and consisted primarily of long-term interest-bearing debt.

At the end of June 2017 we completed a comprehensive debt refinancing and private placement. The comprehensive refinancing and the private placement were co-dependant in order to be effective.

We completed a private placement in March 2017 issuing 84 million shares, raising gross proceeds of $99 million. In addition we issued 4.9 million shares in a subsequent offering completed in April 2017, which gave additional gross proceeds of approximately $6 million.

During 2017 we refinanced the debt under our revolving credit facility on new terms including an extension of the maturity date of the loans until the end of September 2020, no fixed instalments on the loans until maturity date and amendments to the financial covenants. For further information about our financing arrangements please see Note16 to the financial statements.

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. In addition we agreed with our lenders and Seadrill to release Seadrill from their guarantee obligations to our lenders. In exchange for the release, Seadrill made a settlement payment amounting to 10% of the outstanding guarantees. The guarantee settlement from Seadrill was applied towards the repayment of an equal amount under our revolving credit facility.

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, compared to $29.6 million at December 31, 2016.

Cash flow

The following table summarises our cash flows from operating, investing and financing activities for the years ended December 31, 2017 and 2016

In $ millions	**2017**	**2016**
Net cash provided by operating activities	13.4	34.1
Net cash used in investing activities	(19.8)	(25.4)
Net cash provided by financing activities	23.3	10.7
Effect of exchange rate changes on cash and cash equivalents	14.8	(12.6)
Cash and cash equivalents at the beginning of the year	27.3	20.5
Cash and cash equivalents at the end of the year	**59.0**	**27.3**

Cash flow from operating activities reduced in 2017, compared to 2016 mainly due to significant severance payments made in 2017, related to restructuring which were accrued in 2016. We mitigated the fall in cash generated from our activities by continues focus on cost cutting initiatives, and continued drive to improve collection efficiency.

In 2017 we limited our investments in assets to essential costs for the maintenance of our operational performance. The increase in investment in 2017 was offset by reduction in funding provided to our unconsolidated associates.

Board of Director's Report
Financial review

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. In 2016 we obtained additional liquidity by net drawings on our overdraft facilities.

We have significant cash flows in GBP and NOK which are subject to movements in exchange rates.

Parent company results 2017

Net income from operations for the year was $61.1 million, corresponding to earnings per share of $0.48.

Going concern

Our Board of Directors confirms their assumption of the Company as a going concern. This assumption is based on the market outlook for the oil service sector as at December 31, 2017 as well as the completed refinancing of the Company in the first half of 2017 described above. The Board believes the annual report provides a fair presentation of the Company's assets and debt, financial position and financial performance.

Key figures

	2017	**2016**
Revenue *In $ millions*	847	884
EBITDA [1] *In $ millions*	55	49
EBITDA before exceptional items *In $ millions*	67	84
Net income / (loss) from continuing operations *In $ millions*	63	(163)
Net interest bearing debt *In $ millions*	603	796
Employees at December 31	4,792	5,112

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

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.

Although Archer maintains a constant focus on the health, safety, and security of our employees and contractors, regretfully in 2017 we suffered one traffic-related fatality in Argentina involving an employee returning to his home from work. 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 2017 Archer continued and strengthened the Safety Commitment Initiative. All business lines have been involved in the initiative through the year and on a monthly basis employees state their safety commitments that are distributed internally via the company website. The intention behind the initiative is to build a stronger safety culture with focus on personal engagement and contribution.

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 2016 numbers for collected and analysed proactive reports. Proactive reporting will also have continued focus in 2018, as Archer believes that this tool helps to build a positive safety culture, through greater safety awareness, both individually and collectively.

Throughout the year a positive trend continued in the majority of the HSE Key Performance Indicators, resulting in a reduction in the total recordable incident frequency (TRIF) rate.

During 2017 we worked a total of 12 million (2016: 12 million) man-hours. Despite our best efforts, we incurred 7 (2016:11) 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.

	2017		2016	
Area	**Loss Time Injuries**	**Medical Treatment Cases**	**Loss Time Injuries**	**Medical Treatment Cases**
Eastern Hemisphere	4	8	4	8
Western Hemisphere	3	12	7	11
Archer Total	**7**	**20**	**11**	**19**

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 2017 Archer had 4 recordable spills.

Board of Director's Report
Health, Safety and environment

The Archer Eastern Hemisphere management system moved from an ISO 9001:2008 certification to an ISO 9001:2015 certificate during 2017. In addition the UK and Brazil operations and wireline Norwegian operations are also accredited to the ISO 14001:2015 for Environmental Management Standards.

Archer's drilling and work-over operations in Argentina remain certified in accordance with ISO 9001:2008. Similarly AWC Frac Valves, Inc., Archer's North American frac valves manufacturing company, is also certified in accordance with the ISO standard.

The Company has described the social responsibility in the management system, but we have not established a separate social responsibility policy.

Employees and diversity

After the downturn in the market started during the fourth quarter of 2014, the focus, up until fourth quarter 2016, has been to actively manage headcount across all business units to align with local changes in activity levels. We have seen a more stable and positive market for 2017, and focus shifted to stabilize the organization in line with the shift in market situation.

In the Eastern Hemisphere, headcount have been relative flat during the year with a slight increase of 0.8%.Headcount changes/ increases are primary related to Platform Drilling and Oiltools business units in Norway and in the UK. Business units Wireline and Engineering had a decrease in headcount due to closing of the Denmark operation for Wireline and use of fewer Consultants for Engineering.

In the Western Hemisphere headcount was reduced by 10.8% during the year impacting both Argentina and Bolivia operations due to lower drilling activity. Significant headcount reductions were achieved for Bolivia during Q1 to Q3, while we experienced headcount increase again in Q4 due to increased drilling activity.

2017 also improved activity in the industry for US. US land with the AWC division had a headcount increase of 52% due to the positive change in the market. There is no US Corporate Management left in the US due to the shift in corporate structure and move of the corporate office location to Stavanger, Norway.

As of December 31, 2017, the Archer headcount totalled 4,792 employees, a net reduction of 305 employees, or 6.0 %, compared to 2016.

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

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 together with the cash proceeds from the 2017 Private Placement, 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, 2017, the Group had total outstanding interest-bearing debt of $665.2 million. This debt represented 63.4% of the Group's total assets. See note 16 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 RCF 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 Note16 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 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.

Board of Director's Report
Risk Factors

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.

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.

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.

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.

Board of Director's Report
Risk Factors

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 of the Group's management companies 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 Group's management companies 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 L.P. might be impacted due to the market conditions or other circumstances.

Our investment in Quintana Energy Services LP, or QES, consisting of our 42% share of the common partnership units and a loan of $10 million at 31 December 2017 amounted to $85.3 million, including accrued interest.

In January 2018 QES launched an IPO, a part of which involved the replacement of Archer's total interests in QES with 8.5 million, or 25.7%, of QES newly issued common stock at a value of $85 million.

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

Board of Director's Report
Risk Factors

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. 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

Board of Director's Report

Risk Factors

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.

U.S. Tax Reform

The U.S. Tax Cuts and Jobs Act was enacted into law on December 22, 2017. The Act includes significant changes to the U.S. corporate income tax system that are effective on January 1, 2018, including, among other things, (i) a reduction of the U.S. corporate income tax rate from 35% to 21% , (ii) the transition to a modified territorial tax system from a worldwide tax system, (iii) limitations on the deductibility of interest expense and executive compensation, (iv) the imposition of the Base Erosion Anti-Abuse Tax ("BEAT"), a new minimum tax on international payments meant to reduce the ability of multinational companies to erode the U.S. tax base through deductible payments to related parties, and (v) the creation of two new categories of income: (a) foreign-derived intangible income ("FDII"), which is income derived from the sale of property or services to a foreign person which may be taxed at a rate lower than 21% , and (b) global intangible low taxed income ("GILTI"), which is certain income earned by foreign subsidiaries that must be included in the income of the U.S. shareholder. In addition, the Act imposes a one-time transition tax in the current year on the mandatory redeemed repatriation of certain unremitted foreign earnings as of December 31, 2017.

At 31 December 2017, we have not completed our accounting for the tax effects of enactment of the Act; however, in certain cases, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. In other cases, we have not been able to make a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to enactment. As we have booked full valuation allowance against all our US deferred tax assets and liabilities, we do not expect any changes to our accounts.

We are still evaluating the effects that BEAT, FDII, GILTI, and other provisions of the Act will have on our Consolidated Financial Statements in future periods. As we complete our analysis of the Act, collect and prepare the necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS, the FASB, and other standard-setting and regulatory bodies, we may make adjustments to the provisional amounts recorded in the fourth quarter of 2017. These adjustments may impact our provision for income taxes and effective income tax rate in the period in which the adjustments are determined. Our accounting for the income tax effects of the Act will be completed during the measurement period, which should not extend beyond one year from the enactment date.

Cyber attacks could adversely affect 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'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.

Board of Director’s Report

Share Capital issues

At December 31, 2017, 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 NOK 840 million or approximately $100 million. Following the issuance Archer’s issued share capital is increased to $1,421,649.66 divided into 142,164,699 ordinary shares of $0.01 par value each. 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, or approximately $1.17, each, raising additional capital of approximately $6 million.

At December 31, 2017, the number of shares issued was 147,281,887 corresponding to a share capital of $1.5 million.

The issued shares are fully paid. There are no shares not representing the capital in the Company. The shares are equal in all respects and each share carries one vote at our General Meeting 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, 2017

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.

Mr. Ørjan Svanevik served as Director from May 2015, and additionally as Chairman of the Board from September 2015, until his resignation on November 8, 2017.

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 EnerMech Ltd., Revelation Energy Holdings LLC, Shelf Drilling Ltd., and Tercel Oilfield Products, and VEDCO Holdings Inc. Previously, he served on the board of directors of Hercules Offshore Inc., Eastern Drilling ASA, IPEC Ltd., Noble Rochford Drilling Ltd., Patriot Drilling, Roxar ASA, Sensa Ltd.,Tesco Corporation, Torch Offshore Inc., and VEDCO Holdings Inc. Mr. Reynolds is a U.S. citizen, resident in the United States.

Kate Blankenship
Director
Kate Blankenship has served as a Director since our incorporation in August 2007. Mrs. Blankenship has also served as a director of Frontline Ltd. since 2003. Mrs. Blankenship joined Frontline in 1994 and served as its Chief Accounting Officer and Company Secretary until October 2005. Mrs. Blankenship has been a director of Ship Finance International Limited since October 2003, Seadrill Limited since 2005, Seadrill Partners since June 2012, North Atlantic Drilling Limited since February 2011, Independent Tankers Corporation Limited, since February 2008, Golden Ocean Group Limited since November 2004 and Avance Gas Holding Ltd since October 2013. Mrs. Blankenship served as a director of Golar LNG Limited from July 2003 until September 2015 and Golar LNG partners from September 2007 until September 2016. She is a member of the Institute of Chartered Accountants in England and Wales. Mrs. Blankenship is a British citizen, resident in the UK.

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

Alf Ragnar Løvdal
Director
Mr Løvdal has served as a Director since September 2015. Mr Løvdal is Chief Executive Officer of North Atlantic Drilling Limited since January 2013 and has served as Senior Vice President for Seadrill in the Asia Pacific region from April 2009 until December 2012. He was previously Chief Executive officer of Seawell Ltd. Mr Løvdal has 35 years of experience in the oil and gas industry, 10 years of which he was responsible for the well services business for the drilling contractor Smedvig, which Seadrill acquired in early 2006. At Smedvig, Mr Løvdal held several senior positions including general manager of operations for mobile drilling units. Prior to his employment with Smedvig and Seadrill, Mr Løvdal held various positions in different oil service companies, including five years of field experience with Schlumberger. He has a degree in mechanical engineering from Horten Engineering Academy in Norway. Mr Løvdal is a Norwegian citizen, resident in Norway.

Dag Skindlo
Dag 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.

Board of Director's Report

Board of Directors

Mr. Skindlo has 24 years' experience in the Oil and Gas industry. He joined Schlumberger in 1992, where he held various financial and operation positions, before joining Aker Group of Companies in 2016, in which he held roles including Global CFO and Managing Director for large industrial business divisions. Before joining Archer Mr Skindlo was the CEO for Aquamarine Subsea, a HitecVision owned company. 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. One of the Company's five directors, Giovanni Dell'Orto, is independent of the Company's two largest shareholders, Lime Rock Partners L.P and Seadrill Limited. Two of the Company's directors, Kate Blankenship and Alf Ragnar Løvdal, may be deemed affiliated, under the Norwegian Code of Practice, with the Company's largest shareholder, Seadrill. 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, President Eastern Hemisphere and Executive Vice President

Mr. Lechner was appointed to the position of President, Eastern Hemisphere and Executive Vice President in January 2016. In April 2016 he succeeded David King as Chief Executive Officer, a role he fulfils alongside his role as President Eastern Hemisphere. He previously held the position of President North Sea and Senior Business Development Manager for Asia Pacific at Archer. Mr. Lechner has over 33 years of oilfield experience having worked in the European, Asian, Russian, North American, Middle Eastern and Far Eastern Markets within various senior roles at Schlumberger, Parker Drilling and OiLSERV.

Mr. Lechner holds a B.Sc. degree in Electrical Engineering from the University of Notre Dame and the University of Houston. He is a US citizen and resides in Stavanger, Norway.

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.

Max L. Bouthillette served as General Counsel and Executive Vice President from August 2010 and additionally as President Western Hemisphere from January 2016 until his resignation on 14 July 2017.

Board of Director's Report
Responsibility Statement

We confirm that, to the best of our knowledge, the financial statements for 2017 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 2018

The Board of Archer Limited

John T. Reynolds
(Director)

Alf Ragnar Løvdal
(Director)

Kate Blankenship
(Director)

Giovanni Dell' Orto
(Director)

Dag Skindlo
(Director)

John Lechner
(Chief Executive Officer)

Independent auditors' report to the members of Archer Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of Archer Limited and its subsidiaries and affiliates' (together the "group") and of Archer Limited's (the "company") affairs as at 31 December 2017, and of the group's and the company's profit 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 applied on the bases described in note 2 ("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, which comprise: the consolidated and company balance sheets as at 31 December 2017; 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 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, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall group materiality: $8.5 million (2016: $7.5 million), based on 1% of revenue.
- Overall company materiality: $8.5 million (2016: $7.5 million), based on 1% of total assets but limited so as to not exceed group materiality.

- We conducted full scope audit work over 3 components in which the group has significant operations (Scotland, Norway and Argentina).
- In addition, we performed procedures on specific balances at 5 non-significant components; and performed desktop reviews on 3 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).
- Restructuring of finance facilities (Group and parent).
- 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 $3.2m has been recorded to reduce the carrying value of certain 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 estimates of the fair value of the 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.
Restructuring of finance facilities Interest bearing debt amounted $650.6m at 31 December 2017. During the year, the group successfully completed the refinancing of its multi-currency facility and its subordinated debt with Seadrill. Management determined that the refinancing was a troubled debt restructuring as the group would otherwise breach the covenants pertaining to the debt and be unable to fund repayment. Management accounted for the amendments at the time of the restructuring and reduced the carrying amount of the debt based on the revised future cash payments, resulting in a gain of $121.1m in the consolidated statement of operations. The gain included $80m related to Seadrill's partial waiver of its debt; $13.1m related to the release of accrued guarantee fees and interest payable to Seadrill;	Our procedures included the following: • We reviewed the new debt agreements and the associated accounting memos prepared by management to support the treatment of the refinancing as a troubled debt restructuring. • We recalculated the $121.1m gain recognised. • We considered the judgment exercised in the recognition of the gain of $121.1m in the consolidated statement of operations rather than in equity. We discussed the alternative treatments with management and the Audit Committee and understood their views over the capacity in which Seadrill acted. • We agreed the terms of the release of the unutilised accruals for guarantee fees and interest, and the reduction in debt arising from Seadrill's upfront payment to the lenders of the

Key audit matter	How our audit addressed the key audit matter
and $28m related to a payment by Seadrill to release it from various debt guarantees. Considering the complexity and financial impact of the debt refinancing it was considered to be a key audit matter.	multi-currency facility to release it from various guarantees to the related signed agreements. Based on the procedures performed, we noted no material issues from our work.
Valuation of the investment in QES The carrying value of the group's equity investment in QES was $74.3 million at December 31, 2017. QES reported losses of $21.2 million for the year ended 31 December 2017 ($154.7 million in 2016) and, considering the recurring losses of QES, management assessed the need for an impairment against the investment carrying value. However, in 2018 QES completed an Initial Public Offering (IPO) of its shares which provided an external point of reference in support of the fair value of the QES investment at year-end.	Our procedures included the following: • We reviewed management's comparison of its investment carrying value to the IPO share price and assessed the conclusion that no impairment was required at 31st December 2017. • We also reviewed management's assessment of the reduction in QES's share price after the IPO with reference to ASC 323-10-35-32 and whether the loss in value was other than temporary. From the evidence obtained we found the assumptions and methodology used to be appropriate.

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 operating headquarters in Scotland, Norway, and Argentina.

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

Where work was performed by component teams, we determine 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 the UK, 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 88% of consolidated net revenue and 84% 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	\$8.5 million (2016: \$7.5 million).	\$8.5 million (2016: \$7.5 million).
How we determined it	1% of revenue.	1% of total assets but limited so as to not exceed group materiality.
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 compared to prior year and forecast. Revenues have remained largely stable from 2012 to 2017, with a slight upturn in 2014.	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 \$0.65 million and \$7.5 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$846,000 (Group audit) (2016: \$750,000) and \$846,000 (Company audit) (2016: \$750,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

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.

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 more fully in the Responsibility Statement set out on page 19, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. 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 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.

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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Uxbridge, United Kingdom
27 April 2018

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 2017

Archer Limited and subsidiaries
Consolidated statement of operations

($ in millions, except share and per share data)	**YEAR ENDED DECEMBER 31**	
	2017	**2016**
Revenues		
Operating revenues	789.7	817.6
Reimbursable revenues	57.1	66.2
Total revenues	**846.8**	**883.8**
Expenses		
Operating expenses	706.3	737.5
Reimbursable expenses	52.9	58.7
Depreciation and amortization	63.7	72.6
Net gain on sale of assets	(0.7)	(0.2)
Impairment of goodwill and other assets	3.2	17.7
General and administrative expenses	32.1	38.5
Total expenses	857.5	924.8
Operating loss	**(10.7)**	**(41.0)**
Financial items		
Interest income	3.0	1.9
Interest expense	(46.0)	(63.0)
Share of net losses of unconsolidated associates	(14.9)	(68.7)
Other financial items, net	121.7	9.2
Total financial items	**63.8**	**(120.6)**
Income/(loss) from continuing operations before income taxes	**53.1**	**(161.6)**
Income tax benefit/(expense)	10.2	(0.9)
Income/(loss) from continuing operations	**63.3**	**(162.5)**
Loss from discontinued operations, net of tax	**(2.2)**	**(3.4)**
Net Income/(loss)	**61.1**	**(165.9)**
Basic earnings/(loss) per share ($) - from continuing operations	**0.48**	**(2.80)**
- from discontinued operations	**(0.02)**	**(0.06)**
Diluted earnings/(loss) per share ($) - from continuing operations	**0.48**	**(2.80)**
- from discontinued operations	**(0.02)**	**(0.06)**
Weighted average number of shares outstanding *(In thousands)*		
Basic	131,416,088	58,121,381
Diluted	131,677,396	58,121,381

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	
	2017	**2016**
Net income/(loss)	**61.1**	**(165.9)**
Other comprehensive income / (loss), net of tax		
Reversal of unrealised loss on termination of pension plan	-	23.1
Change in residual pension liability	(0.7)	-
Foreign currency translation differences	7.2	(25.3)
Other comprehensive income/(loss), net	**6.5**	**(2.2)**
Total comprehensive Income/(loss), net of tax	**67.6**	**(168.1)**

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, 2015	**(23.1)**	**17.6**	**(5.5)**
Reversal of unrealised loss on termination of pension plan	23.1	-	23.1
Foreign currency translation differences	-	(25.3)	(25.3)
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	-	**(1.2)**	**(1.2)**

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

Archer Limited and subsidiaries
Consolidated balance sheet

($ in millions)	DECEMBER 31	
	2017	**2016**
ASSETS **Current assets**		
Cash and cash equivalents	59.0	27.3
Restricted cash	8.7	7.6
Accounts receivables, net of allowance for doubtful accounts of $2.3 million and $1.4 million respectively	140.4	150.5
Inventories	58.0	61.8
Other current assets	35.9	39.9
Total current assets	**302.0**	**287.1**
Noncurrent assets		
Investments in unconsolidated associates	82.6	94.9
Loans to associates	17.6	11.0
Property plant and equipment, net	432.2	476.4
Deferred tax, net of valuation allowance	21.2	12.2
Goodwill	181.9	172.6
Other intangible assets	2.0	3.3
Other noncurrent assets	3.4	2.8
Total noncurrent assets	**740.9**	**773.2**
Total assets	**1,042.9**	**1,060.3**
LIABILITIES AND SHAREHOLDERS' EQUITY **Current liabilities**		
Current portion of interest-bearing debt	7.2	131.1
Other current liabilities	170.6	182.0
Total current liabilities	**177.8**	**313.1**
Long-term interest-bearing debt	596.7	567.1
Subordinated related party loan	58.3	125.0
Deferred tax	7.3	9.7
Other noncurrent liabilities	2.4	15.8
Total noncurrent liabilities	**664.7**	**717.6**
Shareholders' equity		
Common shares of par value $0.01 per share; 1.0 billion shares authorised, 147,281,887 outstanding shares at December 31, 2017 (December 31, 2016: 58,164,966 shares of $0.01 par value)	1.5	0.6
Additional paid-in capital	926.0	823.7
Accumulated deficit	(1,466.0)	(1,527.1)
Accumulated other comprehensive loss	(1.2)	(7.7)
Contributed surplus	740.1	740.1
Total shareholders' equity	**200.4**	**29.6**
Total liabilities and shareholders' equity	**1,042.9**	**1,060.3**

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	
	2017	**2016**
Cash Flows from Operating Activities		
Net income/(loss)	**61.1**	**(165.9)**
Net loss from discontinued operations	**2.2**	**3.4**
Net income/(loss) from continuing operations	**63.3**	**(162.5)**
Adjustment to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	63.7	72.6
Gain on debt restructure	(121.1)	-
Debt fees paid and expensed	7.4	-
Share-based compensation expenses	0.5	0.4
Net gain on sale of assets	(0.7)	(0.2)
Impairment of goodwill and other assets	3.2	17.7
Equity in loss of unconsolidated associates	14.9	68.7
Amortization of loan fees and senior note premium	2.3	4.6
Unrealised foreign currency gain	(8.9)	(11.6)
Changes in operating assets and liabilities		
Decrease in trade accounts receivable and other short-term receivables	9.5	63.3
Decrease in inventories	2.5	14.6
Decrease in trade accounts payable and other short-term liabilities	(7.9)	(21.7)
Change in other operating assets and liabilities, net	(13.1)	(8.4)
Cash used in operating activities of discontinued operations	(2.2)	(3.4)
Net cash provided by operating activities	**13.4**	**34.1**
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(12.5)	(6.5)
Proceeds from sale of property, plant and equipment	2.3	1.8
Investment in / loans to associates	(8.8)	(21.4)
Net change in restricted cash	(0.8)	0.7
Net cash used in investing activities	**(19.8)**	**(25.4)**
Cash Flows from Financing Activities		
Borrowings under revolving facilities	3.7	148.2
Repayments under revolving facilities	(36.2)	(189.6)
Proceeds from related party debt	-	75.0
Proceeds from debt	0.5	-
Repayment of debt	(40.0)	(20.9)
Debt issuance costs	(7.4)	(2.0)
Net proceeds from private placement and subsequent offering	102.7	-
Net cash provided by financing activities	**23.3**	**10.7**
Effect of exchange rate changes on cash and cash equivalents	14.8	(12.6)
Net increase in cash and cash equivalents	**31.7**	**6.8**
Cash and cash equivalents at beginning of the year	27.3	20.5
Cash and cash equivalents at the end of the year	**59.0**	**27.3**
Interest paid	(40.0)	(47.4)
Taxes paid	(3.8)	(10.6)

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, 2015	**0.6**	**823.3**	**(1,361.2)**	**(5.5)**	**740.1**	**197.3**
Foreign currency translation differences	-	-	-	(25.3)	-	(25.3)
Reversal of unrealised loss on termination of pension plan	-	-	-	23.1	-	23.1
Share-based compensation	-	0.4	-	-	-	0.4
Net loss	-	-	(165.9)	-	-	(165.9)
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**

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 sometimes reclassified to conform to the current year presentation.

Going concern

The consolidated financial statements have been prepared on the basis of the Company as a going concern. Our Board of Directors confirms their assumption of the Company as a going concern. This assumption is based on the market outlook for the oil service sector as per December 31, 2017 as well as the completed refinancing of the Company in first half of 2017 described above. 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

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 recognition

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

For certain contracts we receive lump-sum payments and other fees for equipment and mobilisation costs. Mobilisation fees and related costs are deferred and amortised over the contract term.

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

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

Foreign currencies

As of December 31, 2017, most of our subsidiaries report using functional currency of the USD. For subsidiaries that have functional currencies other than the 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 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 2017 was $0.5 million (2016: $0.1 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 net 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:

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

We estimate the fair value of each reporting unit using the income approach. The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal values for each reporting unit are discounted to a present value. Cash flow projections are based on management’s estimates of economic and market conditions that drive key assumptions of revenue growth rates, operating margins 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 for impairment at least once a year during the fourth quarter. 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 meet the definition of an intangible asset are capitalised and amortised.

Defined benefit pension plans

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

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

In 2016 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.

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, 2017 a total of 333,750 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 and our 42% interest in QES. The Eastern Hemisphere segment contains platform drilling operations in the North Sea, plus our global Oil Tools and Wireline Service divisions In addition we report corporate costs, and assets as separate line items.

Segmental information is presented in Note 24.

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

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.

1. ASU 2014-09 - Revenue from Contracts with Customers (also 2016-8, 2016-10, 2016-11, 2016-12, 2016-20, 2017-13, 2017-14)
2. ASU 2016-01 - Financial Instruments — Recognition and Measurement of Financial Assets and Financial Liabilities
3. ASU 2016-02 - Leases
4. ASU 2016-13 - Financial Instruments — Measurement of Credit Losses on Financial Instruments

ASU 2014-09 - Revenue from contracts with customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides new authoritative guidance on the methods of revenue recognition and related disclosure requirements. This new standard supersedes all existing revenue recognition requirements, including most industry-specific guidance. We will be required to apply this standard for the year ended December 31, 2018 and for interim periods within that year.

We have completed our initial work to assess the impact of implementation of the new standard and do not expect our pattern of revenue recognition to materially change as a consequence of adopting the new guidance. We plan to use the modified retrospective method to transition to the new standard. This method requires us to apply the new standard to all outstanding contracts as of January 1, 2018. Under this method we record the cumulative effect of applying the new standard as an adjustment to opening retained earnings.

The majority of our revenues derives from the supply of crew to operate customer rigs, or the supply of both rig and crew. Customers are charged daily rates for the services we provide. To apply the new standard, we are required to assess the core promise made to our customers under a drilling contract. We have assessed that our core promise is to stand ready to provide drilling services, as directed by our customer, over the operating period of a contract. We have concluded that this promise is provided as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Therefore, we follow the so-called series guidance and treat the series of distinct services as a single performance obligation.

Under the series guidance we allocate variable contract revenue to either the entire contract or individual periods during the contract, depending on what the variable contract revenue relates to. We have concluded that dayrate and bonus revenue relate to individual periods and allocate them accordingly. Mobilization and demobilization revenues don't relate to specific periods and we have concluded that they will be allocated to the entire contract, subject to the constraint around revenue reversals which is explained below.

To apply the ASC 606 revenue model, we will be required to estimate the value of each component of variable contract revenue each reporting period. We will then recognize revenue equal to the estimated value of contract revenue that has been allocated to the current reporting period plus any change in the estimated value of contract revenue that has been allocated to previous reporting periods.

We will generally use the most likely amount basis to form our estimates of variable contract revenue. However, if there is a range of potential outcomes for a component of variable revenue under a contract it may be appropriate to use an expected value basis instead. We only include estimates of variable contract revenue to the extent that it is probable that there will not be a significant reversal of revenue in a future reporting period.

The application of this revenue model leads to a similar revenue recognition to the approach previously followed under ASC 605. However, we have identified several potential differences as set out below:

1. Under ASC 605 we recognized contingent demobilization fees as the demobilization was performed at the end of the contract. Under ASC 606 we will estimate the amount of contingent demobilization fee each reporting period and recognize the estimated fee over the expected contract term, subject to the constraint that it must be probable that this will not result in a subsequent reversal of revenue in future periods ("reversal constraint").
2. Under ASC 605 we recognized disputed dayrates when the revenue became fixed or determinable. Under ASC 606 we will estimate the amount of disputed dayrate billings and recognize the estimated amount as revenue in the period the disputed dayrates related to, subject to the reversal constraint.
3. Under ASC 605 we recognized contingent early termination fees on daily basis over the termination period. Under ASC 606 we will estimate the amount of early termination fees for any contracts that have been early terminated. We will recognize this amount as revenue at the point the contract is early terminated, subject to the reversal constraint.
4. Under ASC 605 we did not allocate revenue to customer options. Under ASC 606 we will assess whether a customer option provides a material right to the customer. Where a contract includes a customer option that provides a material right we will allocate a proportion of contract revenue to the material right and recognize this either at the point the option expires or when the additional services are provided.
5. Under ASC 605 we applied the terms of contract modifications or extensions from the point they became effective. Where a contract was extended we changed the period over which unamortized mobilization revenue was taken to income. Under ASC 606 we will account for contract modifications either as separate contracts, a single combined contract or under the cumulative catch up method, depending on the terms of the modification.

Based on our implementation work to date we have not identified any adjustments at the transition date and do not expect material differences between our revenue under ASC 605 and ASC 606 going forward. This assessment may change as we finalize our work to implement of the new standard.

ASU 2016-01 Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* which made targeted improvements to the recognition and measurement of financial assets and financial liabilities.

The update changes how entities measure equity investments that do not result in consolidation and are not accounted for under the equity method and how they present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The new guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted in some cases. We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures.

ASU 2016-02 - Leases

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 offers 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 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted, using a modified retrospective application.

We have started to assess the impact of this standard on our Consolidated Financial Statements and related disclosures. We have determined that our drilling contracts contain a lease component and therefor adoption of this standard will result in increased disclosure of our leasing arrangements and may affect the way the way we recognize revenues associated with the lease and revenue components. We are still in the process of assessing the full impact of this update, but based on our work to date, we don't expect our pattern of revenue recognition to change significantly compared to current accounting standards.

We are consulting with other drilling companies to fully determine recognition and disclosure under the new standard. We may change our initial assessment as we complete the implementation process.

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. We are still in the process of assessing the impact of this update, but we do not currently expect this guidance to significantly affect our consolidated financial statements and related disclosures when we adopt it.

ASU 2016-15 - Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments based on a consensus of the Emerging Issues Task Force (EITF)*, to address the classification of certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The standard will be effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. Entities are required to apply the guidance retrospectively.

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

ASU 2016-16 - Income taxes - Intra Entity Transfers of Assets other than Inventory

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Income taxes Intra-Entity Transfers of Assets other than Inventory,* which requires companies to recognize the income tax effects of intercompany sales or transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period of sale or transfer occurs. The exception to recognizing the income tax effects of intercompany sales or transfers of assets remains in place for intercompany inventory sales and transfers, i.e. companies will still be required to defer the income tax effects of intercompany inventory transactions. The standard will be effective for annual periods beginning after 15 December 2017, with early adoption permitted. Entities are required to apply the guidance on a modified retrospective basis, with the cumulative effect adjustment to retained earnings at the beginning of the period of adoption. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

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 will be effective for fiscal years beginning after 15 December 2017, and interim periods within those years.

We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures. We do not expect any material impact.

ASU 2017-01 - Business Combinations - Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance will be effective for annual and interim periods beginning after December 15, 2017. Entities apply the guidance prospectively. We will apply this standard when we next undertake a business acquisition or disposal.

ASU 2017-04 - Intangible - Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new guidance, entities will continue to perform Step 1 of the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The entity will now recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

ASU 2017-05 - Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets

In February 2017, the FASB issued 2017-05, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The standard update clarifies that a model consistent with ASC 606 and ASC 810 should be applied to sales of non-financial assets to non-customers. Under this guidance an entity would recognize a gain or loss in full when it transfers control of the asset. The effective date of the guidance will be effective for annual and interim periods beginning after December 15, 2017. The new guidance is consistent with our current practice and therefore we do not expect this guidance to affect our consolidated financial statements and related disclosures when we adopt it.

Other accounting standard updates issued by the FASB

As of April 26, 2018, the FASB have issued several further updates not included above. We do not currently expect any of these updates to affect our consolidated financial statements and related disclosures either on transition or in future periods.

Note 3 — Restructuring costs

Due to the downturn in the oilfield service sector continuing into 2016, we extended the downsizing initiative implemented in 2015, by initiating further reductions in our workforce, particularly in the Western Hemisphere, rationalisation of our support functions and closure of offices including a significant change to, and reduction of our corporate management function. In connection with our 2016 initiatives we have recognised $37.2 million within our total operating expenses.

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

An analysis of these costs is tabulated below:

($ in millions)	Year ended December 31, 2017			Year ended December 31, 2016		
	Severance costs	Office closure	Other costs	Severance costs	Office closure	Other costs
Eastern Hemisphere	1.2	1.9	-	4.0	-	-
Western Hemisphere	7.0	-	0.3	30.3	2.1	0.8
Discontinued operations	-	2.2	-	-	-	-
Total	8.2	4.1	0.3	34.3	2.1	0.8

At December 31 2017, and 2016, we have provided for the following restructuring costs:

$ in millions	**2017**	**2016**
Severance costs	0.6	9.4
Office Closure costs	2.7	2.3
Other costs	-	0.1
Total	**3.3**	**11.8**

Note 4 — 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 2017 we have 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. Our routine annual test of our most significant fixed assets, conducted during the fourth quarter of 2017, involves a two-step process. The recoverability of the carrying values is first compared to total expected future cash flows expected to be generated by the assets. Where step one indicates that the carrying value may not be fully recoverable, a second exercise compares 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 each of 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 2016 we recognised total impairment charges of $17.7 million which included a write down of $5.3 million of obsolete inventory within our Frac Valves division, and $12.4 million in respect of land drilling rigs and equipment utilised in our Land drilling division in Latin America.

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

Note 5 — Other Financial Items

	YEARS ENDED DECEMBER 31	
($ in millions)	**2017**	**2016**
Foreign exchange gain	8.9	11.6
Gain on debt restructure	121.1	-
Other items, net	(8.3)	(2.4)
Total other financial items, net	**121.7**	**9.2**

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 16. The debt restructure resulted in the recognition of a gain of $121.1 million in the second quarter. This represents $0.92 of earnings per share.

The gain reported arose from the following elements of the refinancing agreement described in Note 16.

($ 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)
	121.1

In addition to the one-off gain on the debt restructure, other financial items represent predominantly foreign exchange gains on an intercompany loan balance denominated in Norwegian Kroner. The intercompany loan is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact on the entity with Norwegian Kroner functional currency is classified as other comprehensive income.

Note 6 — Income Taxes

Our income tax consists of the following:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2017**	**2016**
Current tax expense	1.0	7.4
Deferred tax benefit	(11.2)	(6.5)
Total income tax (benefit)/expense, net	**(10.2)**	**0.9**

Tax expense 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 North America, Malaysia and Brazil, and other timing differences in Argentina and Norway.

The Company, including its subsidiaries, is taxable in several jurisdictions based on its rig 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)	**2017**	**2016**
United States	0.1	0.4
South America	(6.2)	(3.9)
Europe	(4.9)	4.4
Others	0.8	-
Total	**(10.2)**	**0.9**

The income taxes for the years ended December 31 2017 and 2016 differed from the amount computed by applying the statutory income tax rate of 0% as follows:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2017**	**2016**
Income taxes at statutory rate	-	-
Effect of taxable losses from continuing operations	(30.0)*	(50.9)
Effect of taxable losses from discontinued operations	(2.2)	(2.6)
Effect of Impairment charges	0.5	5.4
Effect of other non-deductible expenses	1.8	(2.7)
Effect of share of losses of unconsolidated subsidiaries	2.4	23.3
Effect of pension plan curtailment	-	9.9
Effect of tax exempted income and credits	8.5	(2.1)
Effect of foreign exchange rate differences	4.2	4.6
Effect of valuation allowances	4.7	13.3
Effect of adjustments from prior years	-	(0.8)
Effect of state and withholding taxes	0.4	3.5
Actual tax (benefit)/expense recognised	**(10.2)**	**0.9**

**Figure excluding non taxable income in Bermuda (net gain of $160 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)	**2017**	**2016**
Pension	0.2	0.1
Tax loss carry forward	669.7	242.1
Impairments of tangible and intangible assets	4.5	104.2
Property differences	27.4	30.6
Provisions	78.9	83.2
Other	30.4	31.8
Gross deferred tax asset	**811.1**	**492.0**
Other	4.5	9.7
Gross deferred tax liability	**4.5**	**9.7**
Net deferred tax asset before valuation allowance	**806.6**	**482.3**
Valuation allowance	(792.7)	(479.8)
Net deferred tax asset	**13.9**	**2.5**

The deferred tax asset of $669.7 million shown in the above table under Tax losses carry forward, principally relates to carried forward tax losses of $632.9 million originating in the United States, and which expire over a period of 20 years, and tax losses of $59.7 million originating in Brazil. The Brazilian tax losses can be carried forward indefinitely.

Overall, deferred tax assets increased in 2017 due to additional tax losses incurred in 2017, mainly in Norway and in the North of Argentina. For tax losses incurred in 2017 for the South of Argentina 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 2017 financial statements results from these items.

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)	**2017**	**2016**
Deferred tax asset	21.2	12.2
Deferred tax liability	(7.3)	(9.7)
Net deferred tax asset	**13.9**	**2.5**

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 Archer Group operates in a number of jurisdictions and its tax filings are subject to regular audit by the tax authorities. The Archer Group's principal operations are located in Norway, Brazil, Argentina, UK, and Malaysia with the earliest periods under audit or open and subject to examination by the tax authorities being 2012, 2013, 2014, 2015, 2016 and 2017 respectively.

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 Archer 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 7 – Discontinued Operations

In 2016 we have reported $3.4 million costs as results of discontinued operations. These costs relate to the closure of the office which previously housed the headquarters of the North American operations which were contributed to QES. The office is subject to a lease which expires in October 2021. The additional expense reported in 2016 relates to the true-up of the accrual for the remaining lease costs which is estimated net of sub rental income.

In 2017 a further $2.2 million of costs has been reported in discontinued operations, which relate to the final termination of the use of the relevant office facilities in United States by Archer.

Note 8 — Earnings Per Share, or EPS

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

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

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2016			
Basic loss per share from continuing operations	(162.5)	58,121,381	(2.80)
Effect of dilutive options*	—	—	—
Diluted loss per share	(162.5)	58,121,381	(2.80)
Basic loss per share from discontinued operations	(3.4)	58,121,381	(0.06)
Effect of dilutive options*	—	—	—
Diluted loss per share	(3.4)	58,121,381	(0.06)

*In 2016 the loss per share was not adjusted for dilutive in the money share options or unvested RSUs. Share-based compensation of approximately 123,496 shares were excluded from the computation of diluted earnings per share for the year ended 2016 as the effect would have been anti-dilutive due to the net loss for the period.

Note 9 — Inventories

Our inventories include the following:

	DECEMBER 31	
($ in millions)	**2017**	**2016**
Manufactured:		
Finished goods	16.5	16.6
Work in progress	1.8	1.2
Total manufactured	**18.3**	**17.8**

Drilling supplies	14.2	24.4
Chemicals	3.5	6.1
Other items and spares	22.0	13.5
Total inventories	**58.0**	**61.8**

Note 10 — Other Current Assets

Our other current assets include:

	DECEMBER 31	
($ in millions)	**2017**	**2016**
Prepaid expenses	10.7	6.6
VAT and other taxes receivable	12.8	19.1
Other short term receivables	12.4	14.2
Total other current assets	**35.9**	**39.9**

Note 11 — Investments in Unconsolidated Associates

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

	2017	**2016**
C6 Technologies AS	50.00%	50.00%
Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.)	50.00%	50.00%
Quintana Energy Services LP	42.00%	42.00%
TAQA Archer Services LLC	51.00%	51.00%

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

	DECEMBER 31	
($ in millions)	**2017**	**2016**
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	74.3	85.2
TAQA Archer Services LLC	8.3	9.7
Total investments in associates	**82.6**	**94.9**

The components of investments in unconsolidated associates are as follows:

($ 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)	-	(1.4)	(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

($ in millions)	2016				
	QES	**C6**	**Rawabi**	**TAQA**	**Total**
Net book balance at beginning of year	148.1	-	-	-	148.1
Additional capital investment	-	3.3	-	12.2	15.5
Share in results of associates	(62.9)	(3.3)	-	(2.5)	(68.7)
Carrying value of investment at end of year	85.2	-	-	9.7	94.9
Carrying value of loan to affiliate at end of year	5.0	6.0	-	-	11.0

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

Investment in QES

We have evaluated our investment in QES and we have concluded that our holding in the limited partnership does not constitute a variable interest, under US GAAP, and that the voting rights conferred to us in the partnership agreement do not give us a controlling interest, therefore we are accounting for our shares in QES under the equity method.

The share in results related to our investment in QES reflects our 42% portion of the total losses estimated by the entity.

In addition to the investment in QES, we have provided QES with a loan of $10 million. Interest due on the loan has been added to the loan balance at December 31, 2017, increasing the loan to $11 million. Included in the terms of the loan arrangement which involved other third parties, Archer and the other lenders received penny warrants. Archer's warrants represent 8.5% of the shares in QES which, along with the warrants issued to other lenders, implies that on a fully diluted basis, Archer's ownership in QES will be reduced from 42% to approximately 36% if all the warrants are exercised.

On January 29, 2018 we announced that Quintana Energy Services had launched an initial public offering, or IPO, in the United States, of 9,259,259 shares of its common stock. The IPO resulted in our ownership reducing form 42% to 25% – See Note 27 Subsequent events.

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

($ in millions)	At December 31 2017	At December 31 2016
Current assets	133.9	108.2
Non-current assets	141.8	164.9
Current liabilities	149.3	46.1
Non-current liabilities	41.4	120.8

	Year ended December 31, 2017	Year ended December 31, 2016

Total revenue	438.0	210.4
Operating loss	10.5	146.6
Net loss	21.2	154.7

Investment in C6

In addition to our capital investment in C6, we have also made an additional investment by way of a loan which, at December 31, 2017, has a carrying value of $6.6 million (2016 $6.0 million). The loan is repayable in 2021 when we expect the developed technology to have generated sufficient funds. Our equity share of the losses incurred by C6 in 2017 is greater than the remaining carrying value of our capital investment. We have applied the remaining share of the losses as a reduction on the value of this loan due from the entity.

Investment in Rawabi Archer Company

Rawabi Archer Company, 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 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 since 2012. Our Oiltools division has recently begun trading with Rawabi with a view to extend our Oiltools business in the Saudi region.

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 2017, together with TAQA Industrialisation & Energy Services Company, or TAQA Co. The joint venture is governed by a shareholders agreement between Archer and TAQA Co. We have determined that the shareholders agreement provides TAQA Co, with substantive participating rights in the joint venture, by virtue of their representation on the board of the joint venture. Unanimous resolution by the board is required for some decisions which we consider to have a significant influence on the financial and operational activities of the joint venture.

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

During 2017 the directors of TAQA have taken the decision to close down the joint venture. TAQA is in the process of monetising all of its tangible assets and settling liabilities before making a final distribution to its two shareholders. At December 31, 2017, we believe that we shall recover the full $8.3 million carrying value of our investment by the receipt of assets and/or final cash distribution.

Note 12 — Property Plant and Equipment

($ in millions)	OPERATIONAL EQUIPMENT	OTHER FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
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
As of December 31, 2016				
Cost	867.4	32.4	3.7	903.5
Accumulated depreciation and impairments	(402.9)	(24.2)	-	(427.1)
Net book value	**464.5**	**8.2**	**3.7**	**476.4**
Depreciation for 2016	67.2	3.9	-	71.1

Operational equipment includes drilling and well services equipment. Included in the cost of operational equipment is $25.6 million in respect of assets held under capital leases (2016: $24.7 million). Other fixed assets include land and buildings, office furniture and fixtures, and motor vehicles. At December 31, 2017, $4.5 million of fixed assets have been pledged in respect of finance agreements for their acquisition (2016: $7.5 million)

Impairment losses are recorded whenever we determine that any of our assets have suffered a material loss in value that is other than temporary. We formally review all our long-lived assets for impairment at least annually. Our impairment test of our most significant assets comprises a two-step process using estimated cash-flows to be generated by the assets. The uncertainty and volatility in the oilfield service market, particularly during 2016 and 2017, has made the estimation of future performance especially difficult and a significant amount of judgement is involved in the forecast process.

We conducted our testing for during the fourth quarter of the year.

During 2017 we recognised total impairment losses of $3.2 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 2016 we recognised total impairment losses of $17.7 million comprising an impairment loss of $5.3 million in respect of obsolete inventory within our Frac Valves division, and impairments in relating to rigs and land drilling equipment in in our South American business of $12.4 million. 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 13 — 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)		**2017**			**2016**	
	Asset value	Impairment	**Net Value**	Asset value	Impairment	**Net Value**
Value at beginning of year	857.1	(684.5)	172.6	858.7	(684.5)	174.2
Currency adjustments	9.3	-	9.3	(1.6)	-	(1.6)
Net book balance at end of year	**866.4**	**(684.5)**	**181.9**	**857.1**	**(684.5)**	**172.6**

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 2017, 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 is impaired. The main factors which lead us to this conclusion were:

- The significant headroom indicated by our 2015 testing in respect of our remaining goodwill;
- The upturn in the Oilfield service sector, especially reflected in our platform drilling division where we secured significant key contract renewals during 2017.

In 2016, step one of our annual goodwill impairment testing identified circumstances that also resulted in the conclusion that it was more likely than not that the carrying value of our goodwill was not impaired.

Note 14 — 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, 2017	0.5 years	0.3 years		4.7 years		
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
As of December 31, 2016						
Cost	8.3	13.0	1.2	2.7	0.1	25.3
Accumulated amortization and impairments	(7.3)	(12.3)	(1.2)	(1.1)	(0.1)	(22.0)
Net book value	**1.0**	**0.7**	**-**	**1.6**	**-**	**3.3**
Amortization and impairments for 2016	0.6	0.6	-	0.3	-	1.5

Future amortization of intangible assets as of December 31, 2017 is as follows:

($ in millions)	2018	2019	2020	2021	2022 AND THEREAFTER	TOTAL
Intangible assets						
Customer relationships	0.1	-	-	-	-	0.1
Technology	0.4	-	-	-	-	0.4
Patents	0.3	0.3	0.3	0.3	0.3	1.5
Total intangible amortization	**0.8**	**0.3**	**0.3**	**0.3**	**0.3**	**2.0**

We review all our intangible assets at least annually to ensure the carrying value remains justifiable.

We completed our annual review of long-lived assets for impairment in the fourth quarter of 2017 and concluded that none of our intangible assets were impaired.

A similar review conducted in 2016 also resulted in the conclusion that none of our intangible assets were impaired.

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

Note 15 — Other Noncurrent Assets

Our other noncurrent assets are composed of the following:

($ in millions)	DECEMBER 31	
	2017	2016
Deferred mobilisation costs	1.8	1.8
Other	1.6	1.0
Total other noncurrent assets	**3.4**	**2.8**

Note 16 — Interest-bearing Debt

($ in millions)	December 31 2017			December 31 2016		
	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	566.8	(2.5)	564.3	625.0	(4.5)	620.5
Related party subordinated loans	58.3	-	58.3	125.0	-	125.0
Hermes-covered term loans	25.5	(0.5)	25.0	28.0	(0.8)	27.2
Other loans and capital lease liability	14.6	-	14.6	50.5	-	50.5
Total loans and capital lease liability	**665.2**	**(3.0)**	**662.2**	**828.5**	**(5.3)**	**823.2**
Less: current portion	(8.3)	1.1	(7.2)	(134.7)	3.6	(131.1)
Long-term portion of interest bearing debt	**656.9**	**(1.9)**	**655.0**	**693.8**	**(1.7)**	**692.1**

Multicurrency revolving credit facility

During the second quarter of 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, which is discussed in more detail below and in Note 23, Related Party Transactions. We have concluded that the overall restructuring of our debt with our various lenders falls under the US GAAP definition of a troubled debt restructure.

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

The total amount available under the Facility is $650.8 million of which a total of $566.8 million was drawn as at December 31, 2017. The Facility is secured by pledges over shares in material subsidiaries, assignment of intercompany debt and guarantees issued by the material subsidiaries.

The Facility contains certain financial covenants, including, among others:

– Archer will ensure that the 12 months rolling EBITDA (after certain adjustments) of the Group is at least $45 million in 2017, $55 million in 2018, $65 million in 2019 and $85 million in 2020.
– Archer shall ensure that the 12 months rolling EBITDA 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 $25 million for the financial year 2017 and $40 million per year thereafter`.

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

As of December 31, 2017, the Company is in compliance with all covenants as agreed with its lenders under this Facility.

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 23, Related Party Transactions.

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. As part of the debt restructuring agreed with our lenders during 2017, the maturity date of this loan was extended from May 2019 to September 2020, the repayment schedule was amended and the covenants aligned to those of the Facility. The formalisation of these amendments to this loan agreement was completed in October 2017. The interest rate applied to this loan is 1.45% above EURIBOR. At December 31, 2017 $25.5 million was outstanding under this facility.

Other loans and capital leases

At December 31, 2017 we have borrowed $7.3 million under a long term facility in Argentina, and in Bolivia we have borrowed a further $3.2 million under local short term facilities.

We have finance arrangements relating to equipment in our Oiltools division and insurance premiums. At December 31, 2017, the balance due under these arrangements was $4.1 million.

Our outstanding interest bearing debt as of December 31, 2017, is repayable as follows:

($ in millions)	CAPITAL LEASE	OTHER DEBT	TOTAL
Year ending December 31			
2018	2.5	5.9	8.4
2019	1.5	2.6	4.1
2020	0.1	594.3	594.4
2021	-	58.3	58.3
Total debt	**4.1**	**661.1**	**665.2**

Note 17 — Other Current Liabilities

Our other current liabilities are comprised of the following:

	DECEMBER 31	
($ in millions)	**2017**	**2016**
Accounts payable	53.6	52.0
Accrued restructuring costs	3.3	11.8
Accrued expenses and prepaid revenues	85.0	88.9
Taxes payable	3.8	4.6
VAT, employee and other taxes	24.9	24.7
Total other current liabilities	**170.6**	**182.0**

Note 18 — Other Noncurrent Liabilities

Our other noncurrent liabilities are comprised of the followings:

	DECEMBER 31	
($ in millions)	**2017**	**2016**
Accrued pension and early retirement obligation	0.6	0.6
Accrued interest on Subordinated debt	-	12.0
Other noncurrent liabilities	1.8	3.2
Total other noncurrent liabilities	**2.4**	**15.8**

The accrued interest owed to Seadrill Ltd was settled as part of the refinancing agreements discussed in Notes 5, 12 and 16.

Note 19 — Commitments and Contingencies

Purchase commitments

As of December 31, 2017, we have committed to purchase obligations including capital expenditures amounting to $9.4 million, (2016: $5.0 million). During 2017 and 2016 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)	**2017**	**2016**
Guarantees to customers of the Company's own performance	94.3	47.0
Guarantee in favour of banks	17.9	12.6
Other guarantees	4.8	4.7
	117.0	**64.3**

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, 2017, 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 20 — Share Capital

	DECEMBER 31			
	2017		2016	
	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	147,281,887	1.5	58,164,966	0.6

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. Following the issuance Archer’s issued share capital is increased to $1,421,649.66 divided into 142,164,699 ordinary shares of $0.01 par value each. 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, or approximately $1.17, each.

The Board have indicated that no dividend will be distributed in respect of the results for the financial year 2017.

Note 21 — 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, 2017, Archer has two active option programs, in addition to two programs which were acquired and have been continued following the merger with Allis-Chalmers.

The following summarises share option transactions related to the Archer programs in 2017 and 2016:

	2017		2016	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE - NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE - NOK
Outstanding at beginning of year	**721,633**	**98.65**	**1,790,510**	88.66
Granted	1,200,000	10.00	-	-
Forfeited/expired	(398,200)	90.50	(1,079,677)	79.01
Modifications related to reverse split	-	-	10,800	182.83
Outstanding at end of year	**1.532.433**	**31.28**	**721,633**	**98.65**
Exercisable at end of year	321,633	110.62	545,366	106.78

No income was received in 2017 as a result of share options being exercised (2016: 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, 2017, 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, 2017, all 115,286 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

Options issued under the 2011, 2012 and 2013 Program may be exercised up to December 31, 2018. The exercise price is between NOK 37.90 and NOK 200.00 per share, and may be exercised one fifth each year beginning twelve months after they were granted. At December 31, 2017, a total of 9,000 options were outstanding under the 2011, 2012 and 2013 Program and 7,200 of these 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, 2017, all 185,001 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, 2017. At December 31, 2017, 1,200,000 options were outstanding under the 2017 Program and none of the options were exercisable

The weighted average remaining contractual life of outstanding options is 45 months (2016: 33 months) and their weighted average fair value was NOK 4.79 per option (2016: NOK 2.65 per option).

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

When stock options are exercised we 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.

The parameters used in calculating these 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, 25% on each of dates falling approximately one, two, three and four years after the grant date. At December 31, 2017 a total of 333,750 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:

	2017		2016	
	RSU's	**Weighted average grant date fair value NOK**	**RSU's**	**Weighted average grant date fair value NOK**
Unvested at beginning of year	**563,000**	4.09	**958,87**	4.18
Granted	70,000	11.51	10,00	4.50
Released	(197,125)		(252,625	
Forfeited	(91,125)		(640,625	
Corrections due to reverse split of shares	-		484,87	
Correction 2016 opening balance	(11,000)		2,50	
Unvested at end of year	**333,750**	5,56	**563,00**	4.09

Accounting for share-based compensation

The fair value of the share options and RSUs granted is recognised as personnel expenses. During 2017, NOK 4.0 million ($0.5 million) has been expensed in our Statement of Operations ($0.4 million in 2016).

As of December 31, 2017, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 5.9 million ($720,000), which is expected to be recognised as expenses in 2018, 2019 and 2020 of, NOK 4.1 million ($0.5 million) NOK 1.6 million ($190,000) and NOK 0.3 million ($30,000), respectively.

Note 22 — Pension Benefits

Defined benefit plan

The defined benefit plan for offshore employees in Norway was terminated in September 2016 and all employees in that plan were transferred to a defined contribution plan. Unrealised gains relating to the defined benefit plan assets, previously reported in accumulated other comprehensive income were reclassified as a result of the termination, and the effect of the reclassification reported as part of employee costs within operational expenses. Amounts recognised which related to the defined benefits plan were an expense of $15.000 in 2017 and a net benefit of $1.4 million in 2016.

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 2017 we contributed $3.5 million (2016: $3.8 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 2017. 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 2017 is equivalent to approximately $11,000). In 2017 we contributed $1.2 million (2016: $1.5 million) to the plan in Norway.

Note 23 — Related Party Transactions

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

Transactions with Seadrill Limited;
At December 31, 2017, Seadrill is our largest shareholder, owning 15.7% of our common shares.

In May 2016, Seadrill Limited provided additional financing to Archer in an aggregate amount of $ 75 million, which was contributed in form of subordinated debt. Interest of 10% per year was being accrued over the term of the loan to be paid, along with the principal amount on the maturity date of September 30 2018. The loan was part of the comprehensive restructuring of our financial arrangements and described further below. At December 31, 2016, we had accrued a total of $12.0 million in interest in respect of the subordinated loans owed to Seadrill which was included in other non-current liabilities (see note 18).

A NOK 66 million (equivalent to $7.9 million) performance guarantee is provided to Conoco Phillips by Seadrill on behalf of Archer AS. Up until April 28, 2017. As at December 31, 2016, Seadrill also provided the following guarantees:

- a guarantee of €23.7 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 16) with annual guarantee fees charged at 1.25% of the guaranteed amount.
- a guarantee of $250.0 million to the lenders of our revolving facility (see Note 16), with annual guarantee fees charged at 1.25% of the guaranteed amount.

These two guarantees of our finance facilities were terminated as part of our refinancing arrangements described below

As at December 31, 2017 we have accrued guarantee fees owed to Seadrill of $1.0 million (2016: $12.1 million) which are reported in other current liabilities. The guarantee fees are accrued over the guarantee period, and the cost of the fees are reported within Financial Items.

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 16
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 5 and 16.

During the year ended December 31, 2017, we supplied Seadrill Limited and affiliates with services amounting to $0.4 million. This amount has been included in operating revenue, and for part of the year, Seadrill provided us with office space in the London facility, for which we paid rental of $0.1 million.

Transactions with C6 Technologies AS:
We own 50% of C6 Technologies AS, an oilfield technology company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results using the equity method of accounting since its creation in 2010.
In the year ended December 31, 2017 we have advanced $2.2 million as an additional loan to C6, and applied $0.6 million interest to the loan balance.
We have also supplied personnel and office facilities to C6 for fees totalling $0.4 million

Transactions with other associated companies
Our relationship with TAQA and Rawabi is described in note 12 above. During 2017 we charged TAQA $0.3 million for the lease of equipment. The amount remains outstanding at December 31, 2017. We have provided $0.2 million of parts and spare parts to Rawabi during the year. At 31, December 2017 there is a net balance of $0.2 million owed to Rawabi due to a credit note issued in 2017 in respect of prior year sales.

During 2016, after our acquisition of our 42% holding in QES in return for the contribution of our North American oilfield services businesses, we provided transitional services to QES. In addition we invoiced QES for items which we have paid on their behalf following the sale, such as benefits and insurance claims. At December 31, 2017, QES owed a balance of $0.3 million in respect of these services, which is reported as a receivable balance in our trade accounts receivable at as December 31. 2017.

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

APPENDIX 1 Frontline Management (Bermuda) Limited, ("Frontline")
APPENDIX 2 Seatankers Management Company Limited ("Seatankers")
APPENDIX 3 North Atlantic Drilling Ltd, or ("NADL")
APPENDIX 4 Enermech Services Inc. ("Enermech")

Frontline and Seatankers provides management support and administrative services to us, and we have recorded fees of $0.3 and $0.8 million for these services from these companies respectively in the year ended December 31, 2017. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

During the year ended December 31, 2017, we supplied NADL with services amounting to $0.9 million, including reimbursable material. This amount has been included in operating revenues. Also during 2017, NADL provided warehouse space to our UK operations for which we were charged $0.1 million.

Enermech provided products and services to the company totalling $0.2 million during the year ended December 31, 2017. These amounts were included in operating expenses.

Note 24 — Reporting and Geographical Segment Information

With effect from January 1 2016, following the contribution of our North American well services businesses to QES on December 31, 2015, and a re-organisation of our management and reporting structure, we manage and present our business under two reporting segments:

- Eastern Hemisphere
- Western Hemisphere

Western Hemisphere comprises our drilling operations in Latin America, our Frac Valve business in North America and our 42% interest in QES.

The Eastern Hemisphere segment contains platform drilling, engineering, wireline and Oiltools Service divisions.

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**	
	2017	**2016**
Revenues from external customers		
Eastern Hemisphere	445.6	445.1
Western Hemisphere	401.2	438.7
Total	**846.8**	**883.8**
Depreciation and amortization		
Eastern Hemisphere	28.6	31.3
Western Hemisphere	35.1	41.3
Total	**63.7**	**72.6**
Net Operating income/(loss)		
Eastern Hemisphere	12.1	19.2
Western Hemisphere	(21.8)	(49.2)
Corporate costs	(0.5)	(10.6)
Stock compensation costs	(0.5)	(0.4)
Operating loss	**(10.7)**	**(41.0)**
Total financial items	63.8	(120.6)
Income taxes	10.2	(0.9)
Discontinued operations, net of tax	(2.2)	(3.4)
Net income/(loss)	**61.1**	**(165.9)**
Capital expenditures – fixed assets		
Eastern Hemisphere	4.3	1.9
Western Hemisphere	8.2	4.6

Total	**12.5**	**6.5**

($ in millions)	AS OF DECEMBER 31	
	2017	**2016**
Total assets		
Eastern Hemisphere	522.0	493.4
Western Hemisphere	520.4	564.0
Corporate	0.5	2.9
Total	**1,042.9**	**1,060.3**

Goodwill

($ in millions)	EASTERN HEMISPHERE	WESTERN HEMISPHERE	TOTAL
Balance at December 31, 2015	**174.2**	**—**	**174.2**
Exchange rate fluctuations on goodwill measured in foreign currency	(1.6)	—	(1.6)
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**

Geographic information by country

	FOR THE YEARS ENDED DECEMBER 31	
($ in millions)	**2017**	**2016**
Revenue		
Norway	244.4	211.5
United States	35.4	20.5
Argentina	365.4	392.6
United Kingdom	135.9	149.6
Other	65.7	109.6
Total	**846.8**	**883.8**

	AS OF DECEMBER 31	
($ in millions)	**2017**	**2016**
Property plant and equipment		
United States	7.5	9.2
Argentina	298.7	291.7
Norway	78.7	82.4
United Kingdom	44.8	50.1
Other	2.5	43.0
Total	**432.2**	**476.4**

Note 25 — 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 are available on cash at bank. Such deposits generally have short-term maturities, in order to provide us with the flexibility to meet requirements for working capital and capital investments.

The extent to which we utilise interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt exposure and our views regarding future interest rates. At December 31, 2017, we have interest swap agreements which fix our variable interest payable covering NOK 500 million of our NOK interest bearing loan (2016: NOK 500 million), effectively fixing the interest rate on approximately 11% of the debt (2016: 33%). At December 31, 2016 we also had an interest rate swap hedging $150 million of our USD interest bearing loan. 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 interest rate swaps in 2017 amounted to $1.2 million (2016: $2.0 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 gain relating to foreign exchange recognised in the Consolidated Statement of Operations in 2017 amounted to $8.9 million (2016: $11.6 million).

Credit risk management

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

Fair values

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

($ in millions)	**DECEMBER 31**			
	2017		**2016**	
Assets / (Liabilities)	**FAIR VALUE**	**CARRYING VALUE**	**FAIR VALUE**	**CARRYING VALUE**
Non-derivatives				
Cash and cash equivalents	59.0	59.0	27.3	27.3
Restricted cash	8.7	8.7	7.6	7.6
Current portion of interest bearing debt	(7.2)	(7.2)	(131.1)	(131.1)
Long term interest bearing debt	(596.7)	(596.7)	(567.1)	(567.1)
Subordinated related party loan	(58.3)	(58.3)	(125.0)	(125.0)
Interest rate swap agreement	(1.2)	(1.2)	(2.0)	(2.0)

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

($ in millions)	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	DECEMBER 31 2017	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	59.0	59.0	—	—
Restricted cash	8.7	8.7	—	—
Accounts receivable	140.4	—	140.4	
Liabilities:				
Accounts payable	53.6	—	53.6	—
Current portion of interest bearing debt	(7.2)	—	(7.2)	—
Long term interest bearing debt	(596.7)	—	(596.7)	—
Subordinated related party loan	(58.3)	—	(58.3)	—
Interest rate swap agreements	(1.2)	—	(1.2)	—

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, 2017, and 2016. 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, 2017.

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

Concentration of risk

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

CUSTOMER	2017	2016
Pan American Energy	34%	26%
Statoil	18%	13%
YPF SA	6%	13%
Customer <10%	42%	48%
Total	**100%**	**100%**

Note 26 — Operating Lease Obligations

In addition to capital leases (See Note 16), we have significant operating leases for certain premises, office equipment and operating equipment. The most significant lease agreements are related to offices in Norway and United Kingdom. Rental expenses amounted to $12.6 million in 2017 (2016: $14.0 million).

Estimated future minimum rental payments are as follows:

($ In millions)	OPERATING LEASE OBLIGATIONS
YEAR	
2018	11.8
2019	9.7
2020	6.5
2021	5.7
2022	4.7
Thereafter	24.6
Total	**63.0**

Note 27 — Subsequent Events

On January 29, 2018 Quintana Energy Services launched an initial public offering of 9,259,259 shares of its common stock. In addition to the 8,494,306 shares in QES common stock received in respect of interests in QES prior to the IPO, we subscribed for an additional 1,000,000 shares as part of the IPO and now holds a total of 9,494,306 shares in QES, representing a 28.7% ownership. The total value of our investment following the IPO, based on the issue price of $10.00 per share is $95 million.

Appendix A – Corporate Governance

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 (the “Code”) applies to us to the extent that the provisions of this Code do not conflict with the legislation of our national jurisdiction. The Code is a “comply or explain” guideline and we generally aim at complying with the recommendations of the Code. However, we will, to some extent, deviate from certain recommendations of the Code, partly due to different practice and principles under which Bermuda companies operate. The status of noncompliance and the explanations therefore is set out below.

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

Section 1

Archer Limited is a limited liability company registered in Bermuda and listed on the Oslo Stock Exchange (Oslo Børs). The foundation for Archer’s governance structure 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, 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 of Directors reviews the actual performance for all the values mentioned above and where applicable compares the key performance indicators against the plan on a quarterly basis. With regard to integrity, Archer has implemented a code of conduct and a compliance and business ethics manual, 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 reviewed the overall performance of the Company compared to its values and its corporate governance for the financial year 2017 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

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

Section 3

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

Section 4

In accordance with the company laws of Bermuda, the shareholders can resolve an amount of authorised capital within which the Board may decide to increase the issued capital at its discretion without further shareholder approval. There is no legal framework providing for specific time-limited or purpose-limited authorisations to increase the share capital. The Board will propose to the shareholders that they consider and, if necessary, resolve to increase the authorised capital of the Company that will allow the Board some flexibility to increase the number of issued shares without further shareholder approval. As such, we may deviate from the Code’s recommendation in section 4 to limit such authorisation to 10% of the issued share capital. Any increase of the authorised capital is, however, subject to approval by the shareholders by 2/3 majority of the votes cast. Neither our by-laws nor Bermuda company laws include regulation of pre-emptive rights for shareholders in connection with share capital increases. Our by-laws provide for the Board in its sole discretion to direct a share issue to existing shareholders at par value or at a premium price. We are subject to the general principle of equal treatment of shareholders under the Norwegian Securities Trading Act section 5-14. The Board will, in connection with any future share issues, on a case-by-case basis, evaluate whether deviation from the principle of equal treatment is justified. The Board will consider and determine on a case-by-case basis whether independent third party evaluations are required if entering into agreements with close associates in accordance with the Code section 5. The Board may decide, however, due to the specific agreement or transaction, to deviate from this recommendation if the interests of the shareholders in general are believed to be maintained in a satisfactory manner through other measures.

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

Section 5

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

Section 6

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

Section 7

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

Section 8

The Chairman of our five-member Board has been elected by the Board and not by the shareholders as recommended in the Code. This is in compliance with normal procedures under Bermuda law. We are not fully in compliance with section 8 of the Code with respect to independence of board members. The Code recommends that the board should not include executive personnel and the majority of the shareholder-elected board members should be independent of the company's executive personnel and material business contacts. The Code also recommends that at least two of the members of the board should be independent of the company's main shareholders. Dag Skindlo, a director of the Company, also holds the position as CFO and Executive Vice President Strategy in the Company. One of the Company's five directors, Giovanni Dell' Orto, is independent of two of the Company's largest shareholders, Lime Rock Partners L.P ("**Lime Rock Partners**") and Seadrill Limited ("**Seadrill**"). Two of the Company's directors, Kate Blankenship and Alf Ragnar Løvdal, may be deemed affiliated, under the Norwegian Code of Practice, with the Company's largest shareholder, Seadrill. One of the Company's directors, John Reynolds, is affiliated with one of our largest shareholders, Lime Rock Partners. We accordingly deviate from section 8 of the Code.

Section 9

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 HSE committee, which reviews our performance related to health, safety and environment.

The Board has established an Audit Committee, which has a formal charter and terms of reference approved by the Board. The Audit Committee, which is comprised of directors John Reynolds and Kate Blankenship, is responsible for ensuring Archer has an independent and effective internal and external audit system. The Audit Committee supports the Board in the administration and exercise of its responsibility for supervisory oversight of financial reporting and internal control matters and to maintaining appropriate relationships with our auditors. Appointment of the auditor for audit services is approved at our annual general meeting and the Board is given authority to approve the fees to be paid to the auditor. Our auditor meets 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.

Section 10
Archer's Board of Directors ensures that the Company follows guidelines to minimise the overall risk to the Company and its shareholders and implements and complies with an adequate internal control framework. Archer's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

We have implemented clear lines of responsibility and limits of delegated authority. Comprehensive procedures provide for the appraisal, approval, control and review of expenditures. The senior management team meets with its geographic and divisional leadership on a regular basis to discuss particular issues affecting each region and business unit, including their key risks, health and safety statistics and legal and financial matters. We have also implemented a process to assess the Company's projected financing needs and compliance with covenants under its financing arrangements. The results are presented to and discussed with the Board of Directors on a regular basis so adequate corrective measures can be taken if and when necessary.

Integrity is part of our core values and high ethical standards are paramount to achieve our business objectives. Our Code of Conduct describes Archer's commitment related to ethics for both personal and business matters. 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 of Directors. The Code of Conduct is available at www.archerwell.com. Archer has implemented a dedicated ethics helpline that can be used by employees who wish to express concerns or seek advice regarding the legal and ethical conduct of our business.

We comply with the Code related to this section.

Section 11
There is no obligation to present the guidelines for remuneration of the Board of Directors to the shareholders of a Bermuda incorporated company. We will provide information to our shareholders regarding remuneration of the Board in compliance with 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
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
The Board of Directors has established guidelines requiring us to report interim financial information on a quarterly basis according to a financial calendar that is publically available. It has also asked us to hold a quarterly financial results conference call, which is accessible to all participants in the securities market. Timing and venue for such events are announced through public press releases. For specific events the Board of Directors requests us to hold investor meetings allowing for more detailed information. The information shared in such meetings is published on our website.

Section 14
The Board of Directors has adopted all recommendation related to takeovers, which requires that all shareholders are given sufficient information and time to form an independent view of a potential takeover offer.

Section 15
The Board's Audit Committee is responsible for ensuring that the Group is subject to an independent and effective audit. Our independent registered public accounting firm (independent auditor) is independent in relation to Archer and is appointed by the general meeting of shareholders. The independent auditor's fee must be approved by the general meeting of shareholders.

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

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

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

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

We comply with the Code related to this section.

Norwegian Accounting Act Section 3-3 b

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

Risk Oversight

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

Internal control

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with 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 Directors Kate Blankenship and John Reynolds. The Audit Committee assists our Board of Directors in fulfilling its oversight responsibility by overseeing and evaluating (i) the conduct of our accounting and financial reporting process and the integrity of our financial statements; (ii) the functioning of our systems of internal accounting and financial controls; (iii) the performance and independence of our internal audit function and (iv) the engagement, compensation, performance, qualifications and independence of our independent auditors.

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

Compensation committee

The role of a Compensation Committee is currently performed by all members of the Board of Directors. The Board of Directors 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 of Directors also administers our stock compensation plans.

Health, Safety and Environment Committee

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

Communications with the Board of Directors

Stockholders and other interested parties wishing to communicate with the Board of Directors or any individual director, including the Chairman, should send any communication to the Corporate Secretary, Archer Limited, Par-la-Ville Place 14 Par-la-Ville Road, Hamilton HM 08, Bermuda. Any such communication must state the number of shares beneficially owned by the stockholder making the communication. The Corporate Secretary will forward such communication to the director or directors to whom the communication is directed, unless the Corporate Secretary determines that the communication does not relate to the business or affairs of the Company or the functioning or constitution of the Board of Directors or any of its committees, relates to routine or insignificant matters that do not warrant the attention of the Board of Directors, is an advertisement or other commercial solicitation or communication, is frivolous or offensive, or is otherwise not appropriate for delivery to directors.

Communication from the Company

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

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.

Related party transaction approval policy

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

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

Archer Limited and subsidiaries

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
TAQA Archer Company	Saudi Arabia	51%	Provides Wireline 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

Archer Limited and subsidiaries

Appendix B – List of significant subsidiaries

AWC Frac Valves Inc.	USA	100%	Sells and services frac valves
Quintana Energy Services GP LLC	USA	50%	Management Services
Quintana Energy Services LP	USA	42%*	Drilling and well service operations

* see note 11 for explanation of QES

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**	
	2017	**2016**
Revenues		
Operating revenues	1.6	2.1
Total revenues	**1.6**	**2.1**
Expenses		
General and administrative expenses	2.1	2.8
Total expenses	**2.1**	**2.8**
Operating loss	**(0.5)**	**(0.7)**
Financial items		
Interest expenses	(29.9)	(8.1)
Interest/dividends from subsidiaries	61.6	18.1
Share of loss from subsidiaries	(102.8)	(176.7)
Other financial items	132.7	1.5
Total financial items	**61.6**	**(165.2)**
Income/(loss) before income taxes	**61.1**	**(165.9)**
Income taxes	-	-
Net income/(loss)	**61.1**	**(165.9)**
Basic earnings/(loss) per share ($)	**0.48**	**(2.86)**
Diluted earnings/(loss) per share ($)	**0.48**	**(2.86)**
Weighted average number of shares outstanding (in millions)		
Basic	131.4	58.1
Diluted	131.7	58.1

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

Appendix C – Supplemental parent company only information

Archer Limited

Company Statement of comprehensive income/(loss)

	YEAR ENDED DECEMBER 31	
($ in millions)	**2017**	**2016**
Net income/(loss)	**61.1**	**(165.9)**
Other comprehensive income/(loss)		
Change in residual pension liability	(0.7)	23.1
Foreign currency translation differences	7.2	(25.3)
Other comprehensive income/(loss), net	**6.5**	**(2.2)**
Total comprehensive income/(loss)	**67.6**	**(168.1)**

Company Statement of accumulated other comprehensive loss

($ in millions)	SUBSIDIARY PENSION PLANS-UNRECOGNISED (LOSS)/GAIN	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	TOTAL
Balance at December 31, 2015	**(23.1)**	**17.6**	**(5.5)**
Foreign currency translation differences	-	(25.3)	(25.3)
Reversal of unrealised loss on termination of pension plan	23.1	-	23.1
Balance at December 31, 2016	**-**	**(7.7)**	**(7.7)**
Foreign currency translation differences	-	7.2	7.2
Change in residual pension liability	-	(0.7)	(0.7)
Balance at December 31, 2017	**-**	**(1.2)**	**(1.2)**

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	
	2017	**2016**
ASSETS		
Current assets		
Cash and cash equivalents	-	2.6
Amounts due from subsidiaries	1.3	116.9
Total current assets	**1.3**	**119.5**
Noncurrent assets		
Amounts due from subsidiaries, long term	1,161.5	361.0
Total noncurrent assets	**1,161.5**	**361.0**
Total assets	**1,162.8**	**480.5**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Other current liabilities	4.2	19.3
Total current liabilities	**4.2**	**19.3**
Noncurrent liabilities		
Accumulated losses of unconsolidated subsidiaries in excess of investment	334.2	378.2
Long-term loans from subsidiaries	1.4	3.4
Long-term interest bearing debt	564.3	-
Related party subordinated loan	58.3	50.0
Total noncurrent liabilities	**958.2**	**431.6**
Shareholders' equity		
Common shares of par value $0.01 per share: 1.0 billion shares authorised: 147,281,887 outstanding shares at December 31, 2017 (December 31, 2016: 58,164,966 shares of $0.01 par value)	1.5	0.6
Additional paid in capital	926.0	823.7
Accumulated deficit	(1,466.0)	(1,527.1)
Accumulated other comprehensive loss	(1.2)	(7.7)
Contributed surplus	740.1	740.1
Total shareholders' equity	**200.4**	**29.6**
Total liabilities and shareholders' equity	**1,162.8**	**480.5**

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	
	2017	**2016**
Cash Flows from Operating Activities		
Net income/(loss)	**61.1**	**(165.9)**
Adjustment to reconcile net income/(loss) to net cash used in operating activities:		
Share of loss of subsidiaries	102.8	176.7
Gain on debt reorganisation	(117.9)	-
Amortization of debt fees	1.4	-
Debt fees expensed	7.4	-
Interest income applied to loan balances	(59.0)	(17.6)
Foreign currency gain	(25.4)	(0.9)
Changes in operating assets and liabilities, net of acquisitions		
Increase in amounts owed by subsidiaries	122.7	(6.3)
Change in other operating assets and liabilities, net	(1.2)	3.2
Net cash provided by/(used in) operating activities	**91.9**	**(10.8)**
Cash Flows from Investing Activities		
Net cash (invested in)/repaid by subsidiaries	(781.3)	10.0
Net cash used in investing activities	**(781.3)**	**10.0**
Cash Flows from Financing Activities		
Proceeds from loans from subsidiary	1.3	3.4
Net funds advanced to subsidiaries	(3.5)	-
Proceeds from external debt	625.0	-
Repayment of external debt	(31.4)	-
Debt amendment fees	(7.4)	-
Proceeds from issuance of equity	102.7	-
Net cash provided by financing activities	**686.7**	**3.4**
Effect of exchange rate changes on cash and cash equivalents	(0.1)	-
Net increase in cash and cash equivalents	**(2.6)**	**2.6**
Cash and cash equivalents at beginning of the year	2.6	-
Cash and cash equivalents at the end of the year	**-**	**2.6**
Interest paid	29.8	-

The above amounts for $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.

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

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, 2015	**0.6**	**823.3**	**(1,361.2)**	**(5.5)**	**740.1**	**197.3**
Foreign currency translation differences	-	-	-	(25.3)	-	(25.3)
Reversal of unrealised loss on termination of pension plan	-	-	-	23.1	-	23.1
Share-based compensation	-	0.4	-	-	-	0.4
Net loss	-	-	(165.9)	-	-	(165.9)
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**

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 Company as a going concern. This assumption is based on the market outlook for the oil service sector as per December 31, 2017 as well as the completed refinancing of the Company in first half of 2017 described above. 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, 2017, most 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

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.

5. ASU 2014-09 - Revenue from Contracts with Customers (also 2016-8, 2016-10, 2016-11, 2016-12, 2016-20, 2017-13, 2017-14)
6. ASU 2016-01 - Financial Instruments — Recognition and Measurement of Financial Assets and Financial Liabilities
7. ASU 2016-02 - Leases
8. ASU 2016-13 - Financial Instruments — Measurement of Credit Losses on Financial Instruments

Notes to supplemental parent Company only information
Archer Limited

ASU 2014-09 - Revenue from contracts with customers

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides new authoritative guidance on the methods of revenue recognition and related disclosure requirements. This new standard supersedes all existing revenue recognition requirements, including most industry-specific guidance. We will be required to apply this standard for the year ended December 31, 2018 and for interim periods within that year.

We have completed our initial work to assess the impact of implementation of the new standard and do not expect our pattern of revenue recognition to materially change as a consequence of adopting the new guidance. We plan to use the modified retrospective method to transition to the new standard. This method requires us to apply the new standard to all outstanding contracts as of January 1, 2018. Under this method we record the cumulative effect of applying the new standard as an adjustment to opening retained earnings.

ASU 2016-01 Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* which made targeted improvements to the recognition and measurement of financial assets and financial liabilities.

The update changes how entities measure equity investments that do not result in consolidation and are not accounted for under the equity method and how they present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The new guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted in some cases. We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures.

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. We are still in the process of assessing the impact of this update, but we do not currently expect this guidance to significantly affect our consolidated financial statements and related disclosures when we adopt it.

ASU 2016-15 - Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments based on a consensus of the Emerging Issues Task Force (EITF)*, to address the classification of certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The standard will be effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. Entities are required to apply the guidance retrospectively.

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

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 will be effective for fiscal years beginning after 15 December 2017, and interim periods within those years.

We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures. We do not expect any material impact.

ASU 2017-01 - Business Combinations - Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance will be effective for annual and interim periods beginning after December 15, 2017. Entities apply the guidance prospectively. We will apply this standard when we next undertake a business acquisition or disposal.

ASU 2017-05 - Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets

In February 2017, the FASB issued 2017-05, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The standard update clarifies that a model consistent with ASC 606 and ASC 810 should be applied to sales of non-financial assets to non-customers. Under this guidance an entity would recognize a gain or loss in full when it transfers control of the asset. The effective date of the guidance will be effective for annual and interim periods beginning after December 15, 2017. The new guidance is consistent with our current practice and therefore we do not expect this guidance to affect our consolidated financial statements and related disclosures when we adopt it.

Other accounting standard updates issued by the FASB

As of April 27, 2018, the FASB have issued several further updates not included above. We do not currently expect any of these updates to affect our consolidated financial statements and related disclosures either on transition or in future periods.

Note 3 — Other Financial Items

	YEARS ENDED DECEMBER 31	
($ in millions)	**2017**	**2016**
Foreign exchange gain / (loss)	11.6	0.9
Gain on debt restructure	117.9	-
Other items	3.2	0.6
Total other financial items, net	**132.7**	**1.5**

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 8. The debt restructure resulted in the recognition of a gain of $117.9 million in the second quarter. This represents $0.90 of earnings per share.

Notes to supplemental parent Company only information
Archer Limited

The gain reported arose from the following elements of the refinancing agreement described in Note 9.

($ in millions)	
Forgiveness of subordinated debt owed to Seadrill	80.0
Forgiveness of guarantee fees owed to Seadrill	7.6
Forgiveness of accrued interest on subordinated debt owed to Seadrill	13.7
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)
	117.9

In addition to the one-off gain on the debt restructure, 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	EARNINGS/(LOSS) PER SHARE (IN $)
2017			
Earnings per share	61.1	131,416,088	0.48
Effect of dilutive options	—	261,308	—
Diluted	61.1	131,677,396	0.48

	NET LOSS	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2016			
Loss per share	(165.9)	58,121,381	(2.86)
Effect of dilutive options	—	—	—
Diluted	(165.9)	58,121,381	(2.86)

In 2016, loss per share was not adjusted for dilutive in the money share options or unvested RSUs. Share-based compensation of approximately 110,294 shares was excluded from the computation of diluted earnings per share for the year ended December 31, 2016 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	
	2017	**2016**
Due (to)/from Archer Norge, as holder of the cash pool arrangement	(0.8)	113.8
Due from Archer Management (UK) Ltd. for corporate costs re-charged	2.1	3.1
Total amounts due from subsidiaries	**1.3**	**116.9**

Notes to supplemental parent Company only information
Archer Limited

Note 6 — Investments In Subsidiaries

We had the following direct participation in investments:

COMPANY NAME	PERCENT HOLDING AS OF DECEMBER 31	
	2017	**2016**
Archer Management Limited	100%	100%
Archer Management (Bermuda) Ltd.	100%	100%
Archer Overseas Contracting Limited	100%	100%
Archer Services Limited	100%	100%
Archer Assets UK Limited	100%	100%
Archer Well Company (Singapore) Pte. Ltd.	100%	100%
Archer Emerald (Bermuda) Limited	100%	100%
Archer Topaz Limited	100%	100%

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

($ in millions)	DECEMBER 31	
	2017	**2016**
Archer Norge AS	1,119.9	281.9
Archer Emerald (Bermuda) Limited	32.2	61.9
Archer Topaz Limited	9.4	17.2
Total amounts due from subsidiaries	**1,161.5**	**361.0**

Note 7 — Other Current Liabilities

Our other current liabilities comprise the following:

($ in millions)	DECEMBER 31	
	2017	**2016**
Short term fair value of financial instruments	-	0.4
Accrued expenses	4.2	18.9
Total other current liabilities	**4.2**	**19.3**

In 2016 Accrued expenses included accrued interest relating to the subordinated loan owed to Seadrill. The balance of this accrued interest was written off as part of the comprehensive refinancing which took place in 2017 and is described in note 14 below.

Notes to supplemental parent Company only information
Archer Limited

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, which is discussed in more detail below and in Note 13, Related Party Transactions. Part of the restructuring was the consolidation of our group finance arrangements in the ultimate holding company Archer Ltd, by the transfer of debt held by subsidiaries up to the parent company. We have concluded that the overall restructuring of our debt with our various lenders falls under the US GAAP definition of a troubled debt restructure.

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

The total amount available under the Facility is $650.8 million of which a total of $566.8 million was drawn as at December 31, 2017. The carrying value reported in our balance sheet is shown net of $2.5 million unamortised debt costs, which are amortised over term of the loan and reported as part of interest costs. The Facility is secured by pledges over shares in material subsidiaries, assignment of intercompany debt and guarantees issued by the material subsidiaries.

The Facility contains certain financial covenants, including, among others:

- Archer will ensure that the 12 months rolling EBITDA (after certain adjustments) of the Group is at least $45 million in 2017, $55 million in 2018, $65 million in 2019 and $85 million in 2020.
- Archer shall ensure that the 12 months rolling EBITDA 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 $25 million for the financial year 2017 and $40 million per year thereafter.

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

As of December 31, 2017, the Company is in compliance with all covenants as agreed with its lenders under this Facility.

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.

Notes to supplemental parent Company only information
Archer Limited

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)	**2017**	**2016**
Guarantees to customers of the Company's own performance	57.7	23.5
Guarantee in favour of banks	10.2	9.3
	67.9	**32.8**

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			
	2017		**2016**	
	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	147,281,887	1.5	58,164,966	0.6

Archer shares are traded on the Oslo Børs 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. Following the issuance, Archer's issued share capital was increased to $1,421,649.66 divided into 142,164,699 ordinary shares of $0.01 par value each. 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, or approximately $1.17, each.

Note 13 — Share Option Plans

We have granted share options to our senior management and directors that provide 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, 2017, Archer has two active option programs, in addition to two programs which were acquired and have been continued following the merger with Allis-Chalmers.

Notes to supplemental parent Company only information
Archer Limited

The following summarises share option transactions related to the Archer programs in 2017 and 2016:

	2017		2016	
	OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE - NOK**	**OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE - NOK**
Outstanding at beginning of year	**721,633**	**98.65**	**1,790,510**	88.66
Granted	1,200,000	10.00	-	-
Forfeited/expired	(398,200)	90.50	(1,079,677)	79.01
Modifications related to reverse split	-	-	10,800	182.83
Outstanding at end of year	**1.532.433**	**31.28**	**721,633**	**98.65**
Exercisable at end of year	321,633	110.62	545,366	106.78

No income was received in 2017 as a result of share options being exercised (2016: 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, 2017, 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, 2017, all 115,286 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

Options issued under the 2011, 2012 and 2013 Program may be exercised up to December 31, 2018. The exercise price is between NOK 37.90 and NOK 200.00 per share, and may be exercised one fifth each year beginning twelve months after they were granted. At December 31, 2017, a total of 9,000 options were outstanding under the 2011, 2012 and 2013 Program and 7,200 of these 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, 2017, all 185,001 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, 2017. At December 31, 2017, 1,200,000 options were outstanding under the 2017 Program and none of the options were exercisable

The weighted average remaining contractual life of outstanding options is 45 months (2016: 33 months) and their weighted average fair value was NOK 4.79 per option (2016: NOK 2.65 per option).

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

When stock options are exercised we 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.

Appendix C

Notes to supplemental parent Company only information
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The parameters used in calculating these 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, 25% on each of dates falling approximately one, two, three and four years after the grant date. At December 31, 2017 a total of 333,750 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:

	2017		2016	
	RSU's	**Weighted average grant date fair value NOK**	**RSU's**	**Weighted average grant date fair value NOK**
Unvested at beginning of year	**563,000**	4.09	**958,875**	4.18
Granted	70,000	11.51	10,000	4.50
Released	(197,125)		(252,625)	
Forfeited	(91,125)		(640,625)	
Corrections due to reverse split of shares	-		484,875	
Correction 2016 of opening balance	(11,000)		2,50	
Unvested at end of year	**333,750**	5.56	**563,00**	4.09

Accounting for share-based compensation

The fair value of the share options and RSUs granted is recognised as personnel expenses. During 2017, NOK 4.0 million ($0.5 million) has been expensed in our Statement of Operations ($0.4 million in 2016).

As of December 31, 2017, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 5,9 million ($720,000), which is expected to be recognised as expenses in 2018, 2019 and 2020 by, NOK 4.1 million ($0.5 million) NOK 1.6 million ($190,000) and NOK 0.3 million ($30,000), respectively.

Note 14 — Related Party Transactions

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

Transactions with Seadrill Limited;
At December 31, 2017, Seadrill is our largest shareholder, owning 15.7% of our common shares.

In May 2016, Seadrill Limited provided additional financing to Archer in an aggregate amount of $ 75 million, which was contributed in form of subordinated debt. Interest of 10% per year was being accrued over the term of the loan to be paid, along with the principal amount on the maturity date of September 30 2018. The loan was part of the comprehensive restructuring of our financial arrangements and described further below. At December 31, 2016, we had accrued a total of $12.0 million interest in respect of the subordinated loans owed to Seadrill which is included in other non-current liabilities (see note 9).

Seadrill also provided a guarantee of $250.0 million to the lenders of our revolving facility with annual guarantee fees charged at 1.25% of the guaranteed amount.

As at December 31, 2016 we had guarantee fees owed to Seadrill of 2016: $12.1 million which are reported in other current liabilities. The guarantee fees are accrued over the guarantee period, and the cost of the fees are reported within Financial Items.

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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, was replaced with the $45 million, interest bearing million convertible loan described in Note 8
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 Note 3.

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, 2017, we have no current interest swap agreements. At December 31, 2016 we held an interest rate swap which fixed our variable interest payable $150 million of USD interest bearing loan, drawn by certain of our subsidiaries under our revolving credit facility. We have not elected to hedge account for our current interest rate swaps, accordingly any changes in the fair values of the swap agreements are reported within our income statement. The total fair value loss relating to interest rate swaps in 2017 amounted to $0.4 million (2016 $0.4 million).

Foreign currency risk management
We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating subsidiaries who do not have a functional currency of USD, which is our reporting currency. Transaction losses are recognised in “Other financial items” in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction gain relating to foreign exchange movements recognised in our Statement of Operations in 2017 amounted to $25.4 million compared to $1.5 million in 2016.

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.

Notes to supplemental parent Company only information
Archer Limited

Fair values

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

	DECEMBER 31			
($ in millions)	2017		2016	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Cash and cash equivalents	-	-	2.6	2.6
Long-term interest rate debt	(568.2)	(568.2)	-	-
Related party subordinated loan	(53.8)	(53.8)	(50.0)	(50.0)
Interest rate swap agreement	-	-	(0.4)	(0.4)

Carrying values of debt in the above table are shown gross, without reduction for any unamortised debt costs. See Note 8 for more detail.

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 2017	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Long-term interest rate debt	568.2		568.2	
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, 2017, and 2016. 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, 2017.

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

Note 16 — Subsequent Events

None.