Archer Limited (ARCHER) Fourth Quarter and Preliminary 2012 Results

Fourth quarter 2012 highlights

- Fourth quarter revenue of $537.3 million.
- Fourth quarter EBITDA of $29.5 million including $13.1 million of exceptional costs.
- Net loss for the quarter of $41.0 million.
- Fourth quarter operational cash flow of $81.9 million.
- Net interest bearing debt reduced to $1,161.1 million at December 31, 2012.

Financial statements

Comparison of Three Months Ended December 31, 2012 to Three Months Ended September 30, 2012

Revenue for the fourth quarter 2012 was $537.3 million, compared to $551.9 million for the third quarter 2012. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, for the fourth quarter 2012 was $29.5 million, including exceptional costs of $13.1 million, compared to $53.9 million, including exceptional charges of $9.0 million, for the third quarter 2012. Detailed explanations for the fluctuations are provided in our operational review by area.

Net financial items amounted to a $10.0 million loss in the fourth quarter 2012 compared to a loss of $6.4 million in the third quarter 2012. Interest expenses for the fourth quarter 2012 amounted to $13.7 million, compared to $17.3 million in the third quarter of 2012. Other financial items amounted to $4.7 million income in the fourth quarter 2012 compared to $10.8 million income in the third quarter 2012. Other financial items represent predominantly unrealized foreign exchange gains related to loans or cash balances denominated in currencies other than the US dollar.

Comparison of Three Months Ended December 31, 2012 to the Three Months Ended December 31, 2011

Revenue of $537.3 million for the three months ended December 31, 2012 decreased 9.9% compared to revenue of $596.1 million for the fourth quarter of 2011. EBITDA of $29.5 million for the three months ended December 31, 2012 decreased 64.0% compared to $82.0 million, including $5.2 exceptional income, EBITDA for the fourth quarter of 2011. Excluding exceptional items for the fourth quarter 2011 and the fourth quarter 2012, EBITDA decreased by 44.5%.

Comparison of Twelve Months Ended December 31, 2012 and 2011

Revenue for twelve months ended December 31, 2012 was at $ 2,190.5 million, an increase of 18.1% compared to $ 1,854.6 million for the twelve months ended December 31, 2011 with additional revenue contributed through the acquisitions of Allis-Chalmers and Great White not accounted for a full

year in 2011. On a pro forma basis revenue decreased by 1.5% compared to $ 2,223.7 million for 2011, mainly as a result of lower activity in the North Sea Segment, as high revenue for the Statfjord Late Lift project in 2011 was not repeated in 2012.

Total loss for the twelve months period ended December 2011 amounted to $ 375.1 million, including a charge for impairments of $ 338.7 million. Depreciation and amortization expenses amounted for $ 205.0 million. Financial items for the total year totalled $ 42.5 million loss, representing predominantly interest costs amounting to $ 61.5 million. Total income tax charges for the year amounted to $ 10.4 million, predominantly related to operations in Latin America and Europe.

Attached to this quarterly report is an appendix with the reconciliation between GAAP results and non-GAAP measures.

Cash flow

Cash and cash equivalents, excluding restricted cash, amounted to $58.2 million at December 31, 2012, compared to $77.6 million at September 30, 2012.

Cash flow from operations for the three months ended December 31, 2012 was $81.9 million, which is comprised primarily of the net loss of $41.0 million with add backs for depreciation and amortization of $51.3 million, deferred taxes of $12.9 million and a decrease in trade receivables and other short-term assets of $69.6 million less a foreign currency gain of $5.3 million, decrease of $4.2 million in trade accounts payable and other short-term liabilities and an increase in inventories of $1.3 million.

As of September 30, 2012 and December 31, 2012, we were not in compliance with the financial covenants set out in our credit facilities and notified our lenders accordingly. In February 2013 we reached an agreement with our lending banks to amend the existing facility agreement following a $250 million equity raise. The proceeds of this additional equity were used to prepay the $100 million installment due in November 2013, prepay $95 million relating to the revolving debt facility under the multicurrency loan agreement and repay $ 55 million related to the subordinated debt with Seadrill. The amendment resulted in an increase in interest margin of 20 basis points, which as per the revised agreement now ranges between 3.0% and 3.95% per annum, depending on the net interest bearing debt to EBITDA ratio. The interest rate of the facilities is LIBOR, NIBOR or EURIBOR plus the respective margin. The leverage ratio covenant in the amended agreement, which is calculated as net interest bearing debt divided by twelve months rolling pro forma EBITDA, has been revised to 5.00x for December 31, 2012 and to not exceed 4.75x until September 30, 2013, with a subsequent reduction of 0.25x per quarter to 3.25x from March 31, 2015 and onwards.

At the time of this report we have budgeted capital expenditures of approximately $110 million for 2013, excluding any capital expenditures related to our second modular rig, which are estimated at approximately $30 million. We are currently in negotiations with lenders to finance the second modular rig and we are confident that we will be able to secure such financing.

Total net interest bearing debt at December 31, 2012 was $1,161.1 million compared to $1,189.3 million as of September 30, 2012.

Share capital

The total number of issued and fully paid shares of par value $2.00 outstanding at December 31, 2012 was 366,659,120. A total of 10,049,905 options were outstanding as of December 31, 2012.

Fourth quarter 2012 operating results by Area

Starting January 1, 2012, we have been organized in four Areas. Our operational comments for the fourth quarter are presented by Area below.

	Revenues			EBITDA		
	Q4 2012	Q3 2012	Variance	Q4 2012	Q3 2012	Variance
North America	$ 148.9	$ 166.6	$ (17.7)	$ 12.1	$ 15.2	$ (3.1)
Latin America	151.5	146.0	5.5	8.4	16.1	(7.7)
North Sea	156.1	159.0	(2.9)	0.3	10.0	(9.7)
Emerging Markets	80.8	80.3	0.5	8.7	12.6	(3.9)
	$ 537.3	$ 551.9	$ (14.6)	$ 29.5	$ 53.9	$ (24.4)

North America

Revenue for the fourth quarter 2012 was $148.9 million, a reduction of 10.6% compared to the third quarter 2012. The reduction was related to our Pressure Control, Directional Drilling and Frac Valve operations, partly offset by an increase in Pressure Pumping revenue. Our December revenue was our lowest monthly revenue for the 2012 year and reflected the impact of holidays and a curtailment of customer spending to align with their 2012 budgets. EBITDA for the fourth quarter 2012 was $12.1 million, a reduction of $3.1 million, or 20.4% compared to the third quarter 2012.

The average United States land-based rig count dropped by 95 rigs, or 5% sequentially, and by 213, or 10%, compared to the same period in the previous year. Our results are negatively impacted by this drop in activity as it results in significant pricing pressure and decreased utilization throughout most of our business lines.

Our Pressure Control Division marketed 24 Coiled Tubing units. The average pricing for coiled tubing services declined approximately 8% compared to the previous quarter. Utilization reduced from 54% in the third quarter 2012 to 43% in the fourth quarter. While other areas were also impacted the majority of the decline in pricing and utilization occurred in the North East United States as well as in East and South Texas. During the quarter we reduced our cost structure to adapt to the lower utilization.

Demand for directional drilling services has declined as the number of rigs drilling directionally decreased 73 rigs, or 6% sequentially, and by 95 rigs, or 7%, compared to the same period in the previous year. Our operating days for directional services dropped 20% compared to the third quarter. In addition to the activity related reduction, results were negatively impacted by pricing pressure that resulted in a 4% reduction in revenue per job. During the quarter we reduced our cost structure to reflect the lower utilization and as a result realized a modest improvement in EBITDA on lower revenue.

In our Pressure Pumping Division we fracked 780 stages this quarter compared to 278 stages in the third quarter. We had four fleets operating for all of the fourth quarter and will have a fifth fleet operating in the first quarter of 2013. Utilization increased to 77% in the fourth quarter compared to 31% in the previous quarter but margins remain depressed with pricing of new contracts close to breakeven levels. At the end of December we have a total capacity of 160,000 HHP. As of the date of this report approximately 60% of our Pressure Pumping units are under contract or long-term service commitments for the first half of 2013.

Our Frac Valve operation experienced a 35% reduction in revenue due to an industry slowdown during the quarter and increased foreign competition. This is being somewhat mitigated by an increased focus on part sales as well as service and repair activity.

We expect revenue in the first quarter 2013 to increase with higher activity. However as some of this increased activity carries lower margins, EBITDA is expected to be below the fourth quarter 2012.

Latin America

Revenue in the fourth quarter 2012 totalled $151.5 million, an increase of $5.5 million, or 3.8% compared to last quarter. The increase was primarily due to retroactive billings related to our platform drilling operation which were partly offset by a major customer releasing 15 rigs on December 7th. Those rigs were part of the 19 rigs which were on standby. Rig utilization in the fourth quarter was 78.1% compared to 84.9% in the third quarter, reflecting mainly the status of the 15 rigs. EBITDA for the three months ended December 31, 2012 was $8.4 million, a decrease of $7.7 million, or 47.8%, compared to the third quarter 2012. The drop in EBITDA is a result of the release of the 15 rigs in December as well as the impact of the standby rate on 19 rigs prior to the release, partially offset by the margin for retroactive billings in platform drilling operations.

We expect first quarter revenue to be down due to the absence of retroactive billings at the end of 2012. However EBITDA for Latin America is estimated to be comparable to the results in the fourth quarter of 2012. We are in advanced discussions with a major customer in Argentina, which will bring the 15 idled rigs back into operations over the coming months and we are confident that an agreement will be reached before the end of the first quarter 2013.

North Sea

Fourth quarter 2012 revenue was $156.1 million, a decrease of $2.9 million, or 1.8%, compared to the third quarter 2012. The decreased revenue reflects the loss of the platform drilling contract on the Gullfaks platform partly offset by $10 million related to the sale of equipment as well as increased reimbursables and new contracts in the UK. As announced in our Q3 press release, Gullfaks accounted for a $20 million revenue decrease quarter over quarter. EBITDA for the three months ended December 31, 2012 was $0.3 million, a decrease of $9.7 million, or 97.0%, compared to the third quarter 2012. The decreased EBITDA is related to a platform drilling and engineering contract in Alaska where we incurred significant costs with no offsetting revenue during the three months ended December 31, 2012. In December we terminated this customer agreement due to non-payment of overdue invoices. While we have filed a lawsuit demanding payment of approximately $8.0 million owed and we strongly believe that all outstanding amounts are rightfully due.

The Emerald Modular Rig was under an installation rate for two months during the third quarter and one month in the fourth quarter, which allowed for the compensation of the majority of the costs incurred during the third quarter but resulted in negative EBITDA in the fourth quarter. The rig has commenced operations in January 2013. During the quarter we were awarded a two and half year contract for a second modular rig by Statoil and its partners to be deployed in the fourth quarter of 2014 on the Heimdal platform performing plug and abandonment services.

We expect our North Sea revenue for the first quarter 2013 to be approximately 15 to 20% below our fourth quarter primarily due to the non-recurring nature of the equipment sales, seasonally lower activity and exceptionally high reimbursable revenue recognized in the fourth quarter. We expect EBITDA in the first quarter 2013 to improve from the fourth quarter due to the non-recurring costs related to the Alaska project and a full three months of revenue on the modular rig, partly offset by lower margins due to seasonally lower activity.

Emerging Markets & Technologies

Revenue for the fourth quarter 2012 was flat compared to the three months ended September 30, 2012. Revenue for our Oil Tools operations increased as a result of increased acceptance of C-flex in the Gulf of Mexico, but our North American Wireline operations more than offset this increase. Demand for our wireline services in North America was negatively impacted by holidays and customer curtailments to comply with their 2012 budgets. EBITDA for the fourth quarter 2012 of $8.7 million, a decrease of $3.9

million, or 31.0% compared to the third quarter 2012. The decrease in EBITDA is primarily related to the reduced revenue in the United States, increased costs to build our infrastructure in the Eastern Hemisphere and an unfavourable sales mix for the quarter, as we experienced a shift of revenue to the lower margin mechanical Wireline jobs.

We expect first quarter revenue and EBITDA to be slightly improved compared to the fourth quarter as we expect our North American Wireline operation to rebound in the latter part of the first quarter.

Summary outlook

The fourth quarter of 2012 was characterized by continued deterioration of pricing and asset utilization in North America and Latin America.

Overall we expect first quarter 2013 revenue to be down due to the reasons addressed above in the Latin America and North Sea segments partially offset by North America, where we expect a marginally increased activity in particular in Pressure Pumping. Compared to the fourth quarter 2012 EBITDA of $29.5 million we expect an increased EBITDA in the first quarter 2013, although margins in North America remain depressed with continued pressure on pricing.

Cautionary statement regarding forward-looking statements

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

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results as a result of certain risks and uncertainties. Further information about these risks and uncertainties are set forth in our most recent annual report for the year ending December 31, 2011. These forward-looking statements are made only as of the date of this press release. We do not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

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

ARCHER LIMITED

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ARCHER LIMITED

Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)		Three Months Ended December 31,		Years Ended December 31,	
	Note	**2012**	**2011**	**2012**	**2011**
Revenues					
Operating revenues		$ 499.5	$ 551.4	$ 2,071.6	$ 1,720.8
Reimbursable revenues		37.8	44.7	118.9	133.8
Total revenues		**537.3**	**596.1**	**2,190.5**	**1,854.6**
Expenses					
Operating expenses		434.9	441.8	1,724.7	1,377.7
Reimbursable expenses		37.7	42.8	113.2	127.0
Depreciation and amortization		51.3	47.3	205.0	147.1
Impairments	3	-	121.5	338.7	126.6
General and administrative expenses		35.2	29.5	131.1	92.1
Total expenses		**559.1**	**682.9**	**2,512.7**	**1,870.5**
Operating loss		**(21.8)**	**(86.8)**	**(322.2)**	**(15.9)**
Financial items					
Interest income		(1.2)	0.2	1.7	3.7
Interest expenses		(13.7)	(12.4)	(61.5)	(46.4)
Share of results in associated company		0.2	(1.2)	(0.2)	(2.9)
Other financial items	4	4.7	(14.8)	17.5	(1.0)
Total financial items		**(10.0)**	**(28.2)**	**(42.5)**	**(46.6)**
Loss before income taxes		**(31.8)**	**(115.0)**	**(364.7)**	**(62.5)**
Income tax benefit (expense)	5	(9.2)	3.2	(10.4)	(14.5)
Net loss		**$ (41.0)**	**$ (111.8)**	**$ (375.1)**	**$ (77.0)**
Basic loss per share	**6**	**$ (0.11)**	**$ (0.31)**	**$ (1.02)**	**$ (0.24)**
Diluted loss per share	**6**	**$ (0.11)**	**$ (0.31)**	**$ (1.02)**	**$ (0.24)**
Weighted average number of shares outstanding					
Basic		366.7	366.2	366.6	322.4
Diluted		366.7	366.2	366.6	322.4

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

ARCHER LIMITED

Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

(In millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Years Ended December 31, 2012	Years Ended December 31, 2011
Net loss	**$ (41.0)**	**$ (111.8)**	**$ (375.1)**	**$ (77.0)**
Other comprehensive income (loss)				
Currency exchange differences	(2.6)	(2.5)	(5.0)	(17.5)
Actuarial gain (loss) relating to pension	14.4	(15.3)	14.4	(15.3)
Change in valuation of interest swap	0.8	0.5	1.2	0.7
Other comprehensive income (loss)	**12.6**	**(17.3)**	**10.6**	**(32.1)**
Total comprehensive loss	**$ (28.4)**	**$ (129.1)**	**$ (364.5)**	**$ (109.1)**

Accumulated Other Comprehensive Income (Loss)

(Unaudited)

(In millions)	Pension – Unrecognized Gains/(Losses)	Currency Exchange Differences	Other Comprehensive Gains/(Losses)	Total
Balance at December 31, 2011	**$ (21.6)**	**$ 14.2**	**$ (1.2)**	**$ (8.6)**
Currency exchange differences	-	(5.0)	-	(5.0)
Actuarial gain relating to pension	14.4	-	-	14.4
Change in valuation of swap	-	-	1.2	1.2
Balance at December 31, 2012	**$ (7.2)**	**$ 9.2**	**$ -**	**$ 2.0**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	December 31, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 58.2	$ 37.3
Restricted cash		11.9	13.3
Accounts receivable		420.3	432.0
Inventories	7	64.3	58.2
Other current assets		84.7	97.6
Total current assets		**639.4**	**638.4**
Noncurrent assets			
Investments in associates	8	2.4	7.4
Property plant and equipment, net		1,059.4	1,044.1
Deferred income tax asset		29.1	10.3
Goodwill	9	706.1	898.9
Other intangible assets, net	10	129.6	203.3
Deferred charges		18.4	12.3
Total noncurrent assets		**1,945.0**	**2,176.3**
Total assets		**$ 2,584.4**	**$ 2,814.7**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term debt	11	$ 329.5	$ 108.4
Accounts payable		142.9	143.1
Other current liabilities		212.7	215.0
Total current liabilities		**685.1**	**466.5**
Noncurrent liabilities			
Long-term interest-bearing debt	11	889.8	977.8
Deferred taxes		42.4	16.3
Other noncurrent liabilities		40.2	67.3
Total noncurrent liabilities		**972.4**	**1,061.4**
Commitments and contingencies			
Shareholders' equity			
Common shares of par value $2.00 per share: 600,000,000 shares authorized: 366,659,120 outstanding shares at December 31, 2012 (December 31, 2011: 366,397,622)		733.3	732.8
Additional paid in capital		779.6	775.5
Accumulated deficit		(382.9)	(7.8)
Accumulated other comprehensive income (loss)		2.0	(8.6)
Contributed deficit		(205.1)	(205.1)
Total shareholders' equity		**926.9**	**1,286.8**
Total liabilities and shareholders' equity		**$ 2,584.4**	**$ 2,814.7**

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Years Ended December 31,	
	2012	2011
Cash Flows from Operating Activities		
Net loss	$ (375.1)	$ (77.0)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	205.0	147.1
Share-based compensation expenses	4.1	4.9
Impairment charges	338.7	126.6
Loss on property, plant and equipment disposals	3.3	-
Equity in loss of unconsolidated affiliates	0.2	2.9
Gain on debt redemption	(4.7)	-
Amortization of loan fees and senior note premium	5.9	-
Deferred income taxes	(7.6)	(18.4)
Foreign currency gain	(13.7)	(6.1)
Changes in operating assets and liabilities, net of acquisitions		
Decrease (increase) in trade accounts receivable and other short-term receivables	30.3	(55.6)
Increase in inventories	(13.1)	(10.7)
Increase (decrease) in trade accounts payable and other short-term liabilities	3.5	(4.1)
Other, net	(8.0)	(18.1)
Net cash provided by operating activities	**168.8**	**91.5**
Cash Flows from Investing Activities		
Additions to property plant and equipment	(266.2)	(166.2)
Proceeds from disposal of property, plant and equipment	15.1	3.4
Acquisition of subsidiaries, net of cash	(0.9)	(695.4)
Net change in restricted cash	2.3	3.1
Net cash used in investing activities	**(249.7)**	**(855.1)**
Cash Flows from Financing Activities		
Net borrowings under revolving facilities	55.2	-
Proceeds from related party debt	75.0	-
Repayment on related party debt	(20.0)	-
Proceeds from long-term debt	434.8	903.3
Repayment of long-term debt	(439.8)	(523.0)
Debt issuance costs	(4.3)	-
Proceeds from issuance of equity, net	0.4	247.3
Net cash provided by financing activities	**101.3**	**627.6**
Effect of exchange rate changes on cash and cash equivalents	0.5	(1.1)
Net increase (decrease) in cash and cash equivalents	**20.9**	**(137.1)**
Cash and cash equivalents at beginning of the year	37.3	174.4
Cash and cash equivalents at the end of the year	**$ 58.2**	**$ 37.3**
Interest paid	$ 65.1	$ 49.5
Taxes paid	$ 38.8	$ 25.2

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

ARCHER LIMITED

Consolidated Statement of Changes in Shareholders' Equity
(Unaudited)

(In millions)	Share Capital	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Contributed Deficit	Total Shareholders' Equity
Balance at December 31, 2011	**$ 732.8**	**$ 775.5**	**$ (7.8)**	**$ (8.6)**	**$ (205.1)**	**$ 1,286.8**
Net loss	-	-	(375.1)	-	-	(375.1)
Share options exercised	0.5	-	-	-	-	0.5
Stock based compensation	-	4.1	-	-	-	4.1
Other comprehensive income	-	-	-	10.6	-	10.6
Balance at December 31, 2012	**$ 733.3**	**$ 779.6**	**$(382.9)**	**$ 2.0**	**$ (205.1)**	**$ 926.9**

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

ARCHER LIMITED
Notes to Unaudited Interim Consolidated Financial Statements

Note 1 – Summary of business and significant accounting policies

Description of business

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

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

We employed approximately 8,300 skilled and experienced people at December 31, 2012.

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

Basis of presentation

The unaudited Fourth Quarter 2012 interim consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The unaudited Fourth Quarter 2012 interim consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These Fourth Quarter interim financial statements should be read in conjunction with our financial statements as at December 31, 2011. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

In conjunction with organizational changes made at the end of 2011, we reviewed the presentation of our reporting segments during the first quarter of 2012 and determined that change in reporting segments was necessary. Our historical segment data previously reported for the three months and year ended December 31, 2011 and as of December 31, 2011, has been restated to conform to the new presentation (See Note 13).

Use of estimates

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

Significant accounting policies

The accounting policies utilized in the preparation of the unaudited Fourth Quarter interim financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2011.

Recently issued accounting pronouncements

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

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

Note 2 – Acquisitions

Universal Wireline

On January 27, 2011, we announced the acquisition of Universal Wireline for $25.5 million on an interest bearing debt and cash free basis. Following the acquisition, we merged Universal Wireline with our existing operations of Gray Wireline expanding the capabilities of the largest pure play cased hole wireline company in the United States.

The purchase price has been allocated as follows *(in millions):*

Drilling equipment and other fixed asset	$ 19.1
Goodwill	6.4
Total purchase price	$ 25.5

Allis-Chalmers Energy Inc.

On February 23, 2011, we completed the merger with Allis-Chalmers Energy Inc., or Allis-Chalmers. Allis-Chalmers conducted land drilling operations in Argentina, Brazil and Bolivia and provided directional drilling, coiled tubing, underbalanced drilling, casing and tubing and rental services primarily in the United States. Allis-Chalmers also manufactured and sold frac valves in the United States.

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

The net assets acquired as a result of the merger are listed below *(in millions)*:

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

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

Great White Energy Group

On August 24, 2011, we completed the acquisition of all the operating companies of Great White Energy Group, or Great White, in a transaction valued at $630 million on a cash and debt free basis, which was changed to $668.3 million including agreed upon working capital adjustments. Great White provides directional drilling, coiled tubing, snubbing and pressure pumping services in the United States.

The net assets acquired as a result of the acquisition are listed below *(in millions):*

	Fair Value / Allocation of Purchase Price at December 31, 2011	**Adjustments to Preliminary Fair Values**	**Fair Value / Final Allocation of Purchase Price at December 31, 2012**
Current assets	$ 98.9	$ -	$ 98.9
Property and equipment	192.5	1.0	193.5
Intangible assets (excluding goodwill)	92.1	0.2	92.3
Acquired Goodwill	338.1	(6.4)	331.7
Total assets acquired	**721.6**	**(5.2)**	**716.4**
Current liabilities	41.4	-	41.4
Other long-term liabilities	6.7	-	6.7
Total liabilities acquired	**48.1**	**-**	**48.1**
Total purchase price	**$ 673.5**	**$ (5.2)**	**$ 668.3**

We applied the purchase method of accounting to this business combination (per ASC topic 805). The resulting acquired goodwill recognized in the consolidated balance sheets is attributable to the acquired workforce, expected synergies, and other acquired intangible assets which cannot be separately identified.

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

X-it Energy Services Limited

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

The net assets acquired as a result of the acquisition are listed below *(in millions):*

Preliminary Allocation	**Fair Value / Allocation of Purchase Price at December 31, 2012**
Current assets	$ 1.2
Intangible assets (excluding goodwill)	5.2
Acquired Goodwill	1.9
Total assets acquired	**8.3**
Current liabilities	0.9
Deferred tax liabilities	1.4
Total liabilities acquired	**2.3**
Total purchase price	**$ 6.0**

We applied the purchase method of accounting to this business combination (per ASC topic 805). The resulting acquired goodwill recognized in the consolidated balance sheet is attributable to expected synergies, and other acquired intangible assets which cannot be separately identified.

The allocation of the purchase price of X-it has been based upon preliminary fair value estimates. Estimates and assumptions are subject to change upon management's review of the final valuations.

Wellbore Solutions

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

The purchase price was allocated to goodwill.

Note 3 – Impairments

During the third quarter of 2012, the level of our stock price, the loss of several large customers in North America as well as the significant decline in our 2012 forecasted results compared to forecasts prepared at the time of the 2011 goodwill impairment testing, were considered to be circumstances, which more likely than not, would reduce the fair value of a reporting unit below its carrying amount. As consequence, we prepared a comprehensive impairment test for long lived assets, including intangibles and goodwill, which results in the following impairments: An impairment of goodwill, amounting to $207.6 million (See Note 9), an impairment of fixed assets amounting to $66.6 million, an impairment of intangibles amounting to $57.5 million (See Note 10), an impairment of investments in associates totalling $4.9 million (See Note 8) and an impairment of inventory of $2.1 million.

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

Please refer to Note 9 for further details on the calculation of impairments.

Note 4 – Financial items

	Three Months Ended December 31,		Years Ended December 31,	
(In millions)	**2012**	**2011**	**2012**	**2011**
Foreign exchange differences	$ 5.3	$ (10.0)	$ 13.7	$ 6.1
Gain on redemption of debt	-	-	4.7	-
Other items	(0.6)	(4.8)	(0.9)	(7.1)
Total other financial items	**$ 4.7**	**$ (14.8)**	**$ 17.5**	**$ (1.0)**

Financial items consist mainly of foreign exchange gains (losses) arising in respect of loans or cash balances denominated in currencies other than the recording company's functional currency. The redemption of the Allis-Chalmers senior notes in the first quarter of 2012 generated a gain of $4.7 million (See Note 11).

Note 5 – Income taxes

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

(In millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Years Ended December 31, 2012	Years Ended December 31, 2011
United States	$ 2.5	$ (4.6)	$ (9.1)	$ 1.9
South America	6.4	(2.8)	10.7	(4.7)
Europe	0.6	4.2	8.5	(11.7)
Others	(0.3)	-	0.3	-
Total	**$ 9.2**	**$ (3.2)**	**$ 10.4**	**$ (14.5)**

Our effective tax rate is impacted by the derecognition of some of our deferred tax assets as we do not expect to utilize these in the foreseeable future. We have booked valuation allowances against most of our net operating losses and foreign tax credits in the United States, Brazil and Canada. The effective tax rate is also mainly impacted by our impairment on intangibles which is a permanent difference for tax purposes. Foreign tax credits and state taxes related to the United States and Canada increases the effective tax rate. The effective tax rate is impacted by income in Bermuda where Archer has a tax exemption.

The following table shows a reconciliation of the expected tax rate to the effective tax rate.

	Years Ended December 31, 2012	Years Ended December 31, 2011
Expected tax rate	38.9%	26.8%
Goodwill impairment	(11.1)	(50.2)
Other non-deductible expenses	(1.1)	(3.9)
Tax exempted income and credits	0.3	4.9
Foreign tax rate differences	2.7	10.5
Valuation allowances	(32.7)	(12.8)
Other	0.1	1.5
Effective tax rate	**(2.9)%**	**(23.2)%**

Note 6 – Earnings per share

The computation of basic EPS is based on the weighted average number of shares outstanding during the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments.

	Three Months Ended December 31,		Years Ended December 31,	
(In millions, except per share amounts)	**2012**	**2011**	**2012**	**2011**
Numerator				
Net loss	**$ (41.0)**	**$ (111.8)**	**$ (375.1)**	**$ (77.0)**
Denominator				
Weighted-average common shares outstanding	366.7	366.2	366.6	322.4
Effect of potentially dilutive common shares:				
Share based compensation shares	-	-	-	-
Weighted-average common shares outstanding and assumed conversions	**366.7**	**366.2**	**366.6**	**322.4**
Net loss per common share				
Basic	$ (0.11)	$ (0.31)	$ (1.02)	$ (0.24)
Diluted	$ (0.11)	$ (0.31)	$ (1.02)	$ (0.24)

Share-based compensation of approximately 18,487 and 151,022 shares were excluded from the computation of diluted earnings per share for the three and twelve months ended December 31, 2012, respectively, as the effect would have been anti-dilutive due to the net loss for the period. Shared-based compensation of approximately 760,000 shares were excluded from the computation of diluted earnings per share for both the three and twelve months ended December 31, 2011.

Note 7 – Inventories

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

Note 8 – Investment in joint ventures

(In millions)	December 31, 2012	December 31, 2011
C6 Technologies AS	$ 2.4	$ 2.4
Rawabi Allis-Chalmers Company Ltd	-	5.0
Equity in net assets of non-consolidated investees	**$ 2.4**	**$ 7.4**

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

Note 9 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired.

(In millions)	
Net book balance at December 31, 2011	**$ 898.9**
Goodwill acquired during the year	2.3
Impairments	(207.6)
Currency adjustments	18.9
Other adjustments	(6.4)
Net book balance at December 31, 2012	**$ 706.1**

The acquisitions of X-it and Wellbore during 2012 both had a purchase price in excess of the fair value of tangible and identifiable intangible assets acquired (See Note 2).

The adjustment to goodwill during the measurement period related to a working capital adjustment on the Great White acquisition (See Note 2).

We test goodwill for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The testing of the valuation of goodwill involves significant judgement and assumptions to be made in connection with the future performance of the various components of our business operations.

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

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

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

Note 10 – Intangible assets

(In millions)	Cost	Accumulated Amortization	Net
Balance at December 31, 2011	**$ 259.8**	**$ (56.5)**	**$ 203.3**
Additions – acquisitions	5.4	-	5.4
Deletions	(36.7)	36.7	-
Impairments	-	(57.5)	(57.5)
Amortization	-	(22.4)	(22.4)
Currency adjustments	0.9	(0.1)	0.8
Balance at December 31, 2012	**$ 229.4**	**$ (99.8)**	**$ 129.6**

The net book value at December 31, 2012 consisted of customer relationships of $103.8 million, identified technology of $8.2 million, trademarks of $9.6 million, patents of $7.9 million and noncompete arrangement of $0.1 million.

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

In the fourth quarter 2012 we updated our impairment assessment of intangible assets, including consideration of several qualitative factors. Compared to the end of the third quarter 2012, no significant changes to the assumptions were noted which would give rise to an additional impairment at this point in time. (See Note 9)

Note 11 – Long-term, interest-bearing debt

(In millions)	December 31, 2012	December 31, 2011
$1,171.9 multi-currency term and revolving facility	$ 1,047.1	$ 774.1
Related party subordinated loan	55.0	-
Hermes covered term loan	34.9	-
Allis-Chalmers 2014 senior note	-	99.2
Allis-Chalmers 2017 senior note	-	197.4
Other loans and capital lease liability	82.3	15.5
Total loans and capital lease liability	**1,219.3**	**1,086.2**
Less: current portion	(329.5)	(108.4)
Long-term portion of interest bearing debt	**$ 889.8**	**$ 977.8**

$1,171.9 million multi-currency term and revolving facility

On December 22, 2011, Archer entered into an Amended and Restated $1,121.9 million multi-currency term and revolving facility agreement adding two new banks to the syndicate. In January 2012, Citi was added to the facility, bringing the total facility to $1,171.9 million.

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

The tranches made under the $1,171.9 million multi-currency term and revolving facility agreement are secured by pledges over shares in material subsidiaries, and assignment over intercompany debt, as well as by guarantees issued by the material subsidiaries.

Archer's multicurrency term and revolving facility agreement contains certain financial covenants, including, among others:

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

The multi-currency term and revolving facility agreement contains events of default which includes payment defaults, breach of financial covenants, breach of other obligations, breach of representations and warranties, insolvency, illegality, unenforceability, curtailment of business, claims against an obligor's assets, appropriation of an obligor's assets, failure to maintain exchange listing, material adverse effect, repudiation and material litigation.

As of December 31, 2012, we were not in compliance with the financial covenants set out in our credit facilities.

In February 2013 we reached an agreement with our lending banks to amend the existing facility agreement following a $250 million equity raise. The proceeds of this additional equity were used to prepay the $100 million installment due in November 2013, prepay $95 million relating to the revolving debt facility under the multicurrency loan agreement and repay $ 55 million related to the subordinated debt with Seadrill. At year end these amounts were classified within the current portion of long term debt. The amendment resulted in an increase in interest margin of 20 basis points, which as per the revised agreement now ranges between 3.0% and 3.95% per annum, depending on the net interest bearing debt to EBITDA ratio. The interest rate of the facilities is LIBOR, NIBOR or EURIBOR plus the respective margin. The leverage ratio covenant in the amended agreement, which is calculated as net interest bearing debt divided by twelve months rolling pro forma EBITDA, has been revised to 5.00x for December 31, 2012 and to not exceed 4.75x until September 30, 2013, with a subsequent reduction of 0.25x per quarter to 3.25x from March 31, 2015 and onwards. As of December 31, 2012 we were in compliance with the revised covenants.

Related party subordinated loan

On November 12, 2012, Seadrill Limited, a related party, provided Archer with a $55.0 million subordinated term loan facility that is repayable by February 28, 2013. Once repaid the amount is not available for reborrowing. The loan provides for interest at LIBOR + 5%. In November 2012, we borrowed the full $55.0 million and applied it to our annual principal payment of $100 million due under the multi-currency term and revolving facility along with using part of our existing cash balances on hand. Subsequent to year end this subordinated term loan was settled in full.

Hermes covered term loan

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

Allis-Chalmers senior notes

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

Archer redeemed all outstanding 2014 and 2017 senior notes on March 1, 2012. The 2014 notes were redeemed at a redemption price of 100.0% of the outstanding aggregate principal amount, plus accrued and unpaid interest. The 2017 notes were redeemed at a redemption price of 104.25% of the outstanding aggregate principal amount, plus accrued and unpaid interest. The redemption of this debt generated a gain of $4.7 million for the year ended December 31, 2012.

Other loans and capital leases

We have two $50.0 million cash overdraft facilities and at December 31, 2012, net borrowings under these facilities were $55.8 million in aggregate. In addition we have borrowed $9.9 million under cash overdraft facilities in Argentina. We have a $25.0 million import facility in Argentina, which had an outstanding balance at December 31, 2012 of $2.9 million. We also have capital leases covering both real property and equipment and at December 31, 2012, the net balance due under these arrangements was $11.8 million. We have a $4.0 million term loan facility in Argentina, which had an outstanding balance at December 31, 2012 of $1.7 million. In addition, we have several equipment financing obligations that in aggregate had a balance due of $0.2 million at December 31, 2012.

Note 12 – Supplemental cash flow information

During 2012, we financed equipment purchases of $3.9 million through capitalized leases. We also utilized lease incentives to finance $1.5 million of leasehold improvements that were capitalized in 2012.

The merger with Allis-Chalmers in 2011 was primarily financed by the issue of Archer shares to Allis-Chalmers shareholders (See Note 2).

Note 13 – Segment information

In conjunction with organizational changes made at the end of 2011, we reviewed the presentation of our reporting segments during the first quarter of 2012 and determined that our operational performance aligned with the following four segments effective January 1, 2012:

- North America (NAM)
- Latin America (LAM)
- North Sea (NRS)
- Emerging Markets & Technologies (EMT)

The split of our organization and aggregation of our business into four segments is based on differences in management structure and reporting, location of regional management and assets, economic characteristics, customer base, asset class and contract structure. The accounting principles for the segments are the same as for our consolidated financial statements. Our historical segment data previously reported for the three months and year ended December 31, 2011 and as of December 31, 2011, have been restated to conform to the new presentation. Presented below and on the following page are the revenues, depreciation and amortization, operating income, capital expenditures, goodwill and total assets by segment.

(In millions)	Three Months Ended December 31,		Years Ended December 31,	
	2012	2011	2012	2011
Revenues from external customers				
North America	$ 148.9	$ 180.9	$ 683.1	$ 443.0
Latin America	151.5	147.8	585.3	467.5
North Sea	156.1	189.0	599.6	651.3
Emerging Markets & Technologies	80.8	78.4	322.5	292.8
Total	**$ 537.3**	**$ 596.1**	**$ 2,190.5**	**$ 1,854.6**
Depreciation and amortization				
North America	$ 31.0	$ 26.1	$ 125.6	$ 69.3
Latin America	8.7	10.4	37.4	36.4
North Sea	3.0	1.8	9.8	8.4
Emerging Markets & Technologies	8.6	9.0	32.2	33.0
Total	**$ 51.3**	**$ 47.3**	**$ 205.0**	**$ 147.1**

(In millions)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Years Ended December 31, 2012	Years Ended December 31, 2011
Operating income (loss) to net loss				
North America	$ (18.7)	$ (8.4)	$ (318.9)	$ 21.3
Latin America	-	(101.5)	(44.4)	(95.2)
North Sea	(2.4)	18.0	20.1	56.7
Emerging Markets & Technologies	0.1	6.4	25.0	23.9
Stock compensation costs	(0.8)	(1.3)	(4.0)	(4.9)
Merger and acquisition costs	-	-	-	(17.7)
Operating loss	**(21.8)**	**(86.8)**	**(322.2)**	**(15.9)**
Total financial items	(10.0)	(28.2)	(42.5)	(46.6)
Income taxes	(9.2)	3.2	(10.4)	(14.5)
Net loss	**$ (41.0)**	**$(111.8)**	**$ (375.1)**	**$ (77.0)**
Capital expenditures				
North America	$ 14.1	$ 26.9	$ 147.9	$ 58.2
Latin America	9.4	28.9	43.8	52.5
North Sea	19.0	3.9	48.2	40.8
Emerging Markets & Technologies	8.1	2.6	31.7	14.7
Total	**$ 50.6**	**$ 62.3**	**$ 271.6**	**$ 166.2**

(In millions) Goodwill	North America	Latin America	North Sea	Emerging Markets & Technologies	Total
Balance at December 31, 2011	**$ 538.5**	**$ -**	**$ 132.4**	**$ 228.0**	**$ 898.9**
Goodwill acquired	-	-	-	2.3	2.3
Impairments	(207.6)	-	-	-	(207.6)
Adjustments to goodwill during measurement period	(6.4)	-	-	-	(6.4)
Currency adjustments	-	-	9.0	9.9	18.9
Balance at December 31, 2012	**$ 324.5**	**$ -**	**$ 141.4**	**$ 240.2**	**$ 706.1**

(In millions)	December 31, 2012	December 31, 2011
Total assets		
North America	$ 1,114.9	$ 1,386.8
Latin America	496.4	521.7
North Sea	461.5	385.5
Emerging Markets & Technologies	511.6	520.7
Total	**$ 2,584.4**	**$ 2,814.7**

Note 14 – Fair value of financial instruments

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

(In millions)	December 31, 2012 Fair Value	December 31, 2012 Carrying Value	December 31, 2011 Fair Value	December 31, 2011 Carrying Value
Non-derivatives				
Cash and cash equivalents	$ 58.2	$ 58.2	$ 37.3	$ 37.3
Restricted cash	11.9	11.9	13.3	13.3
Current portion of long-term debt	329.5	329.5	108.4	108.4
Long-term interest bearing debt	889.8	889.8	963.9	977.8
Derivatives				
Interest rate swap agreements	-	-	1.2	1.2

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

	December 31, 2012	Fair Value Measurements at Reporting Date Using		
(In millions)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 58.2	$ 58.2	-	-
Restricted cash	11.9	11.9	-	-
Liabilities				
$1,171.9 Multicurrency Term and Revolving Facility, excluding current portion	852.1	-	852.1	-
Other loans and capital leases, excluding current portion	37.7	-	37.7	-

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

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

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

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

Note 15 – Legal proceedings

From time to time, we are involved in litigation, 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 a loss by the Company can be reasonably estimated, we record a liability for the expected loss. At December 31, 2012, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

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

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

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

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

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

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 16 – Related parties

In the normal course of business, we transact business with related parties.

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

During the year ended December 31, 2012, we supplied Seadrill Limited and affiliates with services amounting to $16.1 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2012, Seadrill owed us $2.2 million related to these services.

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

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

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

Frontline provides management support and administrative services to us, and we have recorded fees of $0.5 million for these services in the year ended December 31, 2012. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations. At December 31, 2012, we owe Frontline $0.4 million related to these services.

During the year ended December 31, 2012, we supplied NADL with services amounting to $3.7 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2012, NADL owed us $0.6 million related to these services.

In addition, one of our largest customers is Pan American Energy, or PAE, which we also consider to be a related party. One of the principal shareholders of PAE is Bridas Corporation, Bridas Corporation is owned 50% by Bridas Energy Holdings Ltd and at the end of December 31, 2012, 50% by CNOOC International Limited. Alejandro P. Bulgheroni, one of the directors of Archer, may be deemed to indirectly beneficially own 50% of the outstanding capital stock of Bridas Energy Holdings Ltd and is a member of the Management Committee of PAE.

We had revenue for the year ended December 31, 2012 from PAE of approximately $268.7 million, or 12.3%, of our consolidated revenues for the period. At December 31, 2012, we had trade receivables and other receivables with PAE of $42.5 million.

Note 17 – Subsequent events

Subsequent events have been incorporated in related notes where appropriate (See Note 11 and 16). Other subsequent events are disclosed in this note.

In February 2013, we issued 208,334,000 new shares resulting in gross proceeds of $250.0 million (the "Private Placement"). Those proceeds were used to prepay the $100.0 million installment due in November 2013 under our multi-currency facility, $95 million relating to the revolving debt facility under the multicurrency loan agreement and $55.0 million related to the subordinated loan facility from Seadrill. The Private Placement was underwritten by our five largest shareholders together holding approximately 68% of our issued and outstanding share capital. The underwriters received an underwriting commission of $5.0 million which was settled through the issuance of 4,166,667 new shares in Archer. The new shares issued in the Private Placement are not tradable on the Oslo Stock Exchange until a prospectus has been approved by the Norwegian Financial Supervisory Authority. In order to facilitate immediate settlement and delivery of freely tradable shares to the subscribers, other than Seadrill, Lime Rock Partners and Hemen Holdings, in the Private Placement, existing and tradable shares were made available through a share loan arrangement with Seadrill. The share lending arrangement was settled through the issuance of the new shares from the Private Placement to Seadrill.

In February 2013, we were awarded a Statoil drilling contract for our second modular rig with operations expected in the second half of 2014. The contract is for 34 months on the Heimdal platform in the North Sea.

At a special general meeting on February 13, 2013, we reduced the par value of our stock from $2.00 to $1.00 and increased the number of authorized shares from 600 million to 1.2 billion. Following the par value reduction and the issuance of new shares Archer has 579,159,787 fully paid shares of par value of $1.00 each.

Appendix to Archer fourth quarter report 2012

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, Archer's management believes that certain non-GAAP performance measures and ratios may provide users of this financial information additional meaningful comparison between current results and results in prior operating periods. One such non-GAAP financial measure we use is earnings before interest, taxes, depreciation, and amortization (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table below for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended December 31, 2012, September 30, 2012, June 30, 2012, March 31, 2012, December 31, 2011 and September 30, 2011. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP.

The unaudited pro forma statements of operations below gives effect to the acquisition of Great White (which was acquired in the third quarter of 2011), as if it had occurred at the beginning of 2011 using the historical pre-acquisition results of the acquiree. This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations, or of the results that would have occurred had the acquisition taken place at the beginning of 2011.

ARCHER LIMITED
Condensed Consolidated Statement of Operations
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2012	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011
Revenue	537.3	551.9	555.0	546.3	596.1	505.4
Cost and expenses						
Operational Costs	559.1	550.0	535.4	529.5	561.4	441.0
Impairments	-	338.7	-	-	121.5	-
Merger & Integration expenses	-	-	-	-	-	31.5
Net financial items	10.0	6.4	30.2	(4.1)	28.2	(23.7)
Income/(loss) before income taxes	**(31.8)**	**(343.2)**	**(10.6)**	**20.9**	**(115.0)**	**56.6**
Income tax expense (benefit)	9.2	(1.9)	(2.8)	5.9	(3.2)	11.0
Total net income / (loss)	**(41.0)**	**(341.3)**	**(7.8)**	**15.0**	**(111.8)**	**45.6**

ARCHER LIMITED
Reconciliation of GAAP to non-GAAP Measures
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2012	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011
Total net income / (loss)	(41.0)	(341.3)	(7.8)	15.0	(111.8)	45.6
Depreciation, amortization and impairments	51.3	390.7	51.3	50.4	168.8	43.2
Net financial items	10.0	6.4	30.2	(4.1)	28.2	(23.7)
Taxes on Income	9.2	(1.9)	(2.8)	5.9	(3.2)	11.0
EBITDA	**29.5**	**53.9**	**70.9**	**67.2**	**82.0**	**76.1**
EBITDA for acquired companies						
Great White [1]	-	-	-	-	-	(9.6)
Merger, transaction and listing expenses [2]	-	-	-	-	-	31.5
Adjusted EBITDA	**29.5**	**53.9**	**70.9**	**67.2**	**82.0**	**98.0**

Note 1: Represents 56 days of Great White's EBITDA in the third quarter 2011.

Note 2: Merger, transaction and listing (M&A) expenses are considered one-time items on a pro forma basis. Great White incurred $26.5 million of M&A expenses in the third quarter 2011prior to the closing of the acquisition.

The merger, transaction and listing expenses for Archer on a pro forma basis companies can be broken down as follows.

	Three Months Ended					
(In millions)	December 31 2012	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011
Severance and other compensation costs	-	-	-	-	-	24.9
Professional fees	-	-	-	-	-	5.5
Other merger and integration cost	-	-	-	-	-	1.1
Total merger, transaction and listing expenses	**-**	**-**	**-**	**-**	**-**	**31.5**

Pro Forma Revenue by Geographic and Strategic Areas (Unaudited)

	Three Months Ended					
(In millions)	December 31 2012	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011
North America (NAM)	148.9	166.6	184.3	183.3	180.9	196.5
Latin America (LAM)	151.5	146.0	148.7	139.1	147.8	138.6
North Sea (NRS)	156.1	159.0	140.0	144.5	189.0	154.3
Emerging Markets & Technologies (EMT)	80.8	80.3	82.0	79.4	78.4	76.2
Pro Forma Revenue	**537.3**	**551.9**	**555.0**	**546.3**	**596.1**	**565.6**

ARCHER LIMITED
Pro Forma EBITDA by Geographic and Strategic Areas
After regional and global allocations
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2012	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011
North America (NAM)	12.1	15.2	31.5	27.6	28.7	53.4
Latin America (LAM)	8.4	16.1	15.5	9.7	18.7	15.0
North Sea (NRS)	0.3	10.0	6.4	12.2	19.5	13.8
Emerging Markets & Technologies (EMT)	8.7	12.6	17.5	17.7	15.1	15.8
Pro Forma EBITDA	**29.5**	**53.9**	**70.9**	**67.2**	**82.0**	**98.0**