

# **Smedvig Asset Allocation AS**

## **Annual Report 2007**

Unauthorized translation

### **The Company's Business**

Smedvig Asset Allocation ASA was granted a license to render discretionary asset management and investment advisory services in accordance with the Norwegian Securities Trading Act Section 9-1 1st paragraph, ref Section 2-1 1st Paragraph No 4 and 5.

The Company's registered office is in Stavanger. Smedvig Asset Allocation was converted from an ASA to an AS with effect from 14 December 2007.

### **Review of going concern**

The annual accounts are based on a going concern assumption.

### **Work Environment**

At the turn of the year the company had two employees. As the work environment is considered good, the company has not implemented any specific measures to improve the working environment. No injuries, material damages or accidents have occurred during 2007.

### **Gender diversity**

The Company's management consists of 50% women and 50% men. The Company's Board of Directors consists of three male Directors. Both Board and Management are committed to meet the public expectation to improve gender equality.

### **Natural Environment**

The Company's activities are not considered to have any negative impact on the natural environment.

### **The Annual Accounts**

In the Board of Directors' opinion the Annual Accounts give a true and fair view of the Company's debt, financial position, and net income.

The operating revenue for 2007 was NOK 18 104 579. The Company's accounts show a net income before tax of NOK – 4 141 654 and a net income of NOK – 4201 001.

### **The Company's future activities**

In accordance with the Norwegian Securities Trading Act Section 9-13 1<sup>st</sup> Paragraph Smedvig Asset Allocation has been given authorization to have an initial capital balance in Norwegian Kroner corresponding to EUR 125 000. The company must ensure that the required minimum equity and subordinated loan capital is at all times fulfilled. The company's equity and subordinated loan capital shall at all times be at least 8 percent of the basis for calculation of credit risk, market risk, and operational risk.

As of 31 December 2007 the Company's equity and subordinated loan capital was NOK 5 016 000, of which 100% was core capital and 0% additional capital. The equity and

subordinated loan capital was 23,9 % of the basis for calculation in accordance with Basel II as of 31 December 2007.

In the Board's opinion the Company's financial position is good. The Company has been granted a license to render discretionary asset management services and it has entered into agreements with clients thus securing a solid foundation for future activities.

**Coverage of the loss for the year**

The Board of Directors suggests that the loss, NOK 4 201 001, be allocated as follows:

Transfer from other equity - 4 201 001

Stavanger, 31 January 2008

The Board of Smedvig Asset Allocation AS



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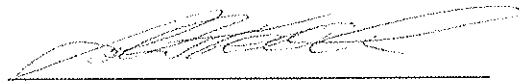
**Odd Torland**  
Chairman



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**Stephan L. Jervell**  
Board member

**Gudleik Njå**  
Board member



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**John Thore Olsen**  
Chief Executive Officer

Smedvig Asset Allocation AS

Profit and loss account 2007

	2007	2006
<b>Operating revenues</b>		
Revenues	18 104 579	
<b>Operating revenues</b>	<b>18 104 579</b>	<b>0</b>
<b>Operating expenses</b>		
Salaries	-3 161 217	
Depreciations	-985	
Other expenses	-14 529 492	-7 512 892
<b>Operating expenses</b>	<b>-17 691 694</b>	<b>-7 512 892</b>
<b>Operating profit/(loss)</b>	<b>412 885</b>	<b>-7 512 892</b>
<b>Financial income</b>		
Interest income	534 097	295 387
Unrealised gain on financial current assets		16 490 491
Other financial income	17 354	
<b>Financial income</b>	<b>551 451</b>	<b>16 785 878</b>
<b>Financial expenses</b>		
Realised loss on financial current assets	-4 273 665	
Interest expenses	-862 325	-1 454 401
<b>Financial expenses</b>	<b>-5 135 990</b>	<b>-1 454 401</b>
<b>Net income</b>	<b>-4 171 654</b>	<b>7 818 585</b>
Tax expenses	-29 347	2 428 134
<b>Profit/(loss) for the year</b>	<b>-4 201 001</b>	<b>10 246 719</b>
<b>Allocations:</b>		
Group contributions, received		5 975 349
Tax payable on group contributions		-1 673 098
Dividend		-5 606 467
Other restricted equity		-4 302 251
Other equity	4 201 001	-4 640 252
<b>Allocations</b>	<b>4 201 001</b>	<b>-10 246 719</b>

**Smedvig Asset Allocation AS**  
**Balance Sheet as per 31 December 2007**


	2007	2006
<b>ASSETS</b>		
<b>Fixed assets</b>		
<u>Intangible assets</u>		
Deferred tax	727 569	756 916
<b>Intangible assets</b>	<b>727 569</b>	<b>756 916</b>
<u>Tangible assets</u>		
Office equipment	16 746	
<b>Tangible assets</b>	<b>16 746</b>	<b>0</b>
<b>Fixed assets</b>	<b>744 315</b>	<b>756 916</b>
<b>Current assets</b>		
<u>Receivables</u>		
Debtors	612 304	
Group contributions		5 975 349
Other short-term receivables	225 088	
<b>Receivables</b>	<b>837 392</b>	<b>5 975 349</b>
<u>Investments</u>		
Financial investments		116 490 491
<b>Investments</b>	<b>0</b>	<b>116 490 491</b>
<u>Bank deposits</u>		
Bank deposits	15 258 337	1 296 408
<b>Bank deposits</b>	<b>15 258 337</b>	<b>1 296 408</b>
<b>Current assets</b>	<b>16 095 729</b>	<b>123 762 248</b>
<b>ASSETS</b>	<b>16 840 044</b>	<b>124 519 164</b>

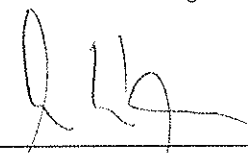
**Smedvig Asset Allocation AS**  
**Balance Sheet as per 31 December 2007**

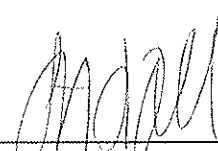
	2007	2006
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
<u>Paid up equity</u>		
Share capital	1 000 000	1 000 000
Other restricted equity	4 302 251	4 302 251
<b>Paid up capital</b>	<b>5 302 251</b>	<b>5 302 251</b>
<u>Retained earnings</u>		
Other equity	442 416	4 643 417
<b>Retained earnings</b>	<b>442 416</b>	<b>4 643 417</b>
<b>Equity</b>	<b>5 744 667</b>	<b>9 945 668</b>
<b>Liabilities</b>		
<u>Long-term liabilities</u>		
Long-term liabilities		100 000 000
<b>Long-term liabilities</b>	<b>0</b>	<b>100 000 000</b>
<u>Short-term liabilities</u>		
Dividend		5 606 467
Creditors	3 907 336	
Allocations	3 629 140	
Other short-term liabilities	3 558 901	8 967 029
<b>Short-term liabilities</b>	<b>11 095 377</b>	<b>14 573 496</b>
<b>Liabilities</b>	<b>11 095 377</b>	<b>114 573 496</b>
<b>EQUITY AND LIABILITIES</b>	<b>16 840 044</b>	<b>124 519 164</b>


Stavanger, 31. januar 2008

The Board of Directors for Smedvig Asset Allocation AS

  
 Odd Torland  
 Chairman

  
 Gudleik Njå  
 Board member

  
 Stephan L. Jervell  
 Board member

  
 John Thore Olsen  
 Chief Executive Officer

## Smedvig Asset Allocation AS

### Cash flows

	2007	2006
<b>Supplied Current assets/used on activities:</b>		
Net cash from the year's activities <sup>1)</sup>	102 996	-14 278 373
Increased creditors	3 907 336	
Change of other accruals	-966 529	14 565 401
Change of other short term assets and liabilities	-1 280 969	
<b>Cash from operating activities</b>	<b>1 762 834</b>	<b>287 028</b>
<b>Cash flows from investing activities</b>		
Capital expenditure on fixed assets	-17 731	
Purchase of securities		-100 000 000
Sale of securities	112 216 826	
<b>Net cash from investment activities</b>	<b>112 199 095</b>	<b>-100 000 000</b>
<b>Cash flows from financing activities</b>		
Paid in share capital		900 000
Debt borrowing		100 000 000
Payment of debt	-100 000 000	
<b>Net cash provided by (used in) financing activities</b>	<b>-100 000 000</b>	<b>100 900 000</b>
<b>Net increase of cash</b>	<b>13 961 929</b>	<b>1 187 028</b>
<b>Cash at 1 January</b>	<b>1 296 408</b>	<b>109 380</b>
<b>Cash at 31 December</b>	<b>15 258 337</b>	<b>1 296 408</b>
<sup>1)</sup> <b>This total is a result from:</b>		
Net income	-4 201 001	10 246 719
Ordinary depreciation	985	
Loss on sale of securities	4 273 665	
Dividend		-5 606 467
Change of deferred tax	29 347	-2 428 134
Increased value of securities		-16 490 491
<b>Net cash from the year's activities</b>	<b>102 996</b>	<b>-14 278 373</b>

# Smedvig Asset Allocation AS

2007

## **Note 1 Accounting Principles**

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The Annual Accounts, issued by the Board of Directors, must be read in connection with the Directors' Report and the Auditors' Report

The Annual Accounts consist of Income Statement, Balance Sheet, and notes and is prepared in accordance with the Companies' Act, Accounting Act, and generally accepted accounting principles for small companies in Norway as of 31 December 2007

### **Accounting Principles**

The annual accounts are based on the basic principles of historic cost, comparability, congruence, and prudence, and the classification of assets and liabilities is in accordance with the Accounting Act's definition.

On application of accounting principles and presentation of transactions and other matters emphasis is made on economic substance, not only legal form. Conditional, probable, and quantifiable losses are expensed. The accounting principles are outlined below.

### **Revenue and cost recognition (matching)**

Revenue is as a main rule recognized when earned. Costs are matched to and recognized together with the revenue to which the costs may be matched. Costs not directly matchable to revenue, are recognized when incurred.

### **Assets and Liabilities**

Short term assets and debt is valued at the lower of acquisition cost or real value. Real value is defined as assumed future sales price reduced by assumed sales costs. Other assets are classified as long term assets. Long term assets are valued at cost. Long term assets subject to wear and tear are depreciated or amortized. If the value is reduced and not expected to be reversed, the long term asset is impaired. Corresponding principles are applied for debt.

### **Deferred tax and tax cost**

Deferred tax is calculated on the basis of temporary differences between accounting and tax values at the end of the fiscal year. Nominal tax rate is applied. Positive and negative differences are matched within the same time frame. A deferred tax asset exists if temporary differences will give tax deduction in the future. The year's tax cost consists of change of deferred tax/deferred tax asset and payable tax for the year.

Smedvig Asset Allocation AS

2007

Note 2 Fixed assets

	<i>Cars, inventory etc</i>
Acquisition cost 1 January	0
Additions	17 731
Disposals	0
<b>Acquisition cost 31 December</b>	<b>17 731</b>
Accumulated depreciation 31 December	985
<b>Book value 31 December</b>	<b>16 746</b>
Annual depreciation	985
Depreciation time	Up to 3 years
Depreciation method	Linear

Note 3 Ownership

	<i>Share capital</i>	<i>Other paid-in equity</i>	<i>Other equity</i>	<i>Total</i>
Share capital 1 January	1 000 000	4 302 251	4 643 417	9 945 668
<b><i>This year's change in equity:</i></b>				
Net loss			-4 201 001	-4 201 001
<b>Share Capital 31 December</b>	<b>1 000 000</b>	<b>4 302 251</b>	<b>442 416</b>	<b>5 744 667</b>

	<i>No. of shares</i>	<i>Ownership share</i>	<i>Voting share</i>
<b><i>Shareholder(s):</i></b>			
Smedvig & Co. Ltd	100	100 %	100 %
<b>Total</b>	<b>100</b>	<b>100 %</b>	<b>100 %</b>



**Smedvig Asset Allocation AS**

**2007**

**Note 4 Tax**

	2007	2006
<b>Payable tax is calculated as follows</b>		
Net loss before tax	-4 171 654	7 818 585
Permanent differences	4 276 465	-16 490 491
Applied tax loss carry forward	-104 811	
Received Group Contribution		5 975 349
<b>Basis for payable tax</b>	<b>0</b>	<b>-2 696 557</b>
Tax 28%	0	0
<b>Payable tax on this year's net income</b>	<b>0</b>	<b>0</b>
<b>This year's tax cost is calculated as follows:</b>		
Payable tax on group relief received		1 673 098
Change of deferred tax	-29 347	755 036
<b>This year's total tax cost</b>	<b>-29 347</b>	<b>2 428 134</b>
<b>Current tax in the balance sheet is calculated as follows:</b>		
Payable tax on this year's net profit	0	0
<b>Payable tax</b>	<b>0</b>	<b>0</b>
<b>The basis for deferred tax asset is calculated as follows:</b>		
Tax loss carry forward	-2 598 462	-2 703 273
<b>Total</b>	<b>-2 598 462</b>	<b>-2 703 273</b>
<b>Basis for deferred tax asset</b>	<b>-2 598 462</b>	<b>-2 703 273</b>
<b>Deferred tax asset</b>	<b>-727 569</b>	<b>-756 916</b>
<b>Relation between tax cost and tax calculated as average nominal tax rate on net income before tax</b>		
Tax calculated as nominal tax rate on net profit before tax	1 168 063	28 %
Effect of permanent differences	-1 197 410	28 %
<b>Tax cost in the income statement</b>	<b>-29 347</b>	<b>28 %</b>

## Smedvig Asset Allocation AS

2007

### Note 5 Salary and other benefits

	2007	2006
Salary	1 756 528	
Social security premiums	378 790	
Pensions	28 746	
Other benefits	997 153	
<b>Salary costs</b>	<b>3 161 217</b>	<b>0</b>

From 1 July 2007 the company has had 2 employees

### Remuneration to the managing director and the Board

	<i>Managing Director</i>	<i>Board of Directors</i>
Salary and other benefits	1 280 722	800 000
<b>Total</b>	<b>1 280 722</b>	<b>800 000</b>

### Note 6 Pensions

The company fulfills the requirement to statutory pension scheme

### Note 7 Auditors' fees

	2007	2006
Audit fee	45 000	4 375
Additional services	35 813	4 375

### Note 8 Related parties

The company has signed an IT and a general management agreement with Peders Smedvig AS  
The company leases premises from Løkkeveien 103 AS

	2007	2006
Operating cost: Management fee to Peder Smedvig AS		1 526 060
Operating cost: Fee for IT managemen to Peder Smedvig AS	106 400	
Interest cost: Themelios AS	421 776	877 306
Interest cost: HKS AS	178 309	370 887
Interest cost: Petrus AS	71 919	149 593
Interest cost: Peder Smedvig AS	143 945	31 876
Interest cost: Smedvig Capital AS	44 102	24 739
Long term debt: Themelios AS		62 763 926
Long term debt: HKS AS		26 533 906
Long term debt: Petrus AS		10 702 168
Accounts Payable: Peder Smedvig AS	3 887 656	
Accounts Payable: Løkkeveien 103 AS	71 366	
Other Short Term Debt: Peder Smedvig AS	178 565	1 947 335
Other Short Term Debt: Smedvig Capital AS		1 026 239

## Smedvig Asset Allocation AS

2007

### Note 9 Segments

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#### Segments

Management has evaluated which segments are reportable based on form of distribution, products, and customers. Based on this judgement the conclusion is that segment reporting will give little or no additional information. This also applies for geographical segment reporting since the company only operates in Norway.

Consequently, no further information on segment or geographical distribution of revenue is given.

### Note 10 Required Capital

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From 2007 on the company is subject to equity and subordinated loan capital requirements in accordance with the provision on capital requirements. Consequently, no numbers for 2006 is required.

Smedvig Asset Allocation has no subordinated loan capital. For 2007 the company has calculated the required capital both in accordance with the Basel II requirements as outlined below:

Risk Group	Basel II - 2007	
	Book value	Weighted value
0 %	16 746	0
10 %	0	0
20 %	15 258 337	3 051 667
50 %	0	0
100%	837 392	837 392
Operational risk		17 125 000
<b>Sum Total</b>	<b>16 112 475</b>	<b>21 014 059</b>
Non weighted assets		
Intangibles	727 569	
<b>Total Assets</b>	<b>16 840 044</b>	
<b>Risk weighted basis for calculation</b>		<b>21 014 059</b>
<b>Equity and subordinated loan capital</b>		
Equity		5 744 667
Subordinated loan capital		0
Deduction for intangibles		727 569
<b>Equity and subordinated loan capital</b>		<b>5 017 098</b>
Percent capital coverage		23,9 %
Minimum requirement		8,0 %

	NOK	Exchange rate	EUR
Equity and subordinated loan capital as at 31 December 2007	5 017 098	7,961	630 210

The company has been granted a licence for render asset management services and pursuant to the Norwegian Securities Trading Act Section 2-3 have a total of equity and subordinated loan capital corresponding to EUR 125 000. This requirement is fulfilled as at 31 December 2007.

## Smedvig Asset Allocation AS

2007

### Note 11 Financial Market risk

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#### **Liquidity risk**

Liquidity risk is the risk that the company may not be able to fulfil financial obligations on time. The nature of the operations implies that fees from active contracts for rendering discretionary asset management services are received after the services have been rendered. The company also have costs payable on a current basis. This may imply a risk that there may not be sufficient cash available for current obligations. The company's cash management shall, as far as possible, secure that available cash is sufficient to meet obligations when payment is due.

#### **Market risk**

The company has not invested and shall not invest in securities. Therefore, it has no exposure to market risk

#### **Interest risk**

The company's interest terms are current and therefore subject to interest fluctuations.

Smedvig Asset Allocation AS

2007

**Note 12 Maturity of receivables and payables**

The tables indicate when receivables and payables are expected to mature

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not agreed
Deferred tax						727 569
Fixed assets						16 746
Debtors	612 304					
Other short term receivable	225 088					
Cash in bank	15 258 337					
<b>Total assets</b>	<b>16 095 729</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>744 315</b>

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not agreed
Creditors	3 907 336					
VAT etc	213 478					
Accruals	3 629 140					
Other short term payables	2 432 619		912 804			
<b>Total debt</b>	<b>10 182 573</b>	<b>0</b>	<b>912 804</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash exposure on balance sheet items</b>	<b>5 913 156</b>	<b>0</b>	<b>-912 804</b>	<b>0</b>	<b>0</b>	<b>744 315</b>

**Note 13 Period of fixed interest rates**

The tables show the time until agreed/probable change of interest rate terms

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest rate exposure not included
Deferred tax						727 569
Fixed assets						16 746
Debtors				612 304		
Other short term receivable						225 088
Cash in bank	15 258 337					
<b>Total assets</b>	<b>15 258 337</b>	<b>0</b>	<b>0</b>	<b>612 304</b>	<b>0</b>	<b>969 403</b>

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest rate exposure not included
Creditors	3 907 336					
VAT etc				213 478		
Accruals						3 629 140
Other short term payables	178 565					3 166 858
<b>Total debt</b>	<b>4 085 901</b>	<b>0</b>	<b>0</b>	<b>213 478</b>	<b>0</b>	<b>6 795 998</b>
<b>Net interest rate exposure on balance sheet items</b>	<b>11 172 436</b>	<b>0</b>	<b>0</b>	<b>398 826</b>	<b>0</b>	<b>-5 826 595</b>



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To the Annual Shareholders' Meeting of **Smedvig Asset Allocation AS**

## AUDITOR'S REPORT FOR 2007

### Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of the Smedvig Asset Allocation AS of 31 December 2007, showing a loss of NOK 4 201 000, including the proposal for the allocation of coverage of loss. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The annual financial statements comprise the balance sheet, the statement of income and cash flows, the statement of changes in equity and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the financial statements. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

### Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2007, and the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information

#### Offices in:

Oslo	Haugesund	Sandefjord
Bodo	Kristiansand	Sandnessjøen
Alta	Larvik	Stavanger
Arendal	Lillehammer	Stord
Bergen	Molde	Tromsø
Elverum	Molde	Tromsø
Finnsnes	Narvik	Tvedestrand
Hamar	Oslo	Ålesund

KPMG AS is a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Statutsensertede revisorer - medlemmer av Den Norske Revisorforening



- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and comply with the law and regulations.
- the proposal for the coverage of loss in the annual financial statements is in compliance with the law and regulations.

Stavanger, 31 January 2008  
KPMG AS

Aage K. Seidal

*State Authorised Public Accountant*

Note: This translation from Norwegian has been prepared for information purposes only