

Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Smedvig Asset Allocation AS

## AUDITOR'S REPORT FOR 2009

We have audited the annual financial statements of Smedvig Asset Allocation AS as of 31 December 2009, showing a profit of NOK 5.939.395. 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 allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the financial statements. These financial statements 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 other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted 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 generally accepted 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.

In our opinion,

- the financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2009, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the Company's management has fulfilled its duty to see to proper and well arranged recording and documentation of accounting information in accordance with law and generally accepted bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit, is consistent with the financial statements and complies with law and regulations.

Stavanger, 22 January 2010  
Deloitte AS

Ommund Skailand (signed)  
State Authorised Public Accountant (Norway)

Audit. Tax & Legal. Consulting. Financial Advisory.

Member of  
Deloitte Touche Tohmatsu

# **Smedvig Asset Allocation AS**

## **Annual Report 2009**

Unauthorized translation

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

Smedvig Asset Allocation AS was on the 17 October 2007 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.

### **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 three 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 2009.

### **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.

### **Research and Development**

No research and development activities have been carried out by the company this year.

### **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 2009 (2008) was NOK 24 128 617 (NOK 24 567 828). The Company's accounts show a net income before tax of NOK 8 298 712 (NOK 9 445 822) and a net income of NOK 5 939 395 (NOK 6 799 946).

### **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 2009 the Company's equity and subordinated loan capital was NOK 10 484 000, of which 100% was core capital and 0% additional capital. The equity and subordinated loan capital was 56,25% of the basis for calculation in accordance with Basel II as of 31 December 2009.

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.

#### **Appropriation of profits**

The Board of Directors suggests that the profit, NOK 5 939 395, be allocated as follows:

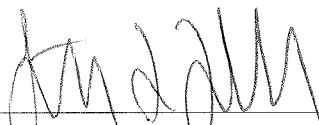
Dividends	4 000 000
Transfer to other equity	1 939 395

Stavanger, 22 January 2010

The Board of Smedvig Asset Allocation AS



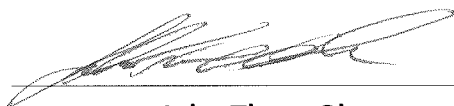
**Odd Torland**  
Chairman



**Stephan L. Jervell**  
Board member



**Gudleik Njå**  
Board member



**John Thore Olsen**  
Chief Executive Officer

## Smedvig Asset Allocation AS

### Profit and loss account 2009

	<i>Notes</i>	<i>2009</i>	<i>2008</i>
<b>Operating revenues</b>			
Revenues	1	24 000 000	24 500 000
Other operating income		128 617	67 828
<b>Operating revenues</b>		<b>24 128 617</b>	<b>24 567 828</b>
<b>Operating expenses</b>			
Salaries	5 - 6	-4 372 892	-3 397 541
Depreciations	2	-68 613	-19 578
Other expenses	7 - 8	-11 712 277	-12 338 444
<b>Operating expenses</b>		<b>-16 153 782</b>	<b>-15 755 563</b>
<b>Operating profit/(loss)</b>		<b>7 974 835</b>	<b>8 812 265</b>
<b>Financial income</b>			
Interest income		384 336	635 093
Realised gains on currency exchange		408	8 700
<b>Financial income</b>		<b>384 744</b>	<b>643 793</b>
<b>Financial expenses</b>			
Interest expenses	8	-60 867	-10 236
<b>Financial expenses</b>		<b>-60 867</b>	<b>-10 236</b>
<b>Profit/(loss) before taxes</b>		<b>8 298 712</b>	<b>9 445 822</b>
Tax expenses	4	-2 359 317	-2 645 876
<b>Profit/(loss) for the year</b>		<b>5 939 395</b>	<b>6 799 946</b>
<b>Provisions:</b>			
Dividend		-4 000 000	-4 000 000
Other equity	3	-1 939 395	-2 799 946
<b>Provisions</b>		<b>-5 939 395</b>	<b>-6 799 946</b>

Smedvig Asset Allocation AS

Balance Sheet as per 31 December 2009


	Notes	2009	2008
<b>ASSETS</b>			
<b>Fixed assets</b>			
<u>Tangible assets</u>			
Office equipment	2	143 712	212 325
<b>Tangible assets</b>		<b>143 712</b>	<b>212 325</b>
<b>Fixed assets</b>		<b>143 712</b>	<b>212 325</b>
<b>Current assets</b>			
<u>Receivables</u>			
Debtors			41 867
Other short-term receivables		83 391	844 074
<b>Receivables</b>		<b>83 391</b>	<b>885 941</b>
<b>Bank deposits</b>			
Bank deposits		18 518 851	15 478 381
<b>Bank deposits</b>		<b>18 518 851</b>	<b>15 478 381</b>
<b>Current assets</b>		<b>18 602 242</b>	<b>16 364 322</b>
<b>ASSETS</b>		<b>18 745 954</b>	<b>16 576 647</b>

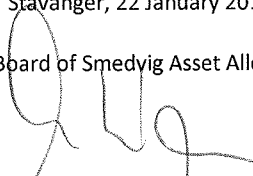
**Smedvig Asset Allocation AS**  
**Balance Sheet as per 31 December 2009**

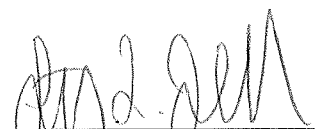
	Notes	2009	2008
<b>Equity</b>			
<u>Paid up equity</u>			
Share capital	3	1 000 000	1 000 000
Other restricted equity	3	4 302 251	4 302 251
<b>Paid up capital</b>		<b>5 302 251</b>	<b>5 302 251</b>
<u>Retained earnings</u>			
Other equity	3	5 181 757	3 242 362
<b>Retained earnings</b>		<b>5 181 757</b>	<b>3 242 362</b>
<b>Equity</b>	<b>3</b>	<b>10 484 008</b>	<b>8 544 613</b>
<b>Liabilities</b>			
<u>Provisions for liabilities</u>			
Deferred tax	4	5 447	11 911
<b>Provisions for liabilities</b>		<b>5 447</b>	<b>11 911</b>
<u>Short-term liabilities</u>			
Dividend payable		4 000 000	4 000 000
Accounts payable	8	162 569	468 315
Taxes payable	4	2 353 868	1 906 396
Public duties payable		320 196	286 697
Accruals		696 305	384 507
Other short-term liabilities	8	723 561	974 208
<b>Short-term liabilities</b>		<b>8 256 499</b>	<b>8 020 123</b>
<b>Liabilities</b>		<b>8 261 946</b>	<b>8 032 034</b>
<b>EQUITY AND LIABILITIES</b>		<b>18 745 954</b>	<b>16 576 647</b>


Stavanger, 22 January 2010

On the Board of Smedvig Asset Allocation AS:

  
**Odd Torland**  
Chairman

  
**Gudleik Njå**  
Board member

  
**Stephan Lange Jervell**  
Board member

  
**John Thore Olsen**  
Chief Executive Officer

## Smedvig Asset Allocation AS

### Cash Flow from operating activities

	2009	2008
<b>Supplied Current assets/used on activities:</b>		
Net cash from the year's activities <sup>1)</sup>	2 001 542	3 559 004
Change in creditors	-305 746	-3 439 021
Change in other accruals	311 798	-3 244 633
Change in other short term assets and liabilities	1 032 876	3 559 851
<b>Cash from operating activities</b>	<b>3 040 470</b>	<b>435 201</b>
<b>Cash flows from investing activities</b>		
Capital expenditure on fixed assets		-215 157
<b>Net cash from investment activities</b>	<b>0</b>	<b>-215 157</b>
<b>Net increase of cash</b>	<b>3 040 470</b>	<b>220 044</b>
<b>Cash at 1 January</b>	<b>15 478 381</b>	<b>15 258 337</b>
<b>Cash at 31 December</b>	<b>18 518 851</b>	<b>15 478 381</b>
<sup>1)</sup> <b>This total is a result from:</b>		
Net income	5 939 395	6 799 946
Ordinary depreciation	68 613	19 578
Dividend	-4 000 000	-4 000 000
Difference between assessed tax and prior year tax accruals	-11 913	
Change of deferred tax	5 447	739 480
<b>Net cash from the year's activities</b>	<b>2 001 542</b>	<b>3 559 004</b>

# Smedvig Asset Allocation AS

2009

## **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 2009

### **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

2009

### Note 2 Fixed assets

	<i>Cars, inventory etc</i>
Acquisition cost 1 January	232 888
Additions	0
Disposals	0
<b>Acquisition cost 31 December</b>	<b>232 888</b>
Accumulated depreciation 31 December	89 176
<b>Book value 31 December</b>	<b>143 712</b>
Annual depreciation	68 613
Depreciation time	Up to 5 years
Depreciation method	Linear

### Note 3 Equity and 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	3 242 362	8 544 613
<b><i>This year's change in equity:</i></b>				
Dividend			-4 000 000	-4 000 000
Net loss			5 939 395	5 939 395
<b>Share Capital 31 December</b>	<b>1 000 000</b>	<b>4 302 251</b>	<b>5 181 757</b>	<b>10 484 008</b>

	<i>Number of A shares</i>	<i>Number of B shares</i>	<i>Total number of shares</i>	<i>Interest</i>
<b><i>Shareholder(s):</i></b>				
Smedvig & Co. Ltd	999 000	0	999 000	99,9000 %
Anna Margaret Smedvig	0	500	500	0,0500 %
Petter Hagland	0	150	150	0,0150 %
Julia Hagland	0	150	150	0,0150 %
Peter T. Smedvig	0	75	75	0,0075 %
Odd Torland	0	75	75	0,0075 %
Marit S. Hovstad	0	25	25	0,0025 %
John Thore Olsen	0	25	25	0,0025 %
<b>Total</b>	<b>999 000</b>	<b>1 000</b>	<b>1 000 000</b>	<b>100 %</b>

**Smedvig Asset Allocation AS**

**2009**

**Note 4 Tax**

	<i>2009</i>	<i>2008</i>
<b>Payable tax is calculated as follows</b>		
Net gain/(loss) before tax	8 298 712	9 445 822
Non deductible costs	84 873	3 738
Change in temporary differences	23 088	-42 541
Utilized tax loss carried forward from prior years		-2 598 462
<b>Basis for payable tax</b>	<b>8 406 673</b>	<b>6 808 557</b>
Tax 28%	2 353 868	1 906 396
<b>Payable tax on this year's net income</b>	<b>2 353 868</b>	<b>1 906 396</b>
<b>This year's tax cost is calculated as follows:</b>		
Tax payable	-2 365 781	-1 906 396
Change of deferred tax	6 464	-739 480
<b>This year's total tax cost</b>	<b>-2 359 317</b>	<b>-2 645 876</b>
<b>Current tax in the balance sheet is calculated as follows:</b>		
Payable tax on this year's net profit	2 353 868	1 906 396
<b>Tax payable</b>	<b>2 353 868</b>	<b>1 906 396</b>
<b>The basis for deferred tax asset is calculated as follows:</b>		
Reserves in fixed assets	19 453	42 541
<b>Total</b>	<b>19 453</b>	<b>42 541</b>
Basis for deferred tax asset	19 453	42 541
<b>Deferred tax asset</b>	<b>5 447</b>	<b>11 911</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	-2 323 639	28 %
Effect of permanent differences	-23 764	28 %
Difference between assessed tax and prior year tax accruals	-11 913	28 %
<b>Tax cost in the income statement</b>	<b>-2 359 317</b>	<b>28 %</b>

## Smedvig Asset Allocation AS

2009

### Note 5 Salary and other benefits

	2009	2008
Salary	3 170 139	2 878 220
Social security premiums	547 668	381 193
Pensions	180 427	10 297
Other benefits	474 658	127 831
<b>Salary costs</b>	<b>4 372 892</b>	<b>3 397 541</b>

Employees	3	3
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### Remuneration to the managing director and the Board

	<i>Managing Director</i>	<i>Board of Directors</i>
Salary and other benefits	1 465 844	300 000
<b>Total</b>	<b>1 465 844</b>	<b>300 000</b>

### Note 6 Pensions

The company fulfills the requirement to statutory pension scheme

### Note 7 Auditors' fees

	2009	2008
Audit fee	231 250	287 200
Additional services	82 314	73 084

### Note 8 Related parties

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

	2009	2008
Operating cost: Management fee to Peder Smedvig AS	499 992	500 004
Operating cost: Fee for IT management to Peder Smedvig AS	497 561	468 756
Rent: Løkkeveien 103	576 215	507 219
Interest to Peder Smedvig AS	8 925	
Accounts Payable: Peder Smedvig AS	92 450	232 300
Other Short Term Debt: Peder Smedvig AS	64 105	367 179

## Smedvig Asset Allocation AS

2009

### Note 9 Segments

#### 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

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 2008 the company has calculated the required capital both in accordance with the Basel II requirements as outlined below:

Risk Group	Basel II - 2009		Basel II - 2008	
	Book value	Weighted value	Book value	Weighted value
0 %	0	0	0	0
10 %	0	0	0	0
20 %	18 518 851	3 703 770	15 478 381	3 095 676
50 %	0	0	0	0
100%	227 103	227 103	1 098 266	1 098 266
Operational risk		14 708 000		18 003 000
<b>Sum Total</b>	<b>18 745 954</b>	<b>18 638 873</b>	<b>16 576 647</b>	<b>22 196 942</b>
Non weighted assets				
Intangibles	0		0	
<b>Total Assets</b>	<b>18 745 954</b>		<b>16 576 647</b>	
<b>Risk weighted basis for calculation</b>		<b>18 638 873</b>		<b>22 196 942</b>
<b>Equity and subordinated loan capital</b>				
Equity		10 484 008		8 544 613
Subordinated loan capital		0		0
Deduction for intangibles		0		0
<b>Equity and subordinated loan capital</b>		<b>10 484 008</b>		<b>8 544 613</b>
Percent capital coverage		<b>56,25 %</b>		<b>38,49 %</b>
Minimum requirement		<b>8,00 %</b>		<b>8,00 %</b>

	NOK	Exchange rate	EUR
Equity and subordinated loan capital as at 31 December 2009	10 484 008	8,315	1 260 855

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 2009.

## Smedvig Asset Allocation AS

2009

### 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

2009

**Note 12 Maturity of receivables and payables**

The tables indicate when receivables and payables are expected to mature

	<i>Within 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Maturity not agreed</i>
Fixed assets						143 712
Other short term receivable	83 391					
Cash in bank	18 518 851					
<b>Total assets</b>	<b>18 602 242</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>143 712</b>
	<i>Within 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Maturity not agreed</i>
Creditors	162 569					
Public duties payable	320 196					
Tax			2 353 868			
Accruals	696 305					
Other short term payables	361 684		361 877			
<b>Total debt</b>	<b>1 540 754</b>	<b>0</b>	<b>2 715 745</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash exposure on balance sheet items</b>	<b>17 061 488</b>	<b>0</b>	<b>-2 715 745</b>	<b>0</b>	<b>0</b>	<b>143 712</b>

**Note 13 Period of fixed interest rates**

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

	<i>Within 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Interest rate exposure not included</i>
Fixed assets						143 712
Other short term receivables						83 391
Cash in bank	18 518 851					
<b>Total assets</b>	<b>18 518 851</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>227 103</b>
	<i>Within 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Interest rate exposure not included</i>
Creditors	162 569					
Public duties payable				320 196		
Accruals						696 305
Other short term liabilities	361 684					
<b>Total debt</b>	<b>524 253</b>	<b>0</b>	<b>0</b>	<b>320 196</b>	<b>0</b>	<b>696 305</b>
<b>Net interest rate exposure on balance sheet items</b>	<b>17 994 598</b>	<b>0</b>	<b>0</b>	<b>-320 196</b>	<b>0</b>	<b>-469 202</b>