

Smedvig Asset Allocation AS

Annual Report 2011

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 six 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 2011.

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 assets, debt, financial position and net income.

The operating revenue for 2011 (2010) was NOK 26 201 143 (NOK 26 140 984). The Company's accounts show a net income before tax of NOK 13 241 342 (NOK 2 655 334) and a net income of NOK 9 533 610 (NOK 1 888 001).

As of 31 December 2011 the Company's equity and subordinated loan capital was NOK 11 905 619, of which 100 % was core capital and 0 % additional capital. The equity and subordinated loan capital was 47.5 % of the basis for calculation in accordance with Basel II as of 31 December 2011.

The company is also well within the current regulations with regards to capital requirements and capital coverage.

The Company's future activities

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 9 533 610, be allocated as follows:

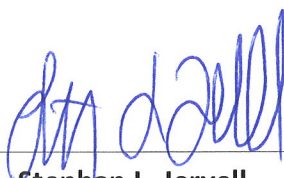
Dividends	-4 000 000
Transfer to other equity	-5 533 610

Stavanger, 1 February 2012

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

Balance Sheet as per 31 December 2011

	Notes	2011	2010
EQUITY AND LIABILITIES			
<u>Paid up equity</u>			
Share capital	3	1 000 000	1 000 000
Other restricted equity	3	4 302 251	4 302 251
Paid up capital		5 302 251	5 302 251
<u>Retained earnings</u>			
Other equity	3	6 603 368	1 069 758
Retained earnings		6 603 368	1 069 758
Equity	3	11 905 619	6 372 009
Liabilities			
<u>Short-term liabilities</u>			
Dividend payable	3	4 000 000	6 000 000
Accounts payable	8	1 302 217	944 796
Taxes payable	4	3 703 571	773 216
Public duties payable	9	2 895 554	476 902
Accruals	9	820 678	7 821 657
Other short-term liabilities	8	1 062 877	744 492
Short-term liabilities		13 784 897	16 761 063
Liabilities		13 784 897	16 761 063
EQUITY AND LIABILITIES		25 690 516	23 133 072

Stavanger, 1 February 2012

On the Board of Smedvig Asset Allocation AS:



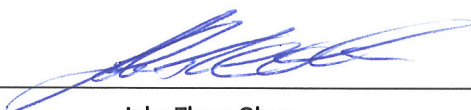
Odd Torland
Chairman



Gudleik Njå
Board member



Stephan L. Jervell
Board member



John Thore Olsen
Chief Executive Officer

Smedvig Asset Allocation AS

Profit and loss account 2011

	<i>Note</i>	<i>2011</i>	<i>2010</i>
Operating revenues			
Revenues	1	26 201 143	26 023 394
Other operating income		0	117 590
Operating revenues		26 201 143	26 140 984
Operating expenses			
Salaries	5 - 6	-5 335 447	-4 751 113
Depreciations	2	-77 744	-73 642
Other expenses	7 - 9	-8 786 791	-17 988 265
Operating expenses		-14 199 982	-22 813 020
Operating profit/(loss)		12 001 161	3 327 964
Financial income			
Interest income		1 241 890	406 208
Gains on currency exchange		0	874
Financial income		1 241 890	407 082
Financial expenses			
Interest expenses	8-9	0	-1 079 712
Loss on currency exchange		-1 709	0
Financial expenses		-1 709	-1 079 712
Profit/(loss) before taxes		13 241 342	2 655 334
Tax expenses	4	-3 707 732	-767 333
Profit/(loss) for the year		9 533 610	1 888 001
Provisions:			
Dividend		-4 000 000	-6 000 000
Other equity	3	-5 533 610	4 111 999
Provisions		-9 533 610	-1 888 001

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Balance Sheet as per 31 December 2011

	<i>Notes</i>	<i>2011</i>	<i>2010</i>
ASSETS			
Fixed assets			
<u>Intangible assets</u>			
Deferred tax	4	132	436
Intangible assets		132	436
<u>Tangible assets</u>			
Assets under construction	2	1 893 467	0
Office equipment	2	195 005	89 753
Tangible assets		2 088 472	89 753
Fixed assets		2 088 604	90 189
Current assets			
<u>Receivables</u>			
Debtors		33 821	0
Other short-term receivables		918 326	986 435
Receivables		952 147	986 435
<u>Bank deposits</u>			
Bank deposits	15	22 649 765	22 056 448
Bank deposits		22 649 765	22 056 448
Current assets		23 601 912	23 042 883
ASSETS		25 690 516	23 133 072

Smedvig Asset Allocation AS

Cash Flow from operating activities

	<i>2011</i>	<i>2010</i>
Supplied Current assets/used on activities:		
Net cash from the year's activities ¹⁾	3 611 658	-2 044 240
Change in creditors	357 421	782 227
Change in other accruals	-7 000 979	7 125 352
Change in other short term assets and liabilities	5 701 680	-2 306 059
Cash from operating activities	2 669 780	3 557 280
Cash flows from investing activities		
Capital expenditure on fixed assets	-2 076 463	-19 683
Net cash from investment activities	-2 076 463	-19 683
Net increase of cash	593 317	3 537 597
Cash at 1 January	22 056 448	18 518 851
Cash at 31 December	22 649 765	22 056 448
 ¹⁾ This total is a result from:		
Net income	9 533 610	1 888 001
Ordinary depreciation	77 744	73 642
Dividend		-4 000 000
Difference between assessed tax and prior year tax accruals	-6 000 000	0
Change of deferred tax	304	-5 883
Net cash from the year's activities	3 611 658	-2 044 240

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Note 1 Accounting Principles

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 2011.

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. The 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.

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Note 2 Fixed assets

	<i>Asset under construction</i>	<i>Cars, inventory etc</i>	<i>Total</i>
Acquisition cost 1 January	0	252 571	252 571
Additions	1 893 467	182 996	2 076 463
Disposals	0	0	0
Acquisition cost 31 December	1 893 467	435 567	2 329 034
Accumulated depreciation 31 December	0	240 562	240 562
Book value 31 December	1 893 467	195 005	2 088 472
Annual depreciation	0	77 744	77 744
Depreciation time		Up to 5 years	
Depreciation method		Linear	

The company has during 2011 developed a data warehouse. This will be completed and adopted in the first half of 2012. Depreciation will start as soon as the data warehouse is utilized.

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	1 069 758	6 372 009
<i>This year's change in equity:</i>				
Dividend			-4 000 000	-4 000 000
Net gain/loss			9 533 610	9 533 610
Share Capital 31 December	1 000 000	4 302 251	6 603 368	11 905 619

	<i>Number of A shares</i>	<i>Number of B shares</i>	<i>Total number of shares</i>	<i>Interest</i>
<i>Shareholder(s):</i>				
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 Smedvig 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 %
Total	999 000	1 000	1 000 000	100 %

The A-shares have full voting- and dividend rights. The B-shares have no voting rights and the dividend right is limited.

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Note 4 Tax

	2011	2010
Tax payable is calculated as follows		
Net gain/(loss) before tax	13 241 342	2 655 334
Non deductible costs	-13 217	85 141
Change in temporary differences	-1 085	21 009
Basis for tax payable	13 227 040	2 761 484
Tax 28%	3 703 571	773 216
Tax payable on this year's net income	3 703 571	773 216
This year's tax cost is calculated as follows:		
Tax payable	-3 703 571	-773 216
Difference between assessed tax and prior year tax accruals	-3 857	0
Change of deferred tax	-304	5 883
This year's total tax cost	-3 707 732	-767 333
Current tax in the balance sheet is calculated as follows:		
Tax payable on this year's net profit	3 703 571	773 216
Tax payable	3 703 571	773 216
The basis for the deferred tax asset is calculated as follows:		
Reserves in fixed assets	-471	-1 556
Total	-471	-1 556
Basis for deferred tax asset	-471	-1 556
Deferred tax asset	-132	-436
Relation between tax cost and tax calculated as average nominal tax rate on net income before tax		
Tax calculated as nominal tax rate on net profit before tax	-3 707 576	28 %
Effect of permanent differences	3 700	28 %
Difference between assessed tax and prior year tax accruals	-3 857	28 %
Tax cost in income statement	-3 707 732	28 %

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Note 5 Salary and other benefits

	2011	2010
Salary	4 203 345	3 536 685
Social security premiums	650 759	583 367
Pensions	216 748	135 552
Other benefits	264 595	495 509
Salary costs	5 335 447	4 751 113
Employees	5	4

Remuneration to the managing director and the Board

	Managing Director	Board of Directors
Salary	1 398 738	300 000
Other benefits	123 059	0
Total	1 521 797	300 000

The Managing Director is covered by a remuneration arrangement that applies to senior executives in the company. The remuneration arrangement is in accordance with official guidelines as of December 1 2010 nr. 1507 about remuneration arrangements.

Note 6 Pensions

The entity's defined contribution plan is organized in accordance with Norwegian legislation on defined contribution pensions ("lov om innskuddspensjon").

Note 7 Auditors' fees

	2011	2010
Audit fee	87 500	16 500
Additional services	62 500	37 500
Total	150 000	54 000

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.

	2011	2010
Operating cost: Management fee to Peder Smedvig AS	499 992	499 992
Operating cost: Fee for IT management to Peder Smedvig AS	468 756	468 756
Rent: Løkkeveien 103	737 379	590 349
Interest income: Peder Smedvig AS	0	170
Interest expenses: Peder Smedvig AS	2 443	3 161
Accounts Payable: Peder Smedvig AS	102 605	186 104
Accounts Payable: Løkkeveien 103AS	143 970	141 987
Other Short Term Debt: Peder Smedvig AS	291 370	9 134

Note 9 Other operating expenses

On January 15 2010 the company made an inquiry about obligations to pay import tax on purchased management services. On January 10 2011 the company received a statement from the Tax Office (Skatt Vest), but no resolution was passed. The company have recognized and accrued for import tax including interest for the period 2007-2011 by a total of NOK 2,734,480 as of 31.12.2011. NOK 2,227,514 were expensed in 2010 and the remaining in 2011. The company disagrees with the interpretation of the rules that underlie the statement received from the Tax Office, and will likely appeal a final negative decision.

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Note 10 Segments

Segments

Management has evaluated which segments that 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 11 Required Capital

From 2007 on the company is subject to equity and subordinated loan capital requirements in accordance with the Provision on capital requirements (kapitalkravforskriften).

Smedvig Asset Allocation has no subordinated loan capital. For 2010 and 2011 the company has calculated the required capital in accordance with the Basel II requirements as outlined below:

Risk Group	Basel II - 2011		Basel II - 2010	
	Book value	Weighted value	Book value	Weighted value
0 %	0	0	0	0
10 %	0	0	0	0
20 %	22 649 765	4 529 953	22 056 448	4 411 290
50 %	0	0	0	0
100%	3 040 619	3 040 619	1 076 188	1 076 188
Operational risk		17 472 000		15 621 000
Sum Total	25 690 384	25 042 572	23 132 636	21 108 478
Non weighted assets				
Intangibles	0		0	
Total Assets	25 690 384		23 132 636	
Risk weighted basis for calculation		25 042 572		21 108 478
Equity and subordinated loan capital				
Equity		11 905 619		6 372 009
Subordinated loan capital		0		0
Deduction for intangibles		0		0
Equity and subordinated loan capital		11 905 619		6 372 009
Percent capital coverage		47,54 %		30,19 %
Minimum requirement		8,00 %		8,00 %

	NOK	Exchange rate	EUR
Equity and subordinated loan capital as at 31 December 2011	11 905 619	7,754	1 535 416

The company 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 must have a total of equity and subordinated loan capital corresponding to EUR 125 000. This requirement is fulfilled as at 31 December 2011.

Note 12 Financial Market risk

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.

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Note 13 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						2 088 472
Debtors	33 821					
Other short term receivable	918 326					
Cash in bank	22 649 765					
Total assets	23 601 912	0	0	0	0	2 088 472

	<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	1 302 217					
Public duties payable	2 895 554					
Tax			3 703 571			
Accruals		4 000 000				
Dividend	820 678					
Other short term payables	291 369		771 508			
Total debt	5 309 818	4 000 000	4 475 079	0	0	0
Net cash exposure on balance sheet items	18 292 094	-4 000 000	-4 475 079	0	0	2 088 472

Note 14 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						2 088 472
Debtors				33 821		
Other short term receivables						918 326
Cash in bank	22 649 765					
Total assets	22 649 765	0	0	33 821	0	3 006 798

	<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	1 302 217					
Public duties payable				2 895 554		
Accruals						820 678
Other short term liabilities						1 062 877
Total debt	1 302 217	0	0	2 895 554	0	1 883 555
Net interest rate exposure on balance sheet items	21 347 548	0	0	-2 861 733	0	1 123 243

Note 15 Bank deposits

Bank deposits, cash etc. include restricted tax deduction funds with NOK 345.239,-.

Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Smedvig Asset Allocation AS

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Smedvig Asset Allocation AS, which comprise the balance sheet as at December 31, 2011, and the income statement, showing a profit of NOK 9.533.610 and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Smedvig Asset Allocation AS at December 31, 2011, and

of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements*Opinion on the Board of Directors' report and the allocation of the profit/coverage of the loss*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit complies with the law and regulations and that the information is consistent with the financial statements.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 1. februar 2012
Deloitte AS

Ommund Skailand
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]