

Smedvig Asset Allocation AS

Annual Report 2012

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. Absence due to sickness in 2012 was 10 days, corresponding to 0.57% of the total working hours. None of these were long-term absence. No injuries, material damages or accidents have occurred during 2012.

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 2012 (2011) was NOK 26 515 071 (NOK 26 201 143). The Company's accounts show a net income before tax of NOK 7 534 840 (NOK 13 241 342) and a net income of NOK 5 418 901 (NOK 9 533 610).

As of 31 December 2012 the Company's equity and subordinated loan capital was NOK 10 324 520, of which 100 % was core capital and 0 % additional capital. The equity and subordinated loan capital was 41.96 % of the basis for calculation in accordance with Basel II as of 31 December 2012.

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 5 418 901 to be allocated as follows:

Dividends	NOK	-7 000 000
Transfer from other equity	NOK	1 581 099

Stavanger, 25 January 2013

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 2012

	Note	2012	2011
Operating revenues			
Revenues	1	26 515 071	26 201 143
Operating revenues		26 515 071	26 201 143
Operating expenses			
Salaries	5 - 6	-7 007 840	-5 335 447
Depreciations	2	-617 239	-77 744
Other expenses	7	-11 880 511	-8 786 791
Operating expenses		-19 505 590	-14 199 982
Operating profit/(loss)		7 009 481	12 001 161
Financial income			
Interest income		551 782	1 241 890
Gains on currency exchange		6 515	0
Financial income		558 297	1 241 890
Financial expenses			
Interest expenses	4,8	-32 938	0
Loss on currency exchange		0	-1 709
Financial expenses		-32 938	-1 709
Profit/(loss) before taxes		7 534 840	13 241 342
Tax expenses	4	-2 115 939	-3 707 732
Profit/(loss) for the year		5 418 901	9 533 610
Provisions:			
Dividend		-7 000 000	-4 000 000
Other equity	3	1 581 099	-5 533 610
Provisions		-5 418 901	-9 533 610

Smedvig Asset Allocation AS
Balance Sheet as per 31 December 2012

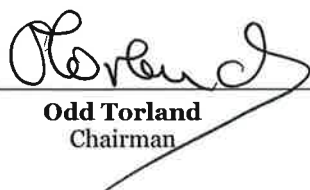
	<i>Notes</i>	<i>2012</i>	<i>2011</i>
ASSETS			
Fixed assets			
<u>Intangible assets</u>			
Deferred tax asset	4	0	132
Intangible assets		0	132
<u>Tangible assets</u>			
Assets under construction	2	0	1 893 467
Office equipment	2	1 625 411	195 005
Tangible assets		1 625 411	2 088 472
Fixed assets		1 625 411	2 088 604
Current assets			
<u>Receivables</u>			
Debtors		2 387	33 821
Other short-term receivables		1 052 517	918 326
Receivables		1 054 904	952 147
<u>Bank deposits</u>			
Bank deposits	14	19 119 223	22 649 765
Bank deposits		19 119 223	22 649 765
Current assets		20 174 127	23 601 912
ASSETS		21 799 538	25 690 516

Smedvig Asset Allocation AS
Balance Sheet as per 31 December 2012

	Notes	2012	2011
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	5 022 269	6 603 368
Retained earnings		5 022 269	6 603 368
Equity	3	10 324 520	11 905 619
Liabilities			
<u>Provisions for liabilities</u>			
Deferred tax	4	12 798	0
Provisions for liabilities		12 798	0
<u>Short-term liabilities</u>			
Dividend payable	3	7 000 000	4 000 000
Creditors	8	184 103	1 302 217
Taxes payable	4	2 104 087	3 703 571
Public duties payable		746 386	2 895 554
Accruals		468 750	820 678
Other short-term liabilities	8	958 894	1 062 877
Short-term liabilities		11 462 220	13 784 897
Liabilities		11 475 018	13 784 897
EQUITY AND LIABILITIES		21 799 538	25 690 516

Stavanger, 25 January 2013

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

Cash Flow from operating activities

	2012	2011
Supplied Current assets/used on activities:		
Net cash from the year's activities ¹⁾	2 049 070	3 611 658
Change in creditors	-1 118 114	357 421
Change in other accruals	-351 928	-7 000 979
Change in other short term assets and liabilities	-3 955 392	5 701 680
Cash from operating activities	-3 376 364	2 669 780
Cash flows from investing activities		
Capital expenditure on fixed assets	-154 178	-2 076 463
Net cash from investment activities	-154 178	-2 076 463
Net increase of cash	-3 530 542	593 317
Cash at 1 January	22 649 765	22 056 448
Cash at 31 December	19 119 223	22 649 765
1) This total is a result from:		
Net income	5 418 901	9 533 610
Ordinary depreciation	617 239	77 744
Dividend	-4 000 000	-6 000 000
Change of deferred tax	12 930	304
Net cash from the year's activities	2 049 070	3 611 658

Smedvig Asset Allocation AS

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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 2012.

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.

Smedvig Asset Allocation AS

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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	1 893 467	435 567	2 329 034
Additions	0	2 047 644	2 047 644
Disposals	-1 893 467	0	-1 893 467
Acquisition cost 31 December	0	2 483 211	2 483 211
Accumulated depreciation 31 December	0	857 800	857 800
Book value 31 December	0	1 625 411	1 625 411
Annual depreciation	0	617 239	617 239
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	6 603 368	11 905 619
<i>This year's change in equity:</i>				
Dividend			-7 000 000	-7 000 000
Net gain/loss			5 418 901	5 418 901
Share Capital 31 December	1 000 000	4 302 251	5 022 269	10 324 520

	<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	650	650	0,0650 %
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

	<i>2012</i>	<i>2011</i>
Tax payable is calculated as follows		
Net gain/(loss) before tax	7 534 840	13 241 342
Non deductible costs	25 933	-13 217
Change in temporary differences	-46 177	-1 085
Basis for tax payable	7 514 596	13 227 040
Tax 28%	2 104 087	3 703 571
Tax payable on this year's net income	2 104 087	3 703 571
This year's tax cost is calculated as follows:		
Tax payable	-2 104 087	-3 703 571
Difference between assessed tax and prior year tax accruals	1 078	-3 857
Change of deferred tax	-12 930	-304
This year's total tax cost	-2 115 939	-3 707 732
Current tax in the balance sheet is calculated as follows:		
Tax payable on this year's net profit	2 104 087	3 703 571
Tax payable	2 104 087	3 703 571
The basis for the deferred tax asset is calculated as follows:		
Reserves in fixed assets	45 706	-471
Total	45 706	-471
Basis for deferred tax asset	45 706	-471
Deferred tax asset	12 798	-132
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	-2 109 755	28 %
Effect of permanent differences	-7 261	28 %
Difference between assessed tax and prior year tax accruals	1 078	28 %
Tax cost in income statement	-2 115 939	28 %

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Note 5 Salary and other benefits

	2012	2011
Salary	5 372 217	4 203 345
Social security premiums	834 764	650 759
Pensions	243 538	216 748
Other benefits	557 321	264 595
Salary costs	7 007 840	5 335 447

Employees	6	5
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Remuneration to the managing director and the Board

	Managing Director	Board of Directors
Salary	1 488 710	300 000
Other benefits	146 089	0
Total	1 634 799	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

	2012	2011
Audit fee	85 981	87 500
Additional services	83 575	62 500
Service provided by closely related companies	91 500	200 000
Total	261 056	150 000

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.

	2012	2011
Operating cost: Management fee to Peder Smedvig AS	499 992	499 992
Operating cost: Fee for IT management to Peder Smedvig AS	603 284	468 756
Rent: Løkkeveien 103	873 584	737 379
Interest expenses: Peder Smedvig AS	383	2 443
Accounts Receivables: Peder Smedvig AS	2 387	102 605
Accounts Payable: Løkkeveien 103AS	0	143 970
Other Short Term Debt: Peder Smedvig AS	20 977	291 370

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Note 9 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 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 (kapitalkravforskriften).

Smedvig Asset Allocation has no subordinated loan capital. For 2011 and 2012 the company has calculated the required capital in accordance with the Basel II requirements as outlined below:

Risk Group	Basel II - 2012		Basel II - 2011	
	Book value	Weighted value	Book value	Weighted value
0 %	0	0	0	0
10 %	0	0	0	0
20 %	19 119 223	3 823 845	22 649 765	4 529 953
50 %	0	0	0	0
100%	2 680 315	2 680 315	3 040 619	3 040 619
Operational risk		18 104 000		17 472 000
Sum Total	21 799 538	24 608 160	25 690 384	25 042 572
Non weighted assets				
Intangibles	0		0	
Total Assets	21 799 538		25 690 384	
Risk weighted basis for calculation		24 608 160		25 042 572
Equity and subordinated loan capital				
Equity		10 324 520		11 905 619
Subordinated loan capital		0		0
Deduction for intangibles		0		0
Equity and subordinated loan capital		10 324 520		11 905 619
Percent capital coverage		41,96 %		47,54 %
Minimum requirement		8,00 %		8,00 %
		NOK	Exchange rate	EUR
Equity and subordinated loan capital as at 31 December 2012		10 324 520	7,379	1 399 204

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. In accordance with the Norwegian Securities Trading Act Section 9-13 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 2012.

Note 11 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. 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

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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
Fixed assets						1 625 411
Debtors	2 387					
Other short term receivable		1 052 517				
Cash in bank	19 119 223					
Total assets	19 121 610	1 052 517	0	0	0	1 625 411

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not agreed
Deferred Tax				12 798		
Creditors	184 103					
Public duties payable	746 386					
Tax			2 104 087			
Dividend	7 000 000					
Accrual	468 750					
Other short term payables	958 894					
Total debt	9 358 133	0	2 104 087	12 798	0	0
Net cash exposure on balance sheet items	9 763 477	1 052 517	-2 104 087	-12 798	0	1 625 411

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
Fixed assets						1 625 411
Debtors						2 387
Other short term receivables						1 052 517
Cash in bank	19 119 223					
Total assets	19 119 223	0	0	0	0	2 680 315

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest rate exposure not included
Deferred Tax						12 798
Creditors	184 103					
Public duties payable						746 386
Accruals						468 750
Other short term liabilities						958 894
Total debt	184 103	0	0	0	0	2 186 828
Net interest rate exposure on balance sheet items	18 935 120	0	0	0	0	493 487

Note 14 Bank deposits

Bank deposits, cash etc. include restricted tax deduction funds with NOK 392.790,-.

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 31 December 2012, and the income statement, showing a profit of NOK 5.418.901 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 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 as at 31 December 2012, 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*

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, 25 January 2013
Deloitte AS

Ommund Skailand
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]