

Smedvig Asset Allocation AS

Annual Report 2014

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 five employees. As the work environment is considered satisfactory, the company has not implemented any specific measures to improve the working environment. Sickness absence in 2014 was 10 days, corresponding to 0.71% of the total working hours. None of these was long-term absence. No injuries, material damages or accidents have occurred during 2014.

Gender diversity

The Company's Board of Directors consists of one female and 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 assets, debt, financial position and net income. The operating revenue for 2014 (2013) was NOK 28 808 263 (NOK 27 022 818). The Company's accounts show a net income before tax of NOK 9 210 121 (NOK 9 771 371) and a net income of NOK 6 718 565 (NOK 7 038 338).

As of 31 December 2014 the Company's equity and subordinated loan capital was NOK 12 081 423, of which 100 % was core capital and 0 % additional capital. The equity and subordinated loan capital was 52,04 % of the basis for calculation in accordance with Basel II as of 31 December 2014.

The company is also well within the current regulations with regard 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 6 718 565, should be allocated as follows:

Dividends	NOK	6 000 000
Transfer to other equity	NOK	718 565

Stavanger, 30 January 2015

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



Marit S. Hovstad
Board member

Smedvig Asset Allocation AS

Profit and loss account 2014

	Note	2014	2013
Operating revenues			
Revenues	1	28 808 263	27 022 818
Operating revenues		28 808 263	27 022 818
Operating expenses			
Salaries	5 - 6	-6 293 551	-5 420 315
Depreciations	2	-749 161	-725 312
Other expenses	7 - 8	-12 802 301	-11 437 336
Operating expenses		-19 845 013	-17 582 963
Operating profit/(loss)		8 963 250	9 439 855
Financial income			
Interest income		319 061	331 693
Gains on currency exchange		0	4 438
Financial income		319 061	336 131
Financial expenses			
Interest expenses	4	-5 011	-4 615
Loss on currency exchange		-67 179	0
Financial expenses		-72 190	-4 615
Profit before taxes		9 210 121	9 771 371
Tax expenses	4	-2 491 556	-2 733 033
Profit for the year		6 718 565	7 038 338
Provisions:			
Dividend	3	-6 000 000	-6 000 000
Other equity	3	-718 565	-1 038 338
Provisions		-6 718 565	-7 038 338

Smedvig Asset Allocation AS
Balance Sheet as per 31 December 2014

	<i>Notes</i>	<i>2014</i>	<i>2013</i>
ASSETS			
Fixed assets			
<u>Intangible assets</u>			
Deferred tax asset	4	159 998	50 759
Intangible assets		159 998	50 759
<u>Tangible assets</u>			
Office equipment	2	217 320	966 480
Tangible assets		217 320	966 480
Fixed assets		377 318	1 017 239
Current assets			
<u>Receivables</u>			
Debtors		11 432	500 000
Other short-term receivables		1 082 853	1 051 117
Receivables		1 094 285	1 551 117
Bank deposits			
Bank deposits	12 -14	22 709 291	21 406 633
Bank deposits		22 709 291	21 406 633
Current assets		23 803 576	22 957 750
ASSETS		24 180 894	23 974 989

Smedvig Asset Allocation AS
Balance Sheet as per 31 December 2014

	Notes	2014	2013
EQUITY AND LIABILITIES			
<u>Paid up equity</u>			
Share capital (1,000,000 shares à NOK 1)	3	1 000 000	1 000 000
Other paid in equity	3	4 302 251	4 302 251
Paid up capital		5 302 251	5 302 251
<u>Retained earnings</u>			
Other equity	3	6 779 172	6 060 607
Retained earnings		6 779 172	6 060 607
Equity	3	12 081 423	11 362 858
Liabilities			
<u>Short-term liabilities</u>			
Dividend payable	3	6 000 000	6 000 000
Accounts payable	8	1 045 228	1 237 078
Taxes payable	4	2 600 795	2 799 290
Public duties payable		643 654	541 589
Accruals		643 464	1 178 675
Other short-term liabilities		1 166 330	855 499
Short-term liabilities		12 099 471	12 612 131
Liabilities		12 099 471	12 612 131
EQUITY AND LIABILITIES		24 180 894	23 974 989

Stavanger, 30 January 2015

On the Board of Smedvig Asset Allocation AS:



Odd Torland
Chairman



Gudleik Njå
Board member



Stephan L. Jervell
Board member



John T. Olsen
Chief Executive Officer



Marit S. Hovstad
Board member

Smedvig Asset Allocation AS
Cash Flow from operating activities

	2014	2013
Supplied Current assets/used on activities:		
Net cash from the year's activities ¹⁾	1 358 487	700 093
Change in creditors	-191 850	1 052 975
Change in other accruals	-535 211	709 925
Change in other short term assets and liabilities	671 232	-109 202
Cash from operating activities	1 302 658	2 353 791
Cash flows from investing activities		
Capital expenditure on fixed assets	0	-66 381
Net cash from investment activities	0	-66 381
Net increase of cash	1 302 658	2 287 410
Cash at 1 January	21 406 633	19 119 223
Cash at 31 December	22 709 291	21 406 633
1) This total is a result from:		
Net income	6 718 565	7 038 338
Ordinary depreciation	749 161	725 312
Dividend	-6 000 000	-7 000 000
Change of deferred tax	-109 239	-63 557
Net cash from the year's activities	1 358 487	700 093

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 2014.

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/higher of acquisition cost or fair value. Fair 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>Cars, inventory etc</i>	<i>Total</i>
Acquisition cost 1 January	2 549 593	2 549 593
Additions	0	0
Disposals	0	0
Acquisition cost 31 December	2 549 593	2 549 593
Accumulated depreciation 31 December	2 332 273	2 332 273
Book value 31 December	217 320	217 320
Annual depreciation	749 161	749 161
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>
Equity 1 January	1 000 000	4 302 251	6 060 607	11 362 858
<i>This year's change in equity:</i>				
Dividend			-6 000 000	-6 000 000
Profit for the year			6 718 565	6 718 565
Share Capital 31 December	1 000 000	4 302 251	6 779 172	12 081 423

	<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

	2014	2013
Tax payable is calculated as follows		
Profit before taxes	9 210 121	9 771 371
Non deductible costs	17 863	-7 607
Change in temporary differences	404 591	233 702
Basis for tax payable	9 632 575	9 997 466
Tax 27 %	2 600 795	2 799 290
Tax payable on this year's net income	2 600 795	2 799 290
This year's tax cost is calculated as follows:		
Tax payable 28 %	-2 600 795	-2 799 290
Difference between assessed tax and prior year tax accruals	0	2 700
Change of deferred tax	109 239	63 557
This year's total tax cost	-2 491 556	-2 733 033
Current tax in the balance sheet is calculated as follows:		
Tax payable on this year's net profit	2 600 795	2 799 290
Tax payable	2 600 795	2 799 290
The basis for the deferred tax asset is calculated as follows:		
Reserves in fixed assets	-592 586	-187 996
Total	-592 586	-187 996
Basis for deferred tax / (tax asset) 27 % / 28 %	-592 586	-187 996
Deferred tax / (tax asset) 27 % / 28 %	-159 998	-50 759
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	-2 486 733	27 %
Effect of permanent differences	-4 823	27 %
Tax expense in income statement	-2 491 556	27 %

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Note 5 Salary and other benefits

	2014	2013
Salary	4 546 971	4 155 709
Social security premiums	719 482	670 769
Pensions	344 631	260 564
Other benefits	682 467	333 273
Salary costs	6 293 551	5 420 315

Average number of employees	5	5
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Remuneration to the managing director and the Board

	<i>Managing Director</i>	<i>Board of Directors</i>
Salary	1 653 311	300 000
Other benefits	167 204	0
Total	1 820 515	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

	2014	2013
Audit fee incl. VAT	99 875	120 119
Additional services incl. VAT	55 988	141 299
Service provided by closely related companies incl. VAT	5 250	25 663
Total	161 113	287 081

Note 8 Related parties

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

	2014	2013
Other expences: Management Fee Smedvig AS	548 125	543 750
IT-cost Smedvig AS	675 000	663 750
Rent to Løkkeveien 103 AS	612 500	600 000
Accounts Payable: Løkkeveien 103 AS	218 200	191 871
Smedvig AS	74 098	0
Smedvig Eiendom AS	59 000	0

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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

The company is subject to equity and subordinated loan capital requirements in accordance with the Regulations on Capital Requirements (Kapitalkravforskriften).

Equity and subordinated loan capital consists of core capital (paid in equity and other reserves) and supplementary capital (subordinated loans). Smedvig Asset Allocation has no subordinated loan capital. For 2013 and 2014 the company has calculated capital requirements in accordance with Basel II regulations:

Risk Group	Basel II - 2014		Basel II - 2013	
	Book value	Weighted value	Book value	Weighted value
0 %	0	0	0	0
10 %	0	0	0	0
20 %	22 709 291	4 541 858	21 406 633	4 281 327
50 %	0	0	0	0
100%	1 471 603	1 471 603	2 568 356	2 568 356
Operational risk		17 200 330		18 960 148
Total	24 180 894	23 213 791	23 974 989	25 809 831
Non weighted assets				
Intangibles	0		0	
Total Assets	24 180 894		23 974 989	
Risk weighted basis for calculation		23 213 791		25 809 831
Equity and subordinated loan capital				
Equity		12 081 423		11 362 858
Subordinated loan capital		0		0
Deduction for intangibles		0		0
Equity and subordinated loan capital		12 081 423		11 362 858
Percent capital coverage		52,04 %		44,03 %
Minimum requirement		8,00 %		8,00 %
		NOK	Exchange rate	EUR
Equity and subordinated loan capital as at 31 December 2014		12 081 423	9,039	1 336 574

The company is authorized to render active management of investor's portfolios and investment advice in accordance with the Norwegian Securities Trading Act Section 9-1 1st paragraph, cf. Section 2-1 1st paragraph number 4 and 5. In accordance with the Norwegian Securities Trading Act Section 9-13 the company is required to hold equity capital which at any time is no less than EUR 125,000.-. The capital adequacy requirement as of December 31st 2014 is fulfilled.

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.

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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
Deferred tax asset				159 998		
Fixed assets				217 320		
Debtors	11 432					
Other short term receivable			1 082 853			
Cash in bank	22 709 291					
Total assets	22 720 723	0	1 082 853	377 318	0	0

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not agreed
Accounts payable	1 045 228					
Public duties payable		643 654				
Tax			2 600 795			
Dividend		6 000 000				
Accrual		643 464				
Other short term liabilities			1 166 330			
Total debt	1 045 228	7 287 118	3 767 125	0	0	0
Net cash exposure on balance sheet items	21 675 495	-7 287 118	-2 684 272	377 318	0	0

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 asset						159 998
Fixed assets						217 320
Debtors						11 432
Other short term receivables						1 082 853
Cash in bank		22 709 291				
Total assets	0	22 709 291	0	0	0	1 471 603

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest rate exposure not included
Accounts payable	0					1 045 228
Public duties payable						643 654
Accruals						643 464
Other short term liabilities						1 166 330
Total debt	0	0	0	0	0	3 498 676
Net interest rate exposure on balance sheet item	0	22 709 291	0	0	0	-2 027 073

Note 14 Bank deposits

Bank deposits, cash etc. include withholding tax of NOK 230,936.

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, 2014, and the income statement, showing a profit of NOK 6.718.565 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 as at December 31, 2014,

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

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, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

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, January 30th, 2015
Deloitte AS

Ommund Skailand
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]