

Smedvig Asset Allocation AS

Annual Report 2016

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 2016 was 74 days, corresponding to 5,73 % of the total working hours. 59 of these were long-term absence. No injuries, material damages or accidents have occurred during 2016.

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 2016 (2015) was NOK 30 604 348 (NOK 31 425 784). The Company's accounts show a net income before tax of NOK 10 926 269 (NOK 11 197 298) and a net income of NOK 8 191 537 (NOK 8 165 605).

As of 31 December 2016 the Company's equity and subordinated loan capital was NOK 10 351 740, of which 100 % was core capital and 0 % additional capital. The equity and subordinated loan capital was 38,72 % of the basis for calculation in accordance with CRD IV as of 31 December 2016.

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 8 191 537, should be allocated as follows:

Dividends	NOK	10 000 000
Transfer from other equity	NOK	-1 808 463

Stavanger, 6 March 2017

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 Salte
Board member

Smedvig Asset Allocation AS

Profit and loss account 2016

	Note	2016	2015
Operating revenues			
Revenues	1	30 604 348	31 425 784
Operating revenues		30 604 348	31 425 784
Operating expenses			
Salaries	5 - 6	-6 759 006	-6 281 926
Depreciations	2	-169 325	-190 161
Other expenses	7 - 8	-12 874 033	-13 916 083
Operating expenses		-19 802 364	-20 388 170
Operating profit/(loss)		10 801 984	11 037 614
Financial income			
Interest income		181 101	236 613
Financial income		181 101	236 613
Financial expenses			
Interest expenses		-4 768	-10 962
Loss on currency exchange		-52 048	-65 967
Financial expenses		-56 816	-76 929
Profit before taxes		10 926 269	11 197 298
Tax expenses	4	-2 734 732	-3 031 693
Profit for the year		8 191 537	8 165 605
Provisions:			
Dividend	3	-10 000 000	-8 000 000
Other equity	3	1 808 463	-165 605
Provisions		-8 191 537	-8 165 605

Smedvig Asset Allocation AS
Balance Sheet as per 31 December 2016

	Notes	2016	2015
ASSETS			
Fixed assets			
<u>Intangible assets</u>			
Deferred tax asset	4	86 825	105 290
Intangible assets		86 825	105 290
<u>Tangible assets</u>			
Office equipment	2	220 130	389 455
Tangible assets		220 130	389 455
Fixed assets		306 955	494 745
Current assets			
<u>Receivables</u>			
Debtors		3 150	12 106
Other short-term receivables		1 261 540	1 127 572
Receivables		1 264 690	1 139 678
Bank deposits			
Bank deposits	12 -14	25 285 922	25 805 829
Bank deposits		25 285 922	25 805 829
Current assets		26 550 612	26 945 507
ASSETS		26 857 567	27 440 252

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Balance Sheet as per 31 December 2016

	Notes	2016	2015
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 in capital		5 302 251	5 302 251
<u>Retained earnings</u>			
Other equity	3	5 136 314	6 944 777
Retained earnings		5 136 314	6 944 777
Equity	3	10 438 565	12 247 028
Liabilities			
<u>Short-term liabilities</u>			
Dividend payable	3	10 000 000	8 000 000
Accounts payable	8	1 045 758	597 470
Taxes payable	4	2 716 267	2 976 985
Public duties payable		596 715	511 875
Accruals		864 883	1 941 817
Other short-term liabilities		1 195 379	1 165 077
Short-term liabilities		16 419 002	15 193 224
Liabilities		16 419 002	15 193 224
EQUITY AND LIABILITIES		26 857 567	27 440 252

Stavanger, 6 March 2017

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 Salte Board member	

Smedvig Asset Allocation AS

Cash Flow from operating activities

	2016	2015
Supplied Current assets/used on activities:		
Net cash from the year's activities ¹⁾	8 379 327	8 410 474
Change in creditors	448 288	-447 758
Change in other accruals	-1 076 934	1 298 353
Dividend	-8 000 000	-6 000 000
Change in other short term assets and liabilities	-270 588	197 765
Cash from operating activities	-519 907	3 458 834
Cash flows from investing activities		
Capital expenditure on fixed assets	0	-362 296
Net cash from investment activities	0	-362 296
Net increase of cash	-519 907	3 096 538
Cash at 1 January	25 805 829	22 709 291
Cash at 31 December	25 285 922	25 805 829
 ¹⁾ This total is a result from:		
Net income	8 191 537	8 165 605
Ordinary depreciation	169 325	190 161
Change of deferred tax	18 465	54 708
Net cash from the year's activities	8 379 327	8 410 474

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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 2016.

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	2 911 889	2 911 889
Additions	0	0
Disposals	0	0
Acquisition cost 31 December	2 911 889	2 911 889
Accumulated depreciation 31 December	2 691 759	2 691 759
Book value 31 December	220 130	220 130
Annual depreciation	169 325	169 325
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	6 944 777	12 247 028
<i>This year's change in equity:</i>				
Dividend			-10 000 000	-10 000 000
Profit for the year			8 191 537	8 191 537
Share Capital 31 December	1 000 000	4 302 251	5 136 314	10 438 565

	<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

	2016	2015
Tax payable is calculated as follows		
Profit before taxes	10 926 269	11 197 298
Permanent differences	12 659	0
Change in temporary differences	-73 859	-171 427
Basis for tax payable	10 865 069	11 025 871
Tax 25 %	2 716 267	2 976 985
Tax payable on this year's net income	2 716 267	2 976 985
This year's tax cost is calculated as follows:		
Tax payable 25 %	-2 716 267	-2 976 985
Change of deferred tax	-18 465	-54 708
This year's total tax cost	-2 734 732	-3 031 693
Current tax in the balance sheet is calculated as follows:		
Tax payable on this year's net profit	2 716 267	2 976 985
Tax payable	2 716 267	2 976 985
The basis for the deferred tax asset is calculated as follows:		
Reserves in fixed assets	-347 300	-421 159
Total	-347 300	-421 159
Basis for deferred tax / (tax asset) 25 % / 27 %	-347 300	-421 159
Deferred tax / (tax asset) 25 % / 27 %	-86 825	-105 290
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	-2 731 567	25 %
Effect of deferred tax	-3 165	25 %
Tax expense in income statement	-2 734 732	

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Note 5 Salary and other benefits

	2016	2015
Salary	4 913 873	4 561 858
Social security premiums	875 099	693 707
Pensions	353 239	292 863
Other benefits	616 795	733 498
Salary costs	6 759 006	6 281 926

Average number of employees 5 5

Remuneration to the managing director and the Board

	Managing Director	Board of Directors
Salary	1 966 308	300 000
Other benefits	171 173	0
Total	2 137 481	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

	2016	2015
Audit fee incl. VAT	88 028	120 000
Additional services incl. VAT	78 548	34 934
Service provided by closely related companies incl. VAT	0	4 000
Total	166 576	158 934

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.

	2016	2015
Other expenses: Management Fee Smedvig AS	868 643	837 500
IT-cost Smedvig AS	872 658	615 060
Rent to Løkkeveien 103 AS	663 777	624 756
Accounts Payable: Løkkeveien 103 AS	245 727	208 476
Smedvig AS	0	121 895
Smedvig Eiendom AS	16 932	19 996

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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 2015 and 2016 the company has calculated capital requirements in accordance with CRD IV regulations:

Risk Group	CRD IV - 2016		CRD IV - 2015	
	Book value	Weighted value	Book value	Weighted value
0 %	0	0	0	0
10 %	0	0	0	0
20 %	25 285 922	5 057 184	25 805 829	5 161 166
50 %	0	0	0	0
100%	1 571 645	1 571 645	1 634 423	1 634 423
Operational risk		20 104 688		16 418 688
Total	26 857 567	26 733 517	27 440 252	23 214 277
Non weighted assets				
Intangibles	0		0	
Total Assets	26 857 567		27 440 252	
Risk weighted basis for calculation		26 733 517		23 214 277
Equity and subordinated loan capital				
Equity		10 438 565		12 247 028
Subordinated loan capital		0		0
Deduction for intangibles		-86 825		-105 290
Equity and subordinated loan capital		10 351 740		12 141 738
Percent capital coverage		38,72 %		52,30 %
Minimum requirement		8,00 %		8,00 %
	NOK		Exchange rate	EUR
Equity and subordinated loan capital as at 31 December 2016	10 351 740		9,072	1 141 080

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 2016 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				86 825		
Fixed assets				220 130		
Debtors	3 150					
Other short term receivable			1 261 540			
Bank deposits	25 285 922					
Total assets	25 289 072	0	1 261 540	306 955	0	0

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not agreed
Accounts payable	1 045 758					
Public duties payable		596 715				
Tax			2 716 267			
Dividend		10 000 000				
Accrual		864 883				
Other short term liabilities			1 195 379			
Total debt	1 045 758	11 461 598	3 911 646	0	0	0
Net cash exposure on balance sheet items	24 243 314	-11 461 598	-2 650 106	306 955	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						86 825
Fixed assets						220 130
Debtors						3 150
Other short term receivables						1 261 540
Bank deposits		25 285 922				
Total assets	0	25 285 922	0	0	0	1 571 645

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest rate exposure not included
Accounts payable	0					1 045 758
Public duties payable						596 715
Accruals						864 883
Other short term liabilities						1 195 379
Total debt	0	0	0	0	0	3 702 735
Net interest rate exposure on balance sheet item	0	25 285 922	0	0	0	-2 131 090

Note 14 Bank deposits

Bank deposits, cash etc. include withholding tax of NOK 244,449.

To the General Meeting of Smedvig Asset Allocation AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Smedvig Asset Allocation AS showing a profit of NOK 8 191 537. The financial statements comprise the balance sheet as at 31 December 2016, the income statement and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 at 31 December 2016, and 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.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of The Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The



financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance among other matters, regarding significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, 6 March 2017
Deloitte AS

Ommund Skailand

State Authorised Public Accountant

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