

Smedvig Asset Allocation AS

Annual Report 2010

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 four 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 2010.

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 2010 (2009) was NOK 26 140 984 (NOK 24 128 617). The Company's accounts show a net income before tax of NOK 2 655 334 (NOK 8 298 712) and a net income of NOK 1 888 001 (NOK 5 939 395).

The Company's future activities

In accordance with the Norwegian Securities Trading Act Section 9-13 1st 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 2010 the Company's equity and subordinated loan capital was NOK 6 372 000, of which 100 % was core capital and 0 % additional capital. The equity and subordinated loan capital was 30,2 % of the basis for calculation in accordance with Basel II as of 31 December 2010.

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 1 888 001, be allocated as follows:

Dividends	-6 000 000
Transfer from other equity	4 111 999

Stavanger, 28 January 2011

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 2010

	Notes	2010	2009
Operating revenues			
Revenues	1	26 023 394	24 000 000
Other operating income		117 590	128 617
Operating revenues		26 140 984	24 128 617
Operating expenses			
Salaries	5 - 6	-4 751 113	-4 372 892
Depreciations	2	-73 642	-68 613
Other expenses	7 - 8	-17 988 265	-11 712 277
Operating expenses		-22 813 020	-16 153 782
Operating profit/(loss)		3 327 964	7 974 835
Financial income			
Interest income		406 208	384 336
Gains on currency exchange		874	408
Financial income		407 082	384 744
Financial expenses			
Interest expenses	8-9	-1 079 712	-60 867
Financial expenses		-1 079 712	-60 867
Profit/(loss) before taxes		2 655 334	8 298 712
Tax expenses	4	-767 333	-2 359 317
Profit/(loss) for the year		1 888 001	5 939 395
Provisions:			
Dividend		-6 000 000	-4 000 000
Other equity	3	4 111 999	-1 939 395
Provisions		-1 888 001	-5 939 395

Smedvig Asset Allocation AS

Profit and loss account 2010

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Smedvig Asset Allocation AS

Balance Sheet as per 31 December 2010

	Notes	2010	2009
ASSETS			
Fixed assets			
<u>Intangible assets</u>			
Deferred tax	4	436	0
Intangible assets		436	0
<u>Tangible assets</u>			
Office equipment	2	89 753	143 712
Tangible assets		89 753	143 712
Fixed assets		90 189	143 712
Current assets			
<u>Receivables</u>			
Debtors			
Other short-term receivables		986 435	83 391
Receivables		986 435	83 391
<u>Bank deposits</u>			
Bank deposits		22 056 448	18 518 851
Bank deposits		22 056 448	18 518 851
Current assets		23 042 883	18 602 242
ASSETS		23 133 072	18 745 954

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Balance Sheet as per 31 December 2010

	Notes	2010	2009
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	1 069 758	5 181 757
Retained earnings		1 069 758	5 181 757
Equity	3	6 372 009	10 484 008
Liabilities			
<u>Provisions for liabilities</u>			
Deferred tax	4	0	5 447
Provisions for liabilities		0	5 447
<u>Short-term liabilities</u>			
Dividend payable		6 000 000	4 000 000
Accounts payable	8	944 796	162 569
Taxes payable	4	773 216	2 353 868
Public duties payable		476 902	320 196
Accruals	9	7 821 657	696 305
Other short-term liabilities	8	744 492	723 561
Short-term liabilities		16 761 063	8 256 499
Liabilities		16 761 063	8 261 946
EQUITY AND LIABILITIES		23 133 072	18 745 954

Stavanger, 28 January 2011

On the Board of Smedvig Asset Allocation AS:



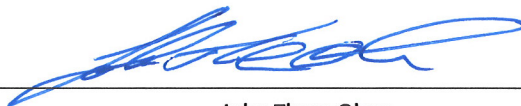
Odd Torland
Chairman



Gudleik Njå
Board member



Stephan Lange Jervell
Board member



John Thore Olsen
Chief Executive Officer

Smedvig Asset Allocation AS

Cash Flow from operating activities

	2010	2009
Supplied Current assets/used on activities:		
Net cash from the year's activities ¹⁾	-2 044 240	2 001 542
Change in creditors	782 227	-305 746
Change in other accruals	7 125 352	311 798
Change in other short term assets and liabilities	-2 306 059	1 032 876
Cash from operating activities	3 557 280	3 040 470
Cash flows from investing activities		
Capital expenditure on fixed assets	-19 683	0
Net cash from investment activities	-19 683	0
Net increase of cash	3 537 597	3 040 470
Cash at 1 January	18 518 851	15 478 381
Cash at 31 December	22 056 448	18 518 851
¹⁾ This total is a result from:		
Net income	1 888 001	5 939 395
Ordinary depreciation	73 642	68 613
Dividend	-4 000 000	-4 000 000
Difference between assessed tax and prior year tax accruals	0	-11 913
Change of deferred tax	-5 883	5 447
Net cash from the year's activities	-2 044 240	2 001 542

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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 2010.

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.

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Note 2 Fixed assets

	<i>Cars, inventory etc</i>
Acquisition cost 1 January	232 888
Additions	19 683
Disposals	0
Acquisition cost 31 December	252 571
Accumulated depreciation 31 December	162 818
Book value 31 December	89 753
Annual depreciation	73 642
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	5 181 757	10 484 008
<i>This year's change in equity:</i>				
Dividend			-6 000 000	-6 000 000
Net loss			1 888 001	1 888 001
Share Capital 31 December	1 000 000	4 302 251	1 069 758	6 372 009

	<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

	2010	2009
Payable tax is calculated as follows		
Net gain/(loss) before tax	2 655 334	8 298 712
Non deductible costs	85 141	84 873
Change in temporary differences	21 009	23 088
Basis for payable tax	2 761 484	8 406 673
Tax 28%	773 216	2 353 868
Payable tax on this year's net income	773 216	2 353 868
This year's tax cost is calculated as follows:		
Tax payable	-773 216	-2 353 868
Difference between assessed tax and prior year tax accruals	0	-11 913
Change of deferred tax	5 883	6 464
This year's total tax cost	-767 333	-2 359 317
Current tax in the balance sheet is calculated as follows:		
Payable tax on this year's net profit	773 216	2 353 868
Tax payable	773 216	2 353 868
The basis for deferred tax asset is calculated as follows:		
Reserves in fixed assets	-1 556	19 453
Total	-1 556	19 453
Basis for deferred tax asset	-1 556	19 453
Deferred tax asset	-436	5 447
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	-743 494	28 %
Effect of permanent differences	-23 839	28 %
Difference between assessed tax and prior year tax accruals	0	28 %
Tax cost in the income statement	-767 333	28 %

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Note 5 Salary and other benefits

	2010	2009
Salary	3 536 685	3 170 139
Social security premiums	583 367	547 668
Pensions	135 552	180 427
Other benefits	495 509	474 658
Salary costs	4 751 113	4 372 892

Employees	4	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	1 454 152	300 000
Total	1 454 152	300 000

The Managing Director is covered by a bonus / profit sharing arrangement that applies to senior executives in the company.

Note 6 Pensions

The company fulfills the requirement to statutory pension scheme

Note 7 Auditors' fees

	2010	2009
Audit fee	16 500	231 250
Additional services	37 500	82 314

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.

	2010	2009
Operating cost: Management fee to Peder Smedvig AS	499 992	499 992
Operating cost: Fee for IT management to Peder Smedvig AS	468 756	497 561
Rent: Løkkeveien 103	590 349	576 215
Interest income: Peder Smedvig AS	170	0
Interest expenses: Peder Smedvig AS	3 161	8 925
Accounts Payable: Peder Smedvig AS	186 104	92 450
Accounts Payable: Løkkeveien 103AS	141 987	0
Other Short Term Debt: Peder Smedvig AS	9 134	64 105

Note 9 Other operating expenses

The company has received a statement from the tax authorities (Skatt Vest) regarding the duty to pay import tax on purchased management services from abroad.

This statement does not match the company's interpretation of the regulations and will be appealed. If the Tax Office's opinion is put into effect the lack of payment of sales tax including interest constitute NOK 7.442.986.-

This amount is fully recognized and included in the company's accounts as of 31.12.2010.

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Note 10 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 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.

Smedvig Asset Allocation has no subordinated loan capital. For 2009 and 2010 the company has calculated the required capital both in accordance with the Basel II requirements as outlined below:

Risk Group	Basel II - 2010		Basel II - 2009	
	Book value	Weighted value	Book value	Weighted value
0 %	0	0	0	0
10 %	0	0	0	0
20 %	22 056 448	4 411 290	18 518 851	3 703 770
50 %	0	0	0	0
100%	1 076 188	1 076 188	227 103	227 103
Operational risk		15 621 000		14 708 000
Sum Total	23 132 636	21 108 478	18 745 954	18 638 873
Non weighted assets				
Intangibles	0		0	
Total Assets	23 132 636		18 745 954	
Risk weighted basis for calculation		21 108 478		18 638 873
Equity and subordinated loan capital				
Equity		6 372 009		10 484 008
Subordinated loan capital		0		0
Deduction for intangibles		0		0
Equity and subordinated loan capital		6 372 009		10 484 008
Percent capital coverage		30,19 %		56,25 %
Minimum requirement		8,00 %		8,00 %
		NOK	Exchange rate	EUR
Equity and subordinated loan capital as at 31 December 2010		6 372 009	7,815	815 356

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 2010.

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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						89 753
Other short term receivable	986 435					
Cash in bank	22 056 448					
Total assets	23 042 883	0	0	0	0	89 753
	<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	944 796					
Public duties payable	476 902					
Tax			773 216			
Accruals	7 821 657					
Other short term payables	9 132		735 360			
Total debt	9 252 487	0	1 508 576	0	0	0
Net cash exposure on balance sheet items	13 790 396	0	-1 508 576	0	0	89 753

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						89 753
Other short term receivables						986 435
Cash in bank	22 056 448					
Total assets	22 056 448	0	0	0	0	1 076 188
	<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	944 796					
Public duties payable				476 902		
Accruals						7 821 657
Other short term liabilities	9 134					735 358
Total debt	953 930	0	0	476 902	0	8 557 015
Net interest rate exposure on balance sheet items	21 102 518	0	0	-476 902	0	-7 480 827