

Pareto Annual Report 2017

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Investments in shares, funds and other financial instruments and projects and individual assets will always involve a certain degree of uncertainty about future returns. Neither target returns nor historical returns provide a reliable indicator of future returns. Returns on investments depend on general developments in the market for securities, physical assets and foreign currencies, the risk profile of the investment, the associated expenses (including the costs of subscription, management and redemption) and the skillfulness of the fund manager/management, as well as on any changes in the applicable tax regulations and other framework conditions. Returns may be negative as a consequence of capital losses, reductions in value and/or losses. Returns on shipping projects are stated in the currency of the project and returns in NOK will accordingly vary in line with fluctuations in the foreign exchange market. All information on, and assessments of, external conditions in this report are based on our own best estimates and on sources that we regard as credible and reliable. Nevertheless, Pareto cannot guarantee that the information is correct.

This is the Pareto group

Pareto is a leading, independent operator in the Nordic market for financial services. The company has offices in Oslo, Stavanger, Trondheim, Kristiansand, Stockholm, Malmö, Helsinki, Copenhagen, London, Aberdeen, Zürich, Hamburg, Frankfurt, Paris, Singapore, Perth, New York and Houston. Pareto was founded in late 1985 and since that time has grown into a corporate group offering a wide array of products. The group has 616 employees and shareholders' equity of some NOK 7.3 billion.

Business sectors

Through its subsidiaries, Pareto offers a broad range of services within the broking of shares, bonds and partnership interests, the management of issues of equity and debt capital instruments, and direct investments. The group also provides project funding, business management services, valuations, financial advisory services, investment management and asset management services, and insurance brokerage. Furthermore, Pareto is involved in chartering and buying and selling tanker and dry bulk tonnage and drilling rigs through its ship brokerage business, as well as providing technical management services to the maritime market. In certain areas of business, the group works closely with Pareto Bank, in which Pareto is the largest shareholder.

Diversity and a strong local presence

The broad scope of Pareto's product range has provided the foundations for the group to grow and prosper and has given our clients a balanced and diversified product portfolio offering sound, long-term returns. Pareto's long-standing engagement with local markets and companies has equipped us with experience and skills, enabling us to treat each client individually and to safeguard and promote our clients' interests in the best way possible.

Pareto prioritises organic growth and the development of in-house competence. Acquisitions, mergers and collaborations are continuously under consideration, with the aim of complementing and developing the company still further.

Pareto's goals and strategies

Pareto's goal is to be the preferred Nordic supplier of financial services, based on a thorough and detailed knowledge of social conditions, industries and individual companies. Our aim is to create sound financial solutions for business and industry and to secure high returns for our clients. Pareto's strategy is based on maintaining our focus, in-depth knowledge, experience and long-term client relationships.

We are committed to continuous development and improvement. We invest our knowledge and financial resources for the long haul. We demand responsibility, integrity and a high ethical standard of our employees. Pareto is an independent operator and our aim is that our approach should always be innovative, creative and different.

The Pareto Group – what we do

<i>Securities brokerage/ capital raising/ project financing</i>	<i>Ship/ offshore brokerage</i>	<i>Asset management/ investment advisory services</i>	<i>Banking/ insurance</i>
Pareto Securities	Pareto Shipbrokers	Pareto Asset Management	Pareto Bank
	Pareto Offshore	Pareto Wealth Management	Pareto Forsikringsmegling
	Pareto Dry Cargo	Pareto Business Management	
	P.F. Bassøe	Enter Fonder	
		Pareto Alternative Investments	

The Pareto group in 2017

2017 continued where 2016 left off, and, following 50 all-time highs, Oslo Børs Benchmark Index ended the year up 19.1 per cent on the preceding year. International trade continued to flourish in 2017, a situation that was reflected in the performances of stock markets worldwide. The MSCI World Index measured in local currency rose by 18.48 per cent over the course of the year.

The improvement in the fortunes of the world economy also played a part in the increase in the oil price. Accordingly, conditions were nigh on ideal for the Pareto group. The year can be summarised as follows:

- The revenues of the Pareto group amounted to NOK 2.7 billion (2015: 1.9 billion). The operating profit totalled NOK 866 million (505 million), and the pre-tax operating profit was NOK 1 295 million (882 million). The profit for the year amounted to NOK 1 071 million (NOK 742 million). Nearly all the operating companies grew their operating revenues in 2017, with particularly high levels of activity and earnings generated in the primary market, where Pareto raised fresh capital in both the stock market and the bond market. Pareto's asset management business also posted excellent results, increasing its assets under management thanks both to high returns and positive net subscriptions. The group's losses on accounts receivable were negligible. At yearend, book equity amounted to NOK 7.3 billion and the personnel count stood at 616 employees.
- Pareto Securities took part in 65 equity capital issues in 2017 to a combined value of just over NOK 30 billion. Activity levels were high in many sectors in 2017, including the energy, offshore, shipping, banking/finance, health and technology sectors. The company also advised on a total of 11 stock exchange flotations in 2017: four in Norway and seven in Sweden. 2017 was a record year for high-yield bonds on the Nordic market. All of Pareto Securities' offices recorded high levels of activity and the company was involved in arranging issuance of bonds for an amount in excess of NOK 70 billion, including in sectors such as shipping, E&P, mining and telecoms. Pareto Securities also acted as adviser on several large-scale M&A transactions (sales, acquisitions and mergers) in 2017, including the acquisition and delisting of Hafslund ASA and the sale of Hafslund Marked and Hafslund Varme to Fortum OY on behalf of the City of Oslo, the sale of Songa Offshore to Transocean, the sale of Øglænd System to Hilti AG, the sale of Saltdalshytta to Mestergruppen, the sale of Helseport to Swix, the sale of Aqualine to Kverva, the sale of Reinertsen to Aker Solutions and the sale of 49 per cent of Alpinco (Hafjell and Kvitfjell) to Borgen Investment Group.
- Project Finance had a very strong year, with high levels of activity within both real estate and shipping/offshore. The Project Finance business was involved in property-related transactions with a total value of over NOK 15 billion, and in shipping/offshore-related transactions with a value of over NOK 3 billion.
- Continuing low rates of interest, rising stock markets worldwide and a weak Norwegian krone combined to generate very satisfactory returns on capital for clients of Pareto Asset Management. In addition, net subscriptions to the funds were positive, and assets under management increased by NOK 4.6 billion to NOK 36.4 billion. Pareto Global Corporate Bond, which was launched in March 2015, proved particularly attractive to investors. The result was markedly better than in the two preceding years.
- Pareto Alternative Investments reported a substantial increase in assets under management and profits in 2017. In total, assets under management climbed by NOK 4.5 billion during 2017. At yearend, the firm managed NOK 12.5 billion equity capital in real estate, credit and maritime investments.
- Pareto Wealth Management increased its assets under management by more than NOK 800 million in 2017. Assets under management and client funds amounted to NOK 10 billion at yearend. The second half of the year in particular produced very satisfactory returns on clients' capital. The firm's offering of diversified Norwegian and international fund portfolios continues to be attractive to the market.
- 2017 was a good year for Swedish equities and for Enter's equity funds. Enter's active management laid the foundations for solid returns by all the equity funds. Despite pressure on Swedish interest rates and little movement in markets, the fixed-income business was able to produce a sound risk-adjusted return. Assets under management at yearend 2017 amounted to SEK 9.2 billion.
- Notwithstanding the continuing gloom in the offshore and renewable energy markets in 2017, Pareto Shipbrokers AS and its subsidiary Pareto Shipbrokers Ltd succeeded in reporting very satisfactory profits.
- The dry cargo freight market improved over the course of 2017 with freight rates settling at a level that most operators view as satisfactory. Pareto Dry Cargo also reported a good year almost doubling the pre-tax earnings of 2016. Tanker rates remained under pressure throughout the year. Even so, P.F. Bassøe improved on the performance reported the year before.
- Pareto Forsikringsmegling achieved solid profits in the face of stiff competition in its market. The company purchased insurance cover on behalf of its clients worth NOK 1.9 billion in 2017.
- Pareto Bank's profits after taxes ended the year at NOK 313 million, up from the NOK 247 million reported one year earlier. This represents a post-tax return on equity of NOK 15.9 per cent. Yet again, the bank has outstripped all its past performances. The high level of profitability was the result of increased lending, modest operating costs and low levels of impairments and losses. Pareto AS owns 15.2 per cent of Pareto Bank ASA.

The market and the economy in 2017

by Chief Investment Officer Finn Øystein Bergh

For much of 2017 the securities markets exhibited what seemed to be a stubborn sense of optimism. As has so often been the case in the past, the reasons for this became clearer as the year progressed.

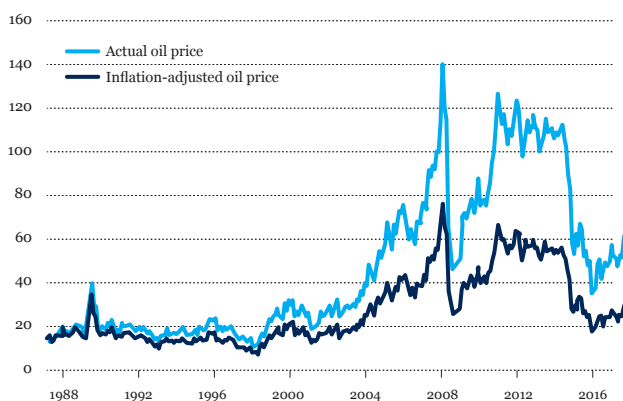
In retrospect, 2017 seemed almost like a Kinder Surprise Egg: the oil price continued to rise, following a substantial increase on the low point reached in 2016. Market rates of interest remained more or less static in the wake of a modest rise before the year started and three increases in the US key rate. And stock markets worldwide surged, in some countries topping 20 per cent.

Not a return to the oil prices of yore, after all?



Brent Blend, price for immediate delivery in dollars per barrel. Source: FactSet

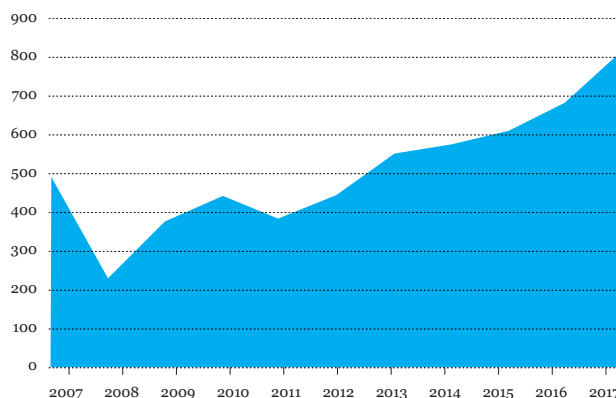
The true oil price remains moderate



Oil price (Brent Blend), price for immediate delivery adjusted for US inflation. Source: FactSet, US Bureau of Labor Statistics, Pareto

Furthermore, the upturn was remarkably even. Whereas the preceding year had started with a major downturn, 2017 was mercifully free of substantial corrections. By the end of the year, the MSCI World index had been climbing continuously for 14 months. This had not been seen since the launch of the index on New Year's Eve 1969.

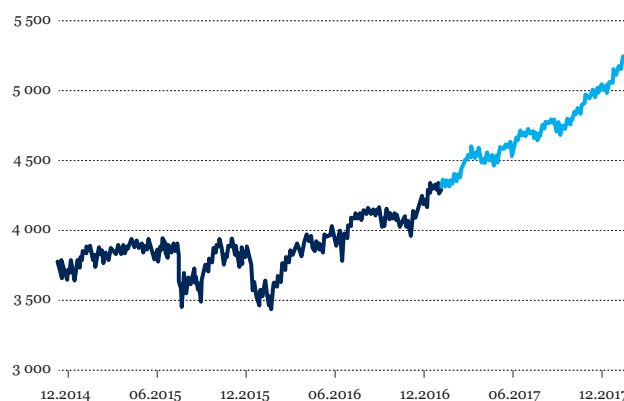
What a recovery!



Oslo Børs Benchmark Index (OSEBX) listing at year end Source: oslobors.no

Economic growth now also picked up globally. For the first time for many years we saw concurrent revivals in all the major economic areas of the world. But why was this happening now, after so many years of stimulatory measures in the wake of the financial crisis? And why had the stock market had so many prosperous and relatively stable years in the interim?

A remarkably steady rise



S&P 500 Total Return Source: FactSet

In fact, there is a logical connection here.

The interest rate nudge

Let's start with a roundup of the last few years. The expansive monetary policy pursued in the aftermath of the financial crisis is a case

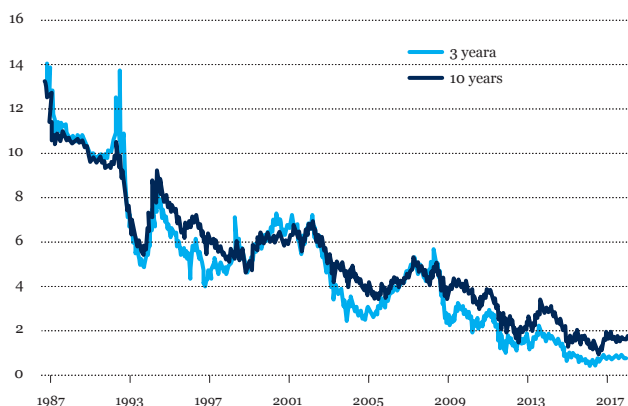
for the history books. The central banks of the United States, Europe and Japan alone stockpiled securities, largely government bonds, to a value of over 10,000 billion dollars.

The US Federal Reserve ended its large-scale bond buying spree in the autumn of 2014, but thus far we have seen no significant reversal, beyond the absence of adjustment for redeemed bonds. And this was more than compensated for by the ECB and the Bank of Japan in further large-scale purchases.

The rationale may appear simple: the main impact of the key rates of central banks is on short-term interest rates, that is to say interest on papers with short durations. Purchasing bonds with long maturities also allows long-term interest rates to be influenced. This pushes prices upwards and the yield downwards.

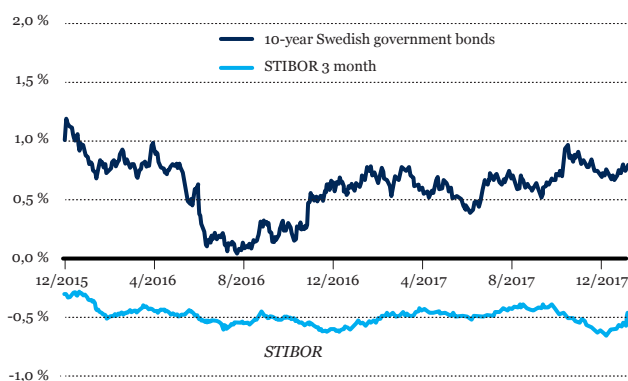
The United States, which was first out of the starting blocks, was able to get the 10-year bond yield down from around four per cent before the financial crisis to 1.4 per cent in the summer of 2016. In Europe, the starting point was higher still, and the lowest yield level was below zero. By the start of 2017, these rates had risen to approximately 2.4 per cent and 0.2 per cent. One year later, the US 10-year bond yield remained more or less unchanged, while the European 10-year bond yield had inched upwards to 0.4 per cent.

Hovering above the lowest point



Yield to maturity for different maturities of Norwegian government bonds, percentages
Source: Norges Bank

Money remains cheap in Sweden



Yield, percentages
Source: riksbanken.se

This did not suffice, however. In the years following the financial crisis, in fact well into 2017, it was remarkable how slowly growth resumed. Certainly, the financial markets could be influenced, but the real economy responded abnormally sluggishly. Weak bank balances and recapitalisation requirements did not seem to provide a complete explanation.

Something was missing.

Spring awakening for risk capital

When in March 2016 the ECB announced that it intended to purchase corporate bonds, the measures began to approach the type of capital that means most to the investment decisions of companies: risk capital. The credit premium or spread, that is to say the interest-rate premium on corporate bonds over and above presumably safer government bonds, responded immediately.

After a nervous start to the year, the premium for Markit's European Crossover Index (combination of credit ratings), for example, had come within a whisker of 500 basis points, in other words five percentage points. February ended at 408 basis points, 2016 ended at 288 basis points and 2017 ended at just 232 basis points. Higher-risk bonds experienced an even steeper decline in credit premiums.

In other words, and this is an important point: during the course of a relatively short period of time, risk capital had become much cheaper. The price had been falling up until 2014 and then increasing up until the turning point in the spring of 2016, but already at the start of 2017 the credit premium was at its lowest level since the financial crisis. It continued to fall throughout the year.

While prices in the secondary market react instantly, it takes time for the primary market to respond. In 2017, however, the primary market loosened up in a big way.

The Nordic market for high-yield bonds set a new record with issues of new bonds to a value of over NOK 120 billion, and the biggest US corporations broke all previous issue records.

In the case of the Nordic countries, some of this growth can undoubtedly be attributed to the development of the market, but the response must be said to have followed the economic laws of gravity: when risk capital gets much cheaper, companies want to find more.

Cautiousness on the stock market

The picture would not be complete without adding that some central banks also purchased shares. Volumes were modest, however. For the stock market, the low interest rates were far and away the most important factor.

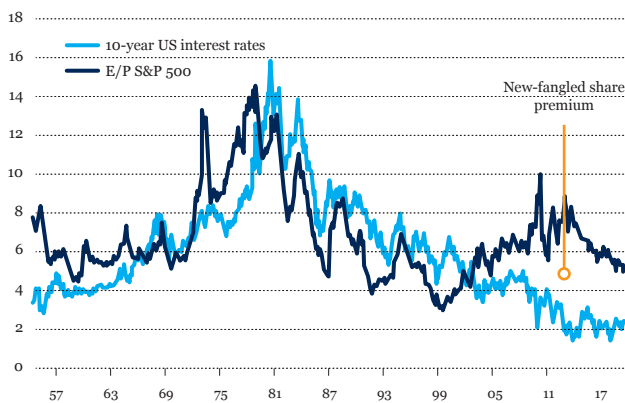
This because, obviously, lower interest rates played a part in the higher pricing of shares, as they also did in the case of real property. The fact is, however, that the stock market hesitated in following up the interest-rate reduction. Lower interest rates provide scope for pricing shares higher, but the market failed to fill the entire gap created by the reduction in interest rates. This was at least the case at the outset of 2017, and it is likely to have been the case at the end of 2017.

As usual, the best statistics come from the United States, where the earnings yield long went hand in hand with long-term interest rates: earnings relative to share values rose and fell in line with long-term interest rates, typically with a slight lead (six weeks). This means that profits yielded returns on share values in more or less the same way as the effective rate of interest yielded returns on long government bonds.

In the 2000s they parted company. The stock market no longer had the courage to follow the same path as the fixed-income market, giving rise to a special share premium. This peaked four years after the collapse of Lehman Brothers at just under six percentage points. Something similar happened here in Norway. Prior to the financial crisis this share premium amounted to some four percentage points. In the years since, the average has been six percentage points. In other words, investors in equities have been somewhat uncertain and have put in place a larger safety margin. They have perceived interest rates to be artificially low, or at least have acted accordingly.

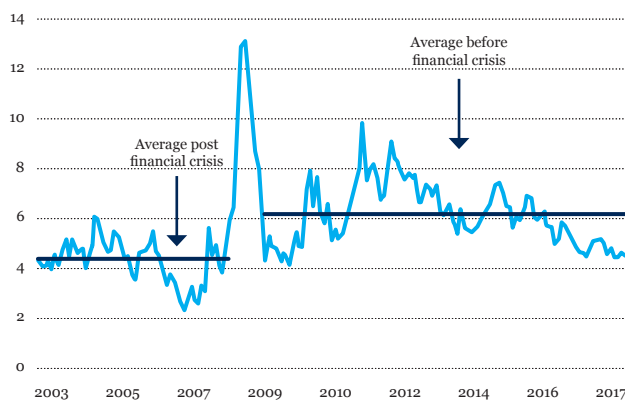
In 2017, we saw this margin shrink slightly, both here in Norway and abroad. In part, this was due to higher growth, globally and, not

Mind the gap!



Yield on 10-year US government bonds and earnings yield on S&P 500. Source: FactSet, Pareto Asset Management

Safety margin on Norwegian shares



Difference in percentage points between the forward earnings yield on the stock market and the yield on 10-year government bonds. Source: FactSet, Norges Bank.

least, in Europe. In part, the stock market undoubtedly struggled to resist the gravitational force of record low rates of interest, given the difficulty of finding satisfactory returns elsewhere when interest rates are this low.

Nevertheless, measured in this way the share premium is well above its historical average level. This is an incomplete but nevertheless important explanation of why the market has exhibited so little volatility in recent years. The safety margin has quite simply been fairly wide relative to fixed-income investments.

It might perhaps be more correct to say that too many analyses have compared key figures such as P/E today with P/E in the past (and from this perspective the market has appeared to be more expensive). In practice, investors are more likely to compare share investments today with alternative forms of investment today. This comparison has favoured shares – by a comfortable margin.

This at least is the way things have been until now.

Lower cost of equity

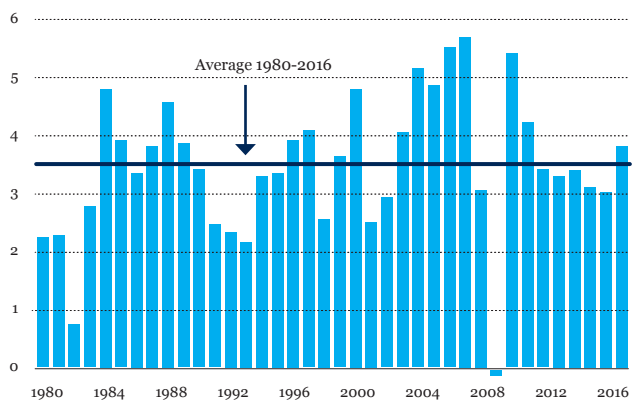
Note the way in which this chain of effects demonstrates the limitations of monetary policy. Low key interest rates meant low rates of interest at the short end. Large-scale bond purchases brought about low interest rates at the long end. But in the case of shares, which, in technical terms, are securities with even longer durations than the longest bonds, the story was not quite so simple.

Put slightly differently: a substantial reduction in the price of debt capital was achieved, at least as far as debt capital with a modest credit risk was concerned. It took far longer to get the price of equity down – which is in reality a function of the pricing of the shares on the stock market, where the authorities have limited influence.

Similarly – and this is not unrelated to developments on the stock market – it took time to reduce the price of debt capital with a higher credit risk. Here too monetary policy proved less effective.

In 2017, we finally saw promising movement on both fronts. At the same time, we witnessed increasing and unusually synchronised

At last, higher global growth



Percentage growth in global GDP. Source: IMF

economic growth. For the first time in several years the International Monetary Fund adjusted its growth forecast upwards. The IMF now estimates that the world economy grew by 3.7 per cent in 2017, compared to the 3.4 per cent forecast just over one year earlier.

Estimates for 2018, a healthy 3.9 per cent, have also been impacted by the decision to cut taxes in the US, although the decision came too late to have had a marked effect on the real economy in 2017.

Monetary policy hits the spot

The transmission mechanism explains how monetary policy is affecting aggregate demand in the economy and, accordingly, growth. Normally, the thinking is that lower interest rates work by stimulating higher investment and reduced levels of savings. In the individual country, there may also be an indirect effect in the form of a weakening of the local currency.

Less attention has been devoted to the prices of risk capital, not least equity capital. There has been no clear acknowledgement of the fact that, in reality, the stock market defines the price of the equity capital.

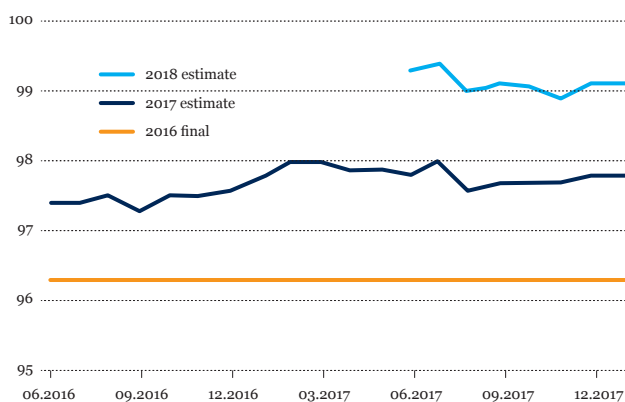
But perhaps developments in 2017 could do something about that? This year, the stimuli reached further out along the risk scale, thereby giving economic growth a small boost.

Two statistics from the IMF provide an illustration of this: In April 2016, immediately after the ECB announced that it too would be purchasing corporate bonds, the IMF forecast that investments in 2017 would constitute less than 20 per cent of GDP in the euro zone. By October 2017, investments had been adjusted upwards to over 20.6 (of a slightly higher GDP). This has provided a healthy stimulus to growth. Add the multiplier effect and it becomes clear that the price of risk capital – both shares and corporate bonds – might be just as interesting as the price of government bonds.

The oil price is high, notwithstanding elastic supply

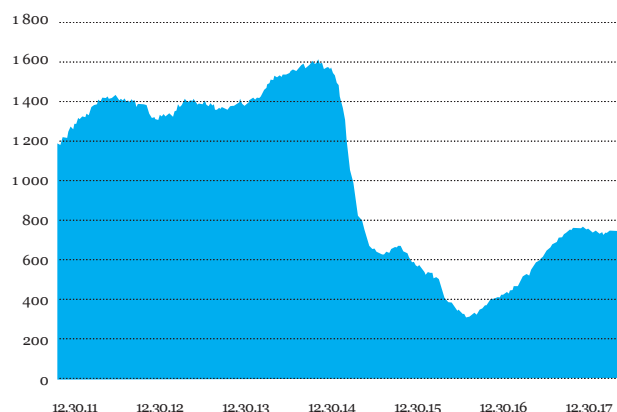
This price rise stands out even more clearly as a sign of strength when the speed with which oil output in the US now responds to higher prices is taken into account. Many smaller shale oil fields come on

Stagnating oil optimism



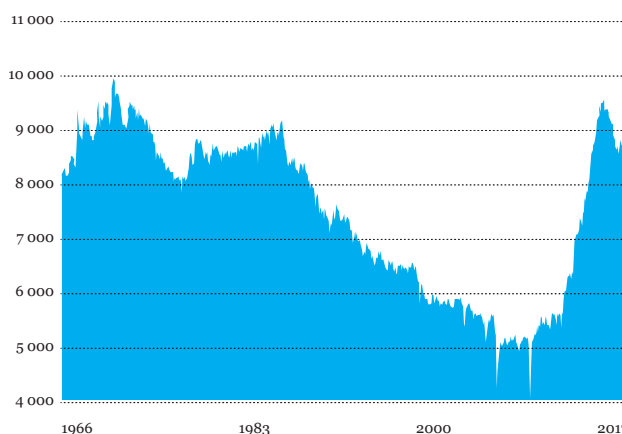
Global demand for oil in millions of barrels per day, estimates at various times. Source: IEA

Reaction to the oil price



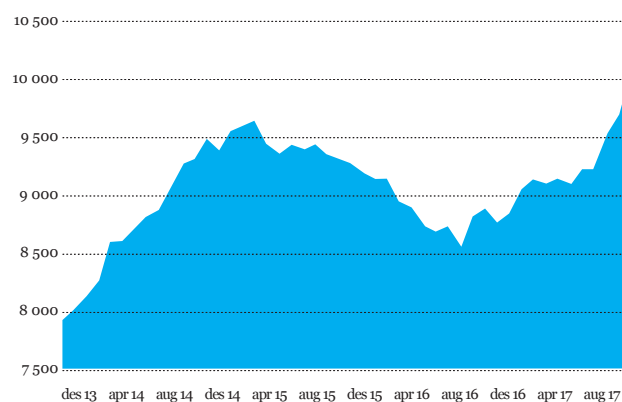
Active oil rigs in the US according to the Baker Hughes rig count

A return to the peaks of yore ...



US oil production in thousands of barrels per day. Source: US Energy Information Administration

... after a temporary dip



US oil production in thousands of barrels per day. Source: US Energy Information Administration

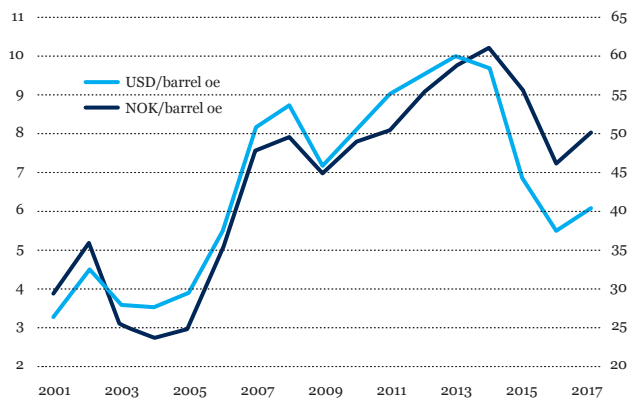
stream rapidly when the oil price so permits and regular rig counts show that supply is clearly elastic.

Note that current oil prices do not necessarily reflect the prices provided for in the contracts of the petroleum companies. In Statoil's case, the average price in 2017 was approximately 54 dollars a barrel. Even so, the company was able to triple its adjusted operating profit, which tells us two things: that over the last few years Statoil has managed to cut costs dramatically and that profits are in any event extremely sensitive to the oil price.

Prices halved

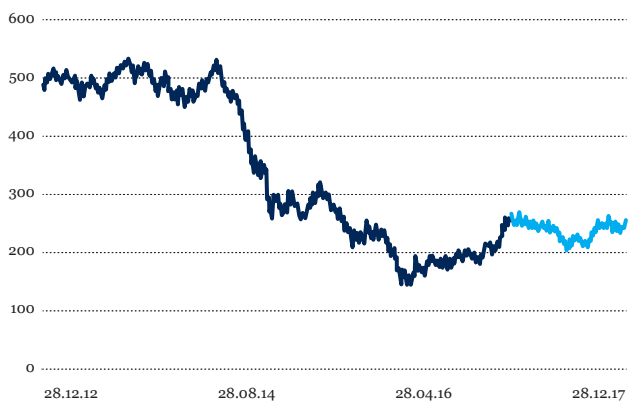
For Statoil's subcontractors, the road back to profitability has been longer. While the cost cuts in our domestic petroleum giant worked their way through the system, the suppliers bore the burden of compensating for the stringent price cuts.

The end of deflation on the Continental Shelf?



Statoil's operating costs (including sales and admin. expenses) per barrel of oil equivalents. Source: Pareto Securities

In the recovery position



Oslo Børs Oil Service Index remained more or less flat during a year in which the stock market generally climbed. Source: oslobors.no

This situation has been apparent on the stock market ever since the oil price started to slide in 2014. It has taken substantially longer for the situation to manifest itself in the national accounts, however. Nor is it visible at first glance.

If you search the website of Statistics Norway for the gross product for "service activities incidental to oil and gas", you might easily come to the conclusion that 2017 was an unproblematical year. Admittedly, the gross product of the industry continued to decline, but this drop was down from 15.1 per cent in 2016 to a more modest 5.5 per cent in 2017.

In this case, however, it is entirely accurate to say that the statistics are lying. When Statistics Norway calculates the "true" development in gross product, it adjusts for price growth. Or, in this case, price reduction. And the reduction has been dramatic – the 2017 statistics conceal a price drop of 49.9 per cent! In other words, the invoiced amounts have been more than halved – half price at a lower volume.

This adjustment reflects the price of delivered contracts. In the case of agreements entered into, the price reduction obviously occurred earlier, and would be discounted on the stock exchange as soon as it becomes known – or expected. This is why the full extent of the gravity of the situation for the industry is only now becoming apparent. If, that is, the situation can be said to have become apparent given that the price reduction does not show up in the usual GDP figures.

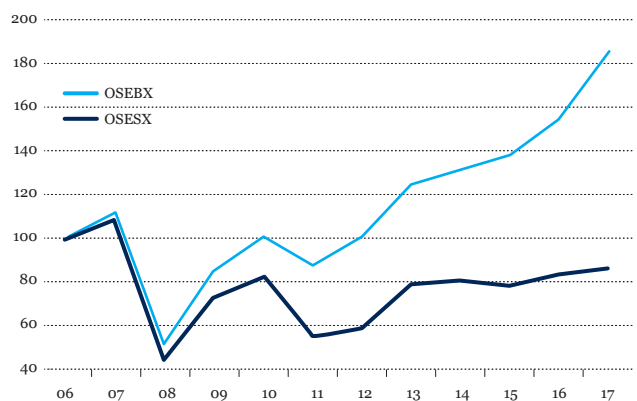
With numbers like this it is perhaps hardly surprising that the Oslo Børs Oil Service Index struggled to keep pace with an otherwise lively stock market. Or that smaller shares generally struggled to keep up. Some smaller oil service companies, at least, struggled badly.

In any event, the worst part should be behind us now.

The NOK remains weak

The oil price rise notwithstanding, the NOK exchange rate remained consistently low. Part of the reason was in all likelihood that house prices started to fail. The reduction was modest and largely confined to the Oslo area, but when Statistics Norway, for example, reports a downturn in prices in the region between the second and third

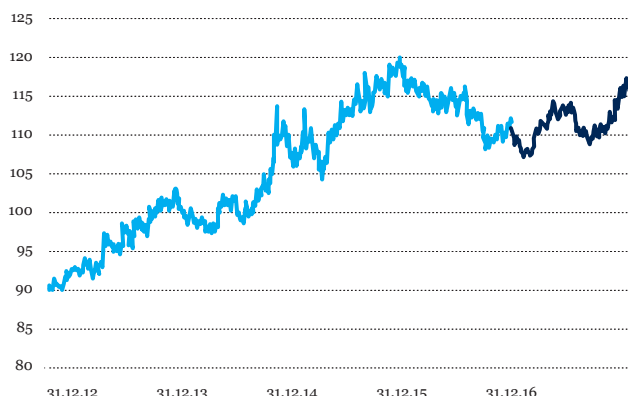
A tale of two stock markets



Dramatic underperformance by SMBs on Oslo Børs (OSESX) Source: oslobors.no

quarters of 3.6 per cent, the psychology of the market is affected. Suddenly, the imminent collapse of the housing market seemed much more likely. And, with that, many players started to adjust their expectations of the interest rate curve, downwards.

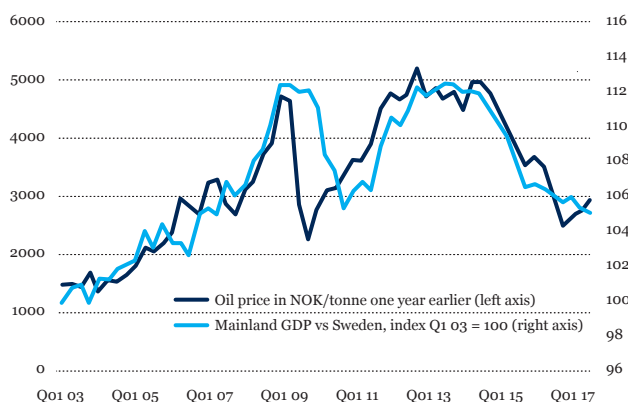
Further weakening



Trade-weighted exchange rate. Higher figures indicate weaker NOK.
Source: Norges Bank

In all probability, the downward movement of the housing market was partially occasioned by new mortgage regulations introduced at the start of 2017. They imposed stricter requirements on the collateral required, not least in the case of secondary housing – in other words, buy-to-let properties. And the primary target of the legislation was the area around the capital city, precisely the part of Norway in which housing prices had increased most. Seen from this perspective, the legislation was both well targeted and effective.

Oil-fired heating on the mainland



Sources: Pareto, SCB, Statistics Norway

For the Norwegian economy, the weak krone proved to be helpful in a situation in which housing investments seemed less likely to replace oil investment as the engine of the economy. Provisional figures show a growth in GDP of 1.8 per cent both in the mainland economy and in the country as a whole. This is satisfactory, but somewhat below the probable trend GDP growth.

Our calculations show that the mainland economy is no less dependent upon the oil industry now than in the past. A comparison between the mainland economy and the Swedish economy reveals that the relative development continues to coincide with movements

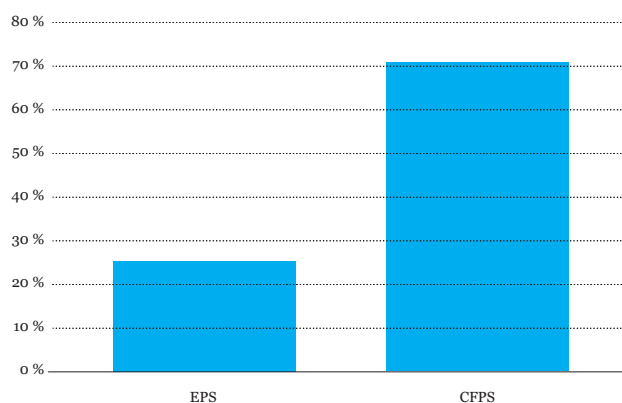
in the oil price. When the price of oil rises, the Norwegian mainland economy performs better relative to the Swedish economy, and vice versa – even if, as noted above, the oil sector is not included.

Statistics Norway does not as yet present figures for “exports” from the mainland economy to the oil sector. Nevertheless, our figures show clearly how the rest of the Norwegian economy too is influenced by what, in economic terms, is our most important industry.

The ghost train in the tunnel

At the outset of 2018 concerns are concentrated on two related factors: will a higher rate of inflation force interest rates upwards? And is the stock market becoming overpriced?

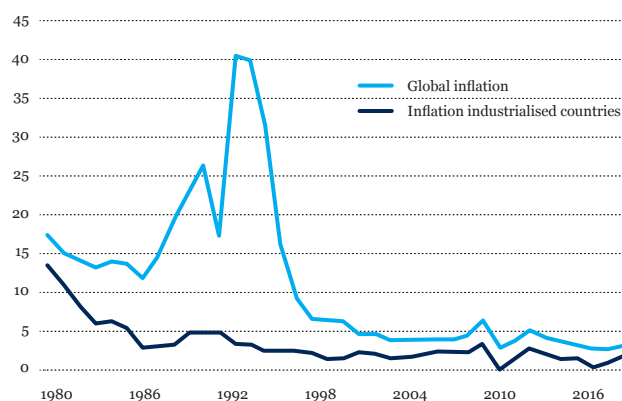
It generates more cash



Increase 2007-2017 in earnings per share and cash flow per share on the OSEBX.
Source: FactSet, Pareto Asset Management

Both causes for concern are understandable. Nominally, shares are priced higher than in the past, and the healthy safety margins of the last few years have become narrower. Were interest rates to rise by more than a symbolic amount, the remaining safety margin might well be eroded fairly quickly. After all, a high growth rate in a situation of high capacity utilisation, in other words low unemployment, is traditionally associated with a tendency towards rising prices.

Inflation on the rise?



Source: IMF

This is not an arena for forecasts. Even so, it does afford an opportunity to remind ourselves that, viewed in isolation, key figures never provide the entire answer. If, for example, the rise in P/E on Oslo Børs is a cause for concern, it might be useful to bear in mind that cash flow per share has increased faster than earnings. Or that the P/B ratio, share price relative to book equity per share, is still well below the levels that in the past have signalled a downturn.

Likewise, there are many arguments in favour of the view that lower unemployment is no longer as inflationary as in the past, ranging from technological development to the globalisation of skills. A banal but illustrative example is the ease with which technical drawings in pdf-files can be exchanged and discussed by e-mail. Moreover, many years of low inflation have left an imprint on the way in which inflation expectations are formed and incorporated.

It is difficult to visualise a reversal that does not originate in the stock market or is also triggered there, and by this I mean a major reversal. Assessed rationally, the margin of safety afforded by shares is still so high, and the opportunity cost so low, that the likelihood of a reversal of this order seems modest.

On the other hand, the risk picture has changed. If the margin of safety has also provided a buffer against volatility, it must be noted that this buffer is smaller than it has been over the last six or seven years. And even though uncertainty attaches to the amount by which interest rates will or can be changed, at the outset of 2018 it seems likely that the direction is obvious: the interest rate curve is pointing upwards. This suggests that the market is now more vulnerable to corrections and higher volatility. We may have to prepare ourselves for more turbulence.

That being sad, restless markets are virtually the norm. The last few years have been abnormally stable and sound. Greater unrest would actually be in the nature of the market – and offers rewards. In the longer term, that reward is usually bountiful.

2017 in a nutshell

OSEBX	+19.1%
S&P 500 return	+21.8%
MSCI World net (USD)	+22.4%
3-month NIBOR	from 1.17 to 0.81%
3-month STIBOR	from -0.59 to -0.47%
10-year Norwegian Treasury	from 1.70 to 1.65%
10-year Swedish Treasury	from 0.55 to 0.78%
10-year US Treasury	from 2.44 to 2.41%
Brent Blend	from USD 56.82 to USD 66.87
USD/NOK	from 8.62 to 8.21
EUR/NOK	from 9.09 to 9.84
GDP growth, global	3.7%
GDP growth, Norway	1.8%
GDP growth Sweden	2.4%
GDP growth, Mainland Norway	1.8%

Sources: Oslo Børs, S&P Dow Jones Indices, MSCI, Norges Bank, FactSet, IMF, Statistics Norway, SCB, Riksbanken, Pareto.

A history of success and profitability

Throughout its history, in good years and in bad, Pareto has continued to build value and make money. The group has never recorded a loss.

The first Pareto company was founded on 9 December 1985. Since then, Pareto has not only recorded significant organic growth, but has also moved into new areas of business through acquisitions.

The table below summarises a rich history of innovation, growth and changing framework conditions, through market rises punctuated by intermittent financial crises. The figures in the table show that the company has developed a robust business model. Pareto has recorded a profit in every single year of its existence, with most of these profits being retained within the company to fuel future growth.

At the same time, the parent company and its wholly-owned investment companies have succeeded in building financial strength and liquidity giving the company strategically valuable freedom of action and the ability to seize new opportunities as they arise.

A substantial proportion of the company's profits have been channelled to the employees and partners. Pareto's success is predicated on its skilled and diligent personnel.

	Operating profit	Profit for the year	Equity	Oslo Børs
1992	40	8	43	-10,0 %
1993	90	23	31	64,8 %
1994	82	15	37	7,1 %
1995	83	22	59	11,6 %
1996	160	50	101	32,1 %
1997	364	115	170	31,5 %
1998	232	46	239	-26,7 %
1999	291	71	293	45,5 %
2000	548	149	432	-1,7 %
2001	507	79	466	-16,6 %
2002	458	41	435	-31,1 %
2003	517	139	541	48,4 %
2004	964	239	725	38,4 %
2005	2 044	681	1 412	40,5 %
2006	3 277	1 099	2 049	32,4 %
2007	3 470	1 126	2 931	11,5 %
2008	1 755	2	2 801	-54,1 %
2009	1 606	715	3 270	64,8 %
2010	1 899	650	3 310	18,3 %
2011	1 678	436	3 707	-12,5 %
2012	1 869	536	4 147	15,4 %
2013	2 485	940	4 970	23,6 %
2014	2 512	895	5 908	5,0 %
2015	2 038	1 032	5 845	5,9 %
2016	1 940	742	6 387	12,1 %
2017	2 719	1 071	7 334	19,1 %

Consolidated figures expressed in millions of Norwegian kroner. Oslo Børs stock market returns are based on the Benchmark Index linked backwards to the former All Shares Index.

Pareto Securities AS

Pareto Securities is an independent securities firm with a Nordic and global presence.

With 15 offices in eleven countries, Pareto Securities raises equity and loan capital for Nordic business and industry and for international issuers in the shipping, seafood, energy and oil service industries, in which areas the company has become a global player.

Following the merger with its sister company Pareto Project Finance in 2015, Pareto Securities has become Norway's leading operator in the field of project financing and the syndication of real assets.

Brokerage and corporate finance services backed up by in-depth research

Pareto Securities provides financial advisory services in connection with corporate financing, stock exchange flotations, mergers and acquisitions (corporate finance), project financing and the management of real assets, as well as stock, bond and currency broking services. We also offer rig broking and investment company management services through subsidiary companies.

The personnel in all of our departments have first-hand knowledge of the industries and companies with which we work. As a consequence, our research and advice are always well founded. This gives us a valuable competitive edge and helps us to maintain the confidence of investors.

An international presence

Pareto Securities has offices in Norway, Sweden, Finland, Denmark, the United Kingdom, Germany, Switzerland, France, the United States, Australia and Singapore. This broad international presence secures our proximity both to the major capital centres of the world and to issuers within our core areas of expertise.

The combination of a local presence and a network of international investor contacts forms the foundations for Pareto

Securities' placement power in the stock and bond markets.

Share and bond brokerage

We provide stock and bond broking services from offices in Oslo, Stavanger, Stockholm, Malmö, Helsinki, Copenhagen, London, Frankfurt, Singapore and New York. At the time of writing, over 100 people are employed in the provision of brokerage services from these offices.

We offer investors a combination of:

- regular dialogue with researchers and brokers
- visits by our researchers
- local events attended by company management (road shows and conferences).

We also operate an efficient online trading system.

Pareto Securities operates a dedicated brokerage desk for project financing products. This brokerage desk works systematically to ensure the liquidity of the shares and project holdings in which our investor clients invest. The broking and sale of shares and holdings in existing projects is a priority area of business.

Case-based research products

The bedrock of our research is thorough and detailed knowledge and a long-term commitment. As a consequence of this approach, our research and brokerage products have come to be highly valued by an extensive international community of investors, on both the equity and the debt side.

Our equities research team consists of 16 researchers in Norway, 15 in Sweden and one in the UK. Our ability to service our clients efficiently depends upon the research team having a thorough understanding of the industries in which they specialise. The findings of our

research team are available to all of Pareto Securities' departments.

The focus of the research department has shifted towards case studies and away from the maintenance of analyses and company reporting. This has increased the relevance of the research products to investors.

Our credit research team is made up of three researchers in Norway and two in Sweden. This team monitors the Norwegian and Swedish credit markets and the international credit market for oil services and energy and compiles credit reports on issuers.

Accurate credit reports ensure that corporate bonds are correctly priced and enable investors to base their investment decisions on sound information. Because credit analysis forms an integral part of the research product, our credit analysts work closely with equity analysts. First-hand knowledge of the ability of a company to raise debt capital is a prerequisite for understanding its chances of success on the stock market.

The research department also serves as a recruitment and training unit in which young talent is schooled in corporate research and finance. After a period of research work these new recruits are given the opportunity to transfer to other departments in Norway or to spend time working abroad.

Conferences and road shows

An important aspect of our research work is arranging seminars and field trips for our investors. Every autumn, Pareto Securities hosts a two-day oil and offshore seminar in Oslo. This event is one of Europe's leading investment forums for oil and energy-related companies. The 2017 seminar attracted 1,500 attendees – primarily international investors and representatives of the 100 companies

making presentations. Other events organised by the company included an energy seminar in Oslo that attracted over 400 attendees, the North Atlantic Seafood Forum in Bergen attended by 800 industry representatives, an E&P seminar in London that attracted 250 attendees and a Nordic bond seminar in Stockholm that attracted 400 attendees. We regularly take company representatives to meet our clients in the United States, Asia and Europe. In addition, our researchers frequently travel to clients to discuss new investment opportunities. Pareto Securities organised a total of 330 road shows in 2017.

A comprehensive range of corporate advisory services

Our offices in Oslo, Stockholm, Helsinki, Copenhagen, London, Frankfurt, Hamburg, Zürich, Paris, New York, Houston, Perth and Singapore advise clients on raising equity and debt capital, stock exchange listings, equity placements, mergers/demergers, valuations and acquisitions/disposals of businesses or companies. The advisory services department employs over 110 people.

The advisory team is made up of people with broad management experience drawn from industry, consultancy and the capital market.

In the area of mergers, acquisitions and sales of businesses (M&A) our experienced advisors are able to provide valuation, advisory and negotiating services to buyers and vendors alike. As in previous years, these services were much in demand in 2017, and a number of sales and acquisitions were consummated. In addition, we work closely with Pareto Offshore and Pareto Shipbrokers to take full advantage of the group's expertise and networks.

Shipping and Offshore

The Project Finance department has long experience of and extensive expertise in syndicating and managing shipping and offshore investment projects. At the time of writing, we manage a maritime portfolio worth approximately NOK 8 billion. Our primary focus is on projects

involving long-term charters and charterers of high repute, although we also arrange asset play projects where the market risk for the investor is greater.

In recent years, we have been far and away the biggest operator in the Norwegian market for project financing in the shipping and offshore sectors, with a market share of 60-80 per cent. Pareto Maritime Services AS manages several project companies. The company's technical expertise enhances our ability to follow up projects.

Real estate

With over 25 years of experience, we are a leading financial operator in the Nordic real estate market. The company has extensive experience of providing corporate finance services and advises on major real estate transactions, including IPOs and purchases and syndications of real estate both in Norway and internationally. The department has established a major presence in the Swedish market. In 2017, the department also completed a number of successful transactions in Denmark. The total value of the real estate portfolio is approximately NOK 38.5 billion.

Pareto Business Management

Our wholly-owned subsidiary Pareto Business Management AS (PBM) manages the operational and accounting functions of our real estate and shipping/offshore projects. Swedish and Danish subsidiaries provide corresponding services to project companies in their respective markets. PBM in Norway and Sweden have management responsibilities for some 160 investment companies with a combined value of NOK 45 billion. PBM's team is made up of 40 experienced professionals with expertise in the areas of accountancy, financing, taxation, corporate law and technical management.

Pareto Offshore AS

Subsidiary Pareto Offshore provides brokerage and advisory services to the global rig and drilling industry. The firm also undertakes valuations and market updates. The firm has a staff of four.

Currency operations

Currency operations form an integral part of our investment services. A staff of two people provides these services. The unit also brokers freight and commodity derivatives.

Trading for own account

The company's approach to managing its capital holdings does not include trading in shares for its own account. Surplus liquidity is deposited in financially-sound Norwegian banks and in Norwegian treasury bonds and bills.

Growth in personnel numbers

At the outset of the year, the personnel count was 365, compared with 407 at the end of the year. Of these, 46 per cent work outside Norway – up from 39 per cent last year.

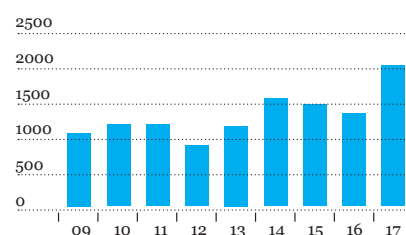
Pareto Securities recruits young talent, mainly with the aid of its graduate recruitment programme which focuses on students from the best schools. The company offers them a flat organisational structure, attractive incentive schemes and early responsibility.

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Pareto Securities AS

Dronning Mauds gate 3
P.O. Box 1411 Vika
OSLO
Norway
Telephone: +47 22 87 87 00
Turnover 2017: NOK 2.1 billion
Equity 2017: NOK 563 million
Number of employees: 407
CEO: Ole Henrik Bjørge
ole.henrik.bjorge@paretosec.com
Chairman: Morten Goller
www.paretosec.com
www.paretosec.no

Operating revenues NOK million



Pareto Asset Management AS

Pareto Asset Management is an independent asset management company offering equity funds, hybrid funds, fixed income funds, funds with more flexible mandates and individual agreements on discretionary management.

During 2017, Pareto Asset Management took on several new customer advisers and stepped up our activities outside Norway. This included opening a branch office in Germany (which was granted a licence in January 2018) in order to market and sell a selection of our funds in Germany. In addition, we introduced share savings accounts (ASK) – for our own equity funds as well as for externally-managed funds.

In parallel with these measures we implemented structural efficiency improvements by merging two sister funds and streamlining the organisation of our funds registered in Ireland.

The company now has 54 employees, including two staff at our office in Stockholm and one in Germany.

The in-house asset manager

Our services are directed at large and medium-sized enterprises in the private and public sectors, banks, insurance companies, pension schemes, trusts and foundations and high-net-worth individuals.

At yearend 2017, Pareto Asset Management had assets under management of NOK 36.4 billion, an increase of NOK 4.6 billion on the year before. Of this, NOK 16.9 billion was invested in Norwegian-registered securities funds, NOK 8.5 billion under active management invested in equities and fixed-income instruments for individual clients (discretionary management), NOK 11.1 billion in other funds/investment companies. In total, close to NOK 6 billion of the assets under management were foreign-owned.

Taken as a whole, companies and personnel in the Pareto group constitute our biggest “client”, accounting for NOK 4.4 billion of the assets under management. Our willingness to invest extensively in our own products underscores our faith in our ability to invest wisely, our approach and our asset management philosophy. It also ensures that we have interests in common with our clients.

An efficient asset management philosophy

Our asset management philosophy can be summarised in five bullet points:

- We are active managers. Our aim is to generate an attractive risk-adjusted return. In the case of mandates with reference indices, this means outperforming the index. This requires us to make independent choices and to be bold enough to deviate from the index by a wide margin. We are index-independent and have a high active share.
- We are company focused. Our point of departure is always the individual security. Our focus is bottom up, based on the properties of the individual company. In the case of fixed-income instruments, our returns are primarily taken from the credit premium of the company, less so from interest-rate risk.
- Our approach is fundamental. We look at specific aspects of the companies and their markets, such as business model, operations, profitability, return on equity and invested capital, management, strategic challenges and, obviously, pricing.
- Our approach is concentrated. Our portfolio contains a limited number of companies each of which we monitor closely and know well, in sum constituting a sensible portfolio. On the fixed income side, it is important to achieve a more traditional diversification.
- We take a long-term view. We look for value creation over the longer term. Sooner or later, good management will be reflected in the price. From a sufficiently long-term perspective the profitability of the company is more important than key figures at the time of purchase.

Solid long-term excess returns

Under the present management team, all our equity products have recorded excess returns relative to their respective reference indices or markets since their launch dates.

In the area of equities, we offer Norwegian, Nordic and global mandates. The Norwegian portfolios managed through Pareto Aksje Norge, under discretionary managed accounts and in Pareto Investment Fund all reported a profitable year in absolute terms, but were unable to keep pace with their reference indices in 2017, in contrast with the excellent excess returns recorded in the previous year. Because all our portfolios have a high active share they will inevitably report major deviations from their respective benchmarks from one year to the next.

The Pareto Global equities fund recorded excess returns in four of its five unit classes. The fifth, in which fees vary in line with returns, delivered a 16 per cent return, placing just below the MSCI World Index measured in Norwegian kroner. Furthermore, the alternative investment fund Pareto Total reported a return of over 18 per cent. For most of our fixed-income products 2017 proved to be a successful year. Pareto Nordic Corporate Bond performed especially well, recording a return of eight per cent. In December, the fund merged with Pareto Kreditt, a fund with a corresponding mandate.

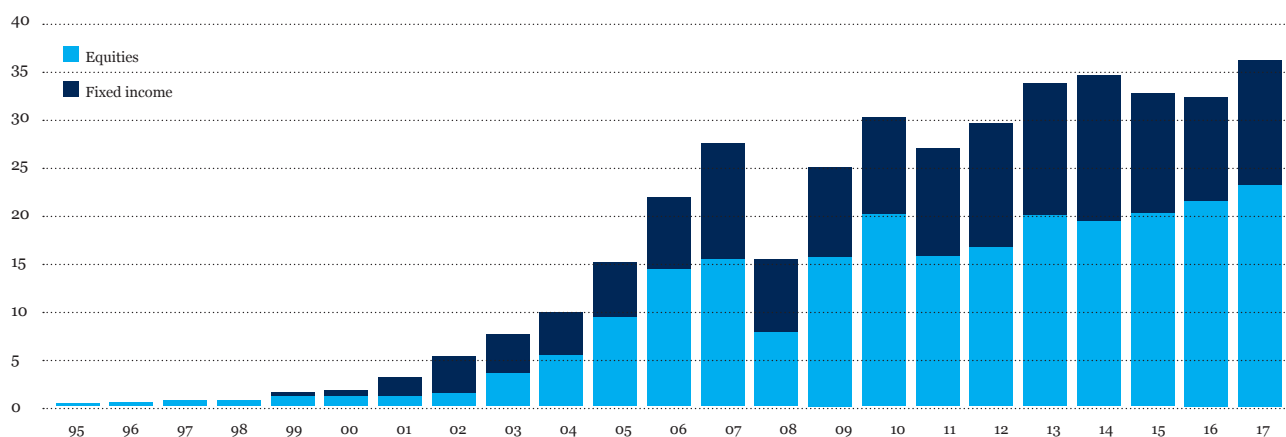
Pareto Global Corporate Bond fund enjoyed the highest net inflow of funds, taking assets under management to NOK 4 billion in 2017. The fund was started in March of 2015 and has accordingly grown very quickly. It is managed from our Stockholm office.

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Pareto Asset Management AS

Dronning Mauds gate 3
 P.O. Box 1810 Vika
 0123 OSLO
 Norway
 Telephone: +47 22 87 87 00
 Turnover 2017: NOK 360 million
 Equity 2017: NOK 33 million
 Number of employees: 54
 CEO: Lasse Ruud
 Lasse.Ruud@paretoam.com
 Chairman: Cathrine Lofterød Fegth
paretoam.com

Total assets under management NOK billion



Pareto Alternative Investment AS

Pareto Alternative Investment AS (PAI) is an independent management company with a licence to manage alternative investment funds (AIFM) and to provide active management services. The company was founded in 2015. At yearend, PAI had assets under management totalling NOK 12.5 billion.

Pareto Alternative Investment AS (PAI) is an independent management company with a licence to manage alternative investment funds (AIFM) and to provide active management services. The company was founded in 2015. At yearend, PAI had assets under management totalling NOK 12.5 billion.

PAI is a recent addition to the Pareto group, having been founded in 2015. Nevertheless, the business conducted by the firm has a long history and is a product of Pareto's project financing activities in the real estate and maritime sectors. The company manages diversified investment companies and mandates within alternative investments, focusing on the real estate, shipping and offshore sectors. The investment companies invest in real assets within these sectors with the aim of generating long-term and predictable cash flows for the investors. Investments take the form of both equity and debt instruments.

2017 proved to be a very satisfactory year for the firm, with a substantial increase in assets under management and revenues. In total, assets under management increased by NOK 4.5 billion over the course of 2017. At yearend, the company managed NOK 12.5 billion. The net revenues recorded by the company in 2017 amounted to NOK 82.9 million, up from NOK 38 million in 2016.

The company had a total of nine employees at yearend, one of whom works in the company's branch office in Stockholm.

Customers and sales

PAI has maintained a sharp focus on Norwegian institutional investors in recent years. In total, this group of clients accounts for almost 90 per cent of the equity managed by the firm. Typical customers include public and private pension funds, life assurance companies and insurance companies. All funds and mandates are sold directly by the firm's managers. PAI's ambition is to expand its client base over the coming years, not only by growing the individual client segments but also by expanding its presence in the other Nordic countries.

Returns

Expected returns will depend to a considerable degree on the investment profiles of the individual investment company and accordingly returns vary widely from mandate to mandate. PAI manages investment companies that invest in both leveraged and unleveraged project companies, as well as more conservative debt mandates. Satisfactory returns by the investment companies will be the primary factor determining continued growth on the part of PAI. In recent years, returns on investments have been good, especially within real estate, PAI's most important sector. In 2017, Pareto Eiendomsinvest Nordic AS, which invests in leveraged real estate companies delivered a return of 23.1 per cent, whereas the unleveraged real estate funds Pareto Eiendomsfelleskap IS and Pareto Eiendomsfelleskap II IS delivered returns of 11.2 per cent and 7.2% per cent, respectively.

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Pareto Alternative Investments AS

Dronning Mauds gate 1
P.O. Box 1418 Vika
0115 OSLO
Norway
Telephone: +47 22 87 87 00
Turnover (net) 2017: NOK 82.9 million
Equity 2017: NOK 20 million
Number of employees: 9
CEO: Johan Anker-Rasch
johan.anker-rasch@pareto.no
Chairman: Sigurd Opedal
www.paretoai.no

Pareto Wealth Management AS

The company aspires to be in the vanguard of the investment advisory service and wealth management sector in Norway

Steering a steady course

Over a period of several years, Pareto Wealth Management AS has matured into a bigger, more clearly defined operator with even greater expertise in its area of business. The primary product of the firm is to provide investment advice on the selection and composition of mutual fund portfolios.

2017 proved to be a prosperous year for Pareto Wealth Management and its clients. The firm's portfolio strategy delivered excellent absolute and relative returns.

The clients' portfolios of listed securities grew, while the portfolio of unlisted products shrank in line with repayments and the winding up of projects. The firm's total portfolio of client funds grew by more than NOK 800 million during 2017.

The primary target groups for the firm's products – high-net-worth individuals and corporations and institutions – are followed up by dedicated investment advisors. A large proportion of the firm's personnel work as advisors.

Strategy

Pareto Wealth Management remains true to its strategy of building solid and long-term portfolios for its clients. In addition, the firm offers individual products and projects to a smaller selection of clients who to a large extent manage their own portfolios. The company's recurring portfolio revenues now account for close to 90 per cent of its overall income and cover all current fixed expenses. This approach also means that the long-term interests of clients and the company are closely aligned.

A substantial portion of clients' investments is placed in Norwegian and international mutual funds through the firm's carefully-selected strategic portfolios or in the form of independent fund solutions. The company also offers a higher degree of bespoke tailoring of products to suit the needs of larger investors.

The company works with other Pareto companies in order to take full advantage of the group's expertise, products and steadily expanding network. In parallel with this, the company offers a wide range of investment products from external suppliers, both in and outside Norway. This enables a fully-rounded investment portfolio to be built for the individual client and ensures that Pareto's own products are benchmarked to competition. Our goal is that the client should always receive the best products available, irrespective of supplier.

The watchwords on the personnel side are expertise and focus. Our aim is that our people should be known for their professional expertise within their individual fields. The loyalty of our clients to the firm will flow from the sound investment advice and expertise that we provide. Achieving this requires more than just skilled people: systems and solutions that facilitate prudent decisions for the benefit of the client must also be in place.

The efforts of the firm will always be directed at enhancing the quality of its advice and products. Our aim is that the quality of the advisory services and products offered will increase returns on client funds and thus provide higher earnings for the company.

Pareto Wealth Management AS

Dronning Mauds gate 1
P.O. Box 1418 Vika
0115 OSLO
Norway
Telephone: +47 23 23 99 00
Turnover 2017: NOK 78.5 million
Equity 2017: NOK 22.2 million
Number of employees: 31
CEO: Rune Wassum
rune.wassum@pareto.no
Chairman: Åsmund Skår
pwm.pareto.no

Enter Fonder AB

Enter Fonder (Enter) became part of the Pareto group in 2016. Enter specialises in managing Swedish securities portfolios, and since its inception in 1999 has actively managed equities, fixed income and hybrid funds.

Distinctly active management

The mutual fund market is increasingly demanding that a distinction is made between managers who pursue a more passive approach to investments and those who are active in their management strategy. Enter's investment philosophy is rooted in our conviction and our own past practice that excess returns can be created through a distinct active management approach.

Enter is an industry leader in Sweden in terms of the degree of active management that it offers – something our managers have been working on for decades. Active management of a portfolio involves extensive deviation from a given benchmark index, and a longer term stance on the part of the unit holders – an approach that we generally advise as prudent for clients seeking profitable returns by saving or investing with Enter.

2017 proved to be a prosperous year for Swedish equities and for Enter's mutual funds. The Swedish stock market climbed 9.5 per cent and Enter's active management approach helped all the equities funds to record returns that outperformed their respective benchmark indices. Notwithstanding the pressure on Swedish interest rates and small movements in the market our fixed-income products succeeded in delivering very satisfactory risk-adjusted returns.

Clients and sales

Enter's sales activities are primarily conducted through two channels: direct sales to institutional investors and sales to private investors via banks, insurance companies and fund platforms. Some of these are linked to large and well-established Swedish banking and insurance groups, although we also distribute via independent platforms.

Since the outset, Enter has opted to focus its resources on managing and developing products rather than handling and

advising private investors. Our strategy is based on making Enter's products known and attractive to advisers in banks, insurance brokers and private banking businesses and reaching the private market via these intermediaries. Competition for the funds of savers is increasing and we therefore work intensively with advisers and brokers throughout Sweden through our distribution collaboration.

In the institutional market, our primary target group is small and medium-sized investors. These are typically foundations and trusts, trade unions, insurance companies, municipal and county authorities, and we reach out to them by making direct contact with the individual investor.

Returns and sustainable development

For many years Enter has integrated sustainability factors into its investment in bonds and shares. In 2017, we adopted ethical guidelines governing all investments and funds. This approach goes hand in hand with our dedication to delivering high returns through active investment decisions.

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Enter Fonder AB

Sveavägen 17
PO Box 7006
103 86 Stockholm, Sweden
Telephone +46 08-790 57 00
Turnover 2017: NOK 79 million
Equity capital 2017: NOK 27.7 million
Number of employees: 12
CEO: Henrik Lindquist
Henrik.Lindquist@enterfonder.se
Chairman: Peter Sundgren, Attorney at Law
www.enterfonder.se

Pareto Shipbrokers AS

Pareto Shipbrokers AS (PSAS) offers brokerage services, primarily to the offshore and renewable energy sectors. The firm's team represents deep knowledge and experience within the company's market segments.

PSAS' history dates back to 1912, when the firm started out in the lumber and ship broking business. The company played a central role in establishing and building up many of Southern Norway's shipping companies in the late 1920s and 1930s. Until as recently as around 1980, the company remained the exclusive broker for many shipping companies in Southern Norway for chartering, contracting newbuilds, and buying and selling tonnage. The company has an unbroken history of shipbroking extending back 106 years. The company joined the Pareto group in 2006.

The offshore department was formed in the mid-1970s, when the supply vessel sector started to expand. Over the years, the business focused increasingly and then entirely on offshore brokerage and today PSAS is a market leader in this sector. The firm's business includes arranging long-term contracts between the owners of supply vessels and the operators/ oil companies, securing charter of the vessels for extended periods of time, ranging from a few months to several years. In the spot market, the brokers arrange shorter-term contracts for supply vessels to carry cargoes and supplies to drilling and production rigs and other offshore installations. The firm also brokers contracts for anchor-handling vessels and tugs, for example for towing offshore oilrigs. Furthermore, PSAS is active in the renewable energy market. The contracting of newbuilds, especially in the special purposes tonnage sector, has formed a major part of PSAS's business since the millennium.

PSAS also arranges charters and purchase and sales of rigs as well as valuations of ships and fleets.

The company is represented in the UK by Pareto Shipbrokers Ltd, which is headquartered in Guildford outside of London and also has an office in Aberdeen. Pareto Shipbrokers Ltd is a wholly-owned subsidiary of PSAS. The UK business primarily comprises the broking of offshore units for the oil and gas industry and for the renewable energy sector. The acquisition and sale of tonnage

and equipment of all types within our primary area of business also makes up an important part of our business concept. Over the years, the company has developed in-depth expertise within specification analysis and design of future supply ships and special units for offshore operations. Working in collaboration with marine architects, designers and shipowners, PSAS has developed a range of new ship projects and contracted for a number of newbuilds. In addition, the department has built up a comprehensive database of the international fleet of supply ships. This provides a sophisticated and useful tool for the department and for the company's clients.

Collaboration

As part of the Pareto group, PSAS, in collaboration with other subsidiaries, is able to offer package solutions that include buying and selling ships, full financing of equity and debt capital, as well as securing employment for ships and rigs.

The combined strengths of the PSAS companies make it a significant player in the offshore broking business.

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Pareto Shipbrokers AS

Dronningens gate 3
4610 Kristiansand, Norway
Telephone: +47 38 12 31 11
Turnover 2017: NOK 66 million
Equity 2017: NOK 30 million
Number of employees: 27
CEO: Karsten Christensen
karsten@paretoship.no
Chairman: John PAI Bernander
www.paretoship.com

Pareto Bassøe Shipbrokers AS

Pareto Bassøe Shipbrokers comprises tanker brokers P.F. Bassøe AS and dry cargo brokers Pareto Dry Cargo AS.

P.F. Bassøe AS

The main focus of the business of shipbrokers P.F. Bassøe is tanker chartering. Our services are rooted in our comprehensive knowledge of the markets in which we operate, and our aim is to deliver added value to our clients by providing accurate and timely information, a high level of service, reliability and creativity. We offer chartering services in most tanker segments. Our client base is international, consisting of shipowners, international oil companies and oil traders.

With clients in all time zones, a substantial part of our work involves ensuring that they are apprised of market developments at all times. We also place great importance on monitoring transport assignments after the commercial terms have been agreed. Our operations department is staffed by a highly professional team with experience of working both at sea and in shipowning companies.

In addition to standard chartering services we undertake project-oriented work on long-term charters and freight contracts, as well as customising solutions to the specific requirements of individual clients.

Market research is an essential support service for our clients and for our own brokers. This work involves continuous market monitoring, projections, and in-depth studies of segments and trends within our markets.

Pareto Dry Cargo AS

Pareto Dry Cargo maintains a global network of shipowners and industrial clients. We have a solid foothold in the dry bulk chartering business, with a particular focus on Ultramax, Supramax and Handysize tonnage. In addition to working actively in the spot market, our brokers focus on long-term freight contracts and charters. The company also works closely with industrial clients in the aluminium, cement and grain industries. Project and advisory services are also available.

P.F. Bassøe AS

Dronning Mauds gate 3
P.O. Box 1723 Vika
0121 Oslo, Norway
Telephone: +47 24 02 81 80
Turnover 2017: NOK 8 million
Equity 2017: NOK 4 million
Number of employees: 3
CEO: Bjørn Erik Løkken
crude@pfbassoe.no
Chairman: Åsmund Skår
www.pareto.no

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Pareto Dry Cargo AS

Dronning Mauds gate 3
P.O. Box 1411 Vika
0115 Oslo, Norway
Telephone: +47 24 02 81 90
Turnover 2017: NOK 21 million
Equity 2017: NOK 3 million
Number of employees: 7
CEO: Morten Lie
dry@pareto.no
Chairman: Åsmund Skår
www.pareto.no

Pareto Forsikringsmegling AS

Pareto Forsikringsmegling AS is an independent advisor and insurance broker offering bespoke non-life, life and pension insurance solutions and general insurance advice. Annually, we purchase insurance cover worth over NOK 1.9 billion kroner on behalf of our clients.

Insurance brokerage and advisory services

Pareto Forsikringsmegling offers brokerage and advisory services within non-marine insurance. Our clients are large and medium-sized enterprises in the private and public sectors. In addition, we offer group cover products (affinity) for non-profit organisations, as well as product insurance for the products and services offered by companies.

Drawing on in-depth risk analysis and industry knowledge, we advise our clients on the structure of the risk associated with their business and what we consider to be the correct level of cover. Based on this analysis, we draw up a general policy on insurance and an optimum insurance programme.

At the reporting date, the company has 34 employees: 27 in Oslo and seven in Kristiansand. All our personnel have extensive experience and a high level of expertise within their respective specialist fields. Pareto Forsikringsmegling is a member of the GBN Worldwide network of independent insurance brokers.

Non-life insurance

The market for non-life insurance continues to be intensely price competitive, with a large number of competing insurance suppliers. Major international companies and smaller niche operators continue to capture market share from the large established Norwegian insurance companies.

The primary concern of our non-life department is that our clients should have the appropriate level of cover. We use risk and vulnerability analyses to alert our clients to areas of risk to their property, vehicles, liability and consequential loss of which they may not previously have been aware. The insurance cover taken out by our brokers on behalf of clients is largely provided by A-rated insurers. As a result, our clients can be confident that the insurers will have the willingness and ability to meet their obligations should a claim be made.

Pension and life insurance

The life and pension department arranges group pension and personnel cover in collaboration with our clients and their employees. The market continues to be characterised by stiff competition between suppliers, enabling favourable terms to be achieved for our clients. A number of semi-public organisations still have defined benefit pension schemes in place, but there are now fewer projects to change pension schemes into defined contribution.

Our strategy of offering both traditional insurance brokerage (all inclusive) and what we refer to as module-based services remains in place.

Our modules include:

- Monitoring the market
- Mapping and evaluating insurance strategy
- Economic analyses of insurance programmes and suppliers
- Processes of change in insurance programmes
- Analyses of price and conditions
- Communicating with and advising employees
- Basic insurance brokerage

Damage prevention

As part of our overall range of services, Pareto Forsikringsmegling offers advice on damage prevention. If requested, we will act as a collaboration partner in describing the risk picture and assessing measures for improving risk economy. This allows us to reduce risk, bring down claims frequency and secure the optimum price for insurance solutions. Our damage-prevention concept involves both general advice and services specifically related to personal/pension and non-life insurance. Our damage-prevention advice encompasses risk assessment and damage prevention analyses relating to risk management, safety culture and preparedness.

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Pareto Forsikringsmegling AS

Dronning Mauds gate 3

P.O. Box 1527 Vika

0117 Oslo

Telephone: +47 22 87 87 00

Turnover 2017: NOK 71 million

Equity 2017: NOK 26.4 million

Number of employees: 34

CEO: Vegard Mjelva Finsæther

vmf@pareto.no

Chairman: Petter W. Borg

www.pareto.no

Pareto Bank ASA

Norway's leading project bank

Pareto Bank specialises in financing complex projects. Our primary focus is on real estate projects and our market position is especially strong in the area of housebuilding and residential developments. In addition, we offer a variety of different financing solutions to medium-sized companies with specific capital requirements for a transaction or a project. Our products include loans for acquisitions, bridge loans, company owner loans and working capital facilities.

We finance purchases of shares and bonds with the aid of customised solutions suited to the needs of the individual client. In the shipping and offshore sectors, we are able to draw on the opportunities offered by our close ties to the Pareto group. Our activities are directed at Norwegian shipping companies, owners and the Norwegian project market.

Outlook

At yearend, the availability of real estate project opportunities remains good. As a consequence of the fall in housing prices and a shift in sentiment in the market in Oslo and its environs, the level of activity in the new build sector has fallen. Nevertheless, the picture is nuanced and sales of small houses and demand for apartments on the outskirts of Oslo remain buoyant. The bank maintains its sharp focus on housebuilders' advance sales, liquidity and equity capital, and remains cautious about financing projects where realisation lies far ahead in time.

In the shipping and offshore sectors several market segments are showing signs of improvement, and the bank is expecting growth in 2018. Project opportunities in the corporate finance area are abundant. In our view, growth prospects in the area of corporate financing are promising.

Accordingly, Pareto Bank will continue its strategy of growth in 2018. The profitability and financial strength of the bank give it an excellent springboard for continued success in 2018.

Outstanding 2017 result

Pareto Bank's post-tax profits in 2017 amounted to NOK 313 million (NOK 247 million in 2016). This is equivalent to a return on equity after taxes of 15.9 per cent (15.9 per cent). Yet again, the bank has beaten all its previous records.

At yearend 2017, the bank held total assets of NOK 13.1 billion (NOK 12.9 billion). Loans to customers increased throughout 2017 and by the end of the year amounted to NOK 9.4 billion (NOK 8.8 billion). With a view to creating freedom of action and

scope for further growth in lending, Pareto Bank syndicated loans to a total value of NOK 0.6 billion within real estate financing in the fourth quarter 2017. Without these syndications, the volume of lending would have amounted to NOK 10.1 billion at yearend.

The common equity Tier 1 capital ratio at yearend 2017 was 17.7 per cent (17.2 per cent), the Tier 1 capital ratio was 18.1 per cent (18.8 per cent), while the total capital ratio stood at 20.6 per cent (21.5 per cent). The Board proposes the payment of a dividend for 2017 of NOK 1.60 per share, equivalent to a dividend payout ratio of 30.3 per cent.

The bank's share was accepted for listing on Oslo Axess on 27 May 2016 and on Oslo Børs main list on 12 December 2016. Listing has increased the visibility and liquidity of the share.

The largest shareholders of Pareto Bank:

Name	Stake
Pareto AS	15,2 %
Pecunia Forvaltning AS	10,0 %
Saga Tankers ASA	8,6 %
Apollo Capital Management	8,3 %
Indigo Invest AS	7,5 %

Senior staff of Pareto Bank ASA hold a total of 1.8 per cent of the shares.

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Pareto Bank ASA

Dronning Mauds gate 3
P.O. Box 1823 Vika
0123 OSLO
Norway
Telephone: +47 24 02 81 20
Total assets 2017: NOK 13 104 million
Equity 2017: NOK 2 126 million
Number of employees: 39
CEO: Tiril Haug Villum
tiril.villum@paretobank.no
Chairman: Åsmund Skår
www.paretobank.no

Financial Statements 2017

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The Directors' report

Our business objectives

Pareto will continue to be developed as a financially sound and profitable group of companies comprising highly focussed and independent units. The aim of the Directors and the management of the company is that the cornerstone of the business should be the respect and trust of the company's employees, clients, competitors and the public authorities.

Operations

The company's business comprises financial advisory services, brokerage in the field of securities, ships, rigs and insurance, as well as project financing and asset management. The group's business activities are primarily conducted through operating companies Pareto Securities AS and its subsidiaries, Pareto Asset Management AS, Pareto Shipbrokers AS, Pareto Bassøe Shipbrokers AS, Pareto Wealth Management AS, Pareto Alternative Investments AS, Pareto Forsikringsmegling AS and Enter Fonder AB. Pareto AS is the parent company of the group. Pareto's head office is located in Oslo and, in addition, the subsidiaries have offices in Stavanger, Trondheim, Kristiansand, Stockholm, Malmö, Helsinki, Copenhagen, London, Aberdeen, Frankfurt, Hamburg, Zürich, Paris, Singapore, Perth, New York and Houston.

The market

The spirit of optimism that characterised the end of 2016 carried over into 2017. The oil price and stock markets continued their upwards trajectories while interest rates remained low. Following weak growth in the Norwegian mainland economy since the fall of the oil price in 2014, the downturn now appears to be over. Low interest rates, a weak Norwegian krone and an expansive fiscal policy have combined to increase the rate of growth in the mainland economy. Healthy levels of activity and a belief in future growth were reflected in the need for injections of fresh capital into business and industry.

In recent years, one of the consequences of stricter capital requirements in the banking sector has been that the banks have tightened their lending practice, especially to companies. This has served to reduce the risk of losses by the banks, but an additional effect has been that many companies have sought alternative financing solutions elsewhere. The combination of the need for alternative funding and a generally lowered credit premium on corporate bonds combined to create a record year for the market for high yield bond issues. Some of this growth can undoubtedly be attributed to the maturing of the Nordic market for bond financing. Moreover, Nordic banks have to an increasing degree looked to the bond market as a source of finance. Never before has so much fresh capital been raised on Oslo Børs (Oslo Stock Exchange) as in 2017, most of this taking the form of debt capital.

The volume of new shares issued on the stock market in 2017 also surpassed all previous records. Activity levels in the second-hand market were high and the main Oslo Børs Index climbed 19.1 per cent for the year as a whole. Telecoms, materials and finance were the strongest sectors. Banks and savings banks have benefited from the upsurge of the Norwegian economy, sending the Financial Sector Index up 25.8 per cent. The rising oil price, unwavering focus on cost and productivity-boosting measures by the industry pushed the Oil Service Index up 14.1 per cent.

The higher oil price also led to some strengthening of the Norwegian krone during 2017. Nevertheless, in historical terms the krone is weak and future developments in the exchange rate will be sensitive to interest-rate decisions by the Norwegian central bank, Norges Bank. Although there are grounds for believing that the interest-rate path is on an upward trajectory, there is much to suggest that Norges Bank will raise the key rate of interest gradually and in small stages.

It has to be acknowledged that low interest rates and the weak Norwegian krone reflect weaknesses in the real economy, both of the West in general and the Norwegian economy in and outside the petroleum industry in particular. However, these two factors are not necessarily entirely negative. During 2017, the money market rate (3-month NIBOR) fell from 1.17 per cent to 0.81 per cent, while the rate on 10-year Norwegian government bonds declined from 1.70 per cent to 1.65 per cent. This reduced both the opportunity cost and the discount rate for the investment products that the Pareto group buys/sells or manages. For Pareto companies conducting business outside Norway a weak krone has a beneficial effect on earnings measured in Norwegian kroner.

Global economic growth picked up towards the end of 2016 and this improvement continued into 2017. Of the industrialised economies, developments in the euro area, US and Japan contributed to higher growth levels. Several emerging economies, headed by China, also recorded increased growth levels. The stock market, which in purely statistical terms represents one of the better indicators of future growth, rose to new heights. The MSCI World Index measured in local currency recorded an upturn of 18.5 per cent in 2017.

For Pareto, economic conditions must, all things being considered, be said to have been positive in 2017, although the situation for some of the subsidiaries of the group was challenging.

Earnings

Developments in the securities markets have a significant impact, directly and indirectly, on Pareto's income statement.

Last year's very strong markets gave a very positive impulse to the operations of the group, and the income statement must be described as very satisfactory. In the assessment of the Directors, Pareto's operating model once again played its part in fostering engagement and commitment on the part of our personnel, and in ensuring that attention was focused on maintaining sensible cost levels and low risk.

For many years, the parent company of the group has invested surplus liquidity in the securities market and has built up a relatively substantial portfolio of securities, much of which is in the form of investments in the group's own investment products. The value of this portfolio developed well in 2017. Parts of the portfolio were also sold off during the year. Realised returns and dividend received by the parent company accounted for approximately one third of the pre-tax profits of the group.

Group operating revenues in 2017 amounted to NOK 2 719 million, compared with NOK 1 940 million in 2016. Operating profit was NOK 866 million, as against NOK 505 million in 2016. Pre-tax profits totalled NOK 1 295 million, compared with NOK 882 million in 2016. Almost all of the operating companies increased their operating revenues in 2017, and levels of activity and earnings were particularly high on the primary market, where Pareto raised fresh capital in both the stock market and bond market. Pareto's asset and wealth management operations also reported very satisfactory results, increasing assets under management thanks to both high returns and positive net subscriptions.

The financial strength and liquidity of the group are good. Book equity at yearend stood at NOK 7 334 million. Bank deposits totalled NOK 2 320 million. Of the group's portfolio investments, over 95 per cent are in equity instruments. The group has very little interest-bearing debt.

The Directors are very satisfied with the performance of the subsidiaries and have elected to continue the long-term investment strategy of the parent company. Distributions received from the subsidiaries will be applied in the development of new ventures under the group's own auspices or invested in other companies, primarily in the form of equities. Since balance sheet date Pareto has acquired real estate agents Eiendomsmegler Krogsvæn. This acquisition does not affect the 2017 financial statements.

Pareto Securities

In the assessment of the Board of Directors, Pareto Securities is Norway's premier operator within the arrangement of high yield bond placements, project financing and the syndication of real assets. The company is a highly efficient entity with a broad international contact surface.

For Pareto Securities, 2017 proved to be a very fruitful year. Operating revenues ended the year at NOK 2.07 billion, up on the NOK 1.37 billion reported last year. The company is diversified in terms of both geography and product range and reported very

satisfactory earnings in all areas. The company boasts a strong bond product and this part of the business posted a particularly high increase in earnings. The pre-tax profit was NOK 715 million, compared with NOK 377 million in 2016. The continued conservative stance on risk has ensured that losses on accounts receivable and own positions have been limited in size.

The company maintained its leading position in the Nordic capital market. This year, the company took part in 65 equity capital placements to a total value of over NOK 30 billion. Activity levels were high in many sectors in 2017, including energy, offshore, shipping, banking/finance, health and technology. The company also advised on several IPOs in Norway and Sweden.

2017 was a record year in the Nordic market for high-yield bonds. High levels of activity were reported by all of Pareto Securities' local offices and the company was involved in arranging placements of bonds issues for an amount in excess of NOK 70 billion. Pareto Securities participated in arranging bond issues in sectors such as shipping, E&P, mining and telecoms.

Pareto Securities also advised on several large-scale M&A transactions (sales, acquisitions and mergers) in 2017.

Project Finance had a very strong year, with high levels of activity within both real estate and shipping/offshore. The Project Finance operation participated in real estate-related transactions with a total value of over NOK 15 billion, and in shipping/offshore related transactions with a value of over NOK 3 billion.

At yearend 2017, subsidiary Pareto Business Management managed some 160 project and investment companies with a gross value of NOK 45 billion on behalf of Norwegian and international investors.

Subsidiary Pareto Offshore reported increases in operating revenues and earnings in 2017.

Most of the revenues of the Pareto Securities group were related to issuers and investors outside Norway. The company has offices in Norway, Sweden, Finland, Denmark, the United Kingdom, Germany, Switzerland, France, the United States, Australia and Singapore.

Pareto Asset Management

Interest rates that remained low, rising world stock markets, and a Norwegian krone that remained weak combined to produce healthy returns on clients' funds for Pareto Asset Management. In addition, the funds recorded positive net subscriptions, resulting in an increase in assets under management by NOK 4.6 billion to NOK 36.4 billion. Operating revenues rose from NOK 278 million to NOK 360 million. The operating profit ended the year at NOK 148 million, compared with NOK 121 million posted for the preceding year.

The Norwegian portfolios in Pareto Aksje Norge, actively managed accounts and Pareto Investment Fund all reported

satisfactory years in absolute terms, but failed to keep pace with their reference indices in 2017 following the healthy excess returns reported the year before. The high active share in all the portfolios means that from one year to the next the portfolios will report substantial variations from their respective benchmark indices.

Equities fund Pareto Global reported excess returns in four out of five unit classes. Moreover, the alternative investment fund Pareto Total posted returns of over 18 per cent.

For most of our fixed-income funds, 2017 proved to be a rewarding year. Pareto Nordic Corporate Bond in particular had an outstanding year, reporting a return of eight per cent. In December, the fund merged with Pareto Kreditt, a fund with a corresponding mandate.

Pareto Global Corporate Bond reported the highest net subscriptions, with assets under management at yearend of four billion kroner. The fund was founded in March 2015 and has since grown very rapidly. The fund is managed by the Stockholm office.

The company opened a branch office in Frankfurt in January 2018.

Pareto Shipbrokers and Pareto Bassøe Shipbrokers

The brokerage business of Pareto Shipbrokers is one of the biggest in the segment of the global oil and offshore industry in which the firm operates. As a consequence of the persisting weakness of the offshore and renewable energy sectors, consolidated operating revenues fell from NOK 81 million to NOK 66 million. The operating profit ended the year at NOK 1.9 million after goodwill amortisations of NOK 14 million (NOK 1.8 million after goodwill amortisations of NOK 22 million in 2016).

Pareto Bassøe Shipbrokers' brokers reported healthy earnings in 2017. The dry cargo freight market improved over the course of the year, with freight rates reaching a level that most operators are comfortable with. The operating revenues of Pareto Dry Cargo grew from NOK 14.4 million to NOK 21 million. Operating profits ended at NOK 6.4 million, up from the NOK 3.3 million posted the year before. The pressure on tanker rates persisted throughout the year. Even so, the operating revenues of P.F. Bassøe increased from NOK 4.3 million to NOK 7.9 million, with the operating profit rising from NOK 0.6 million in 2016 to NOK 2.2 million in 2017.

Pareto Wealth Management

Pareto Wealth Management reorganised and downsized in 2017 and in doing so reduced its personnel costs. Notwithstanding the reduction in staff numbers, the company was able to grow its operating revenues from NOK 68 million to NOK 79 million. These two factors combined to bring about a significant improvement in the operating result, which rose from –NOK 0.5 million to NOK 14 million.

The firm is continuing to pursue its overarching, long-term strategy of building sound relations with its clients by providing transparent products of high quality offering robust returns, and thus earning lasting client relationships. Assets under management and client funds totalled NOK 10 billion at yearend.

Pareto Alternative Investments

Pareto Alternative Investments saw a substantial increase in its assets under management and earnings in 2017. In total, assets under management grew by NOK 4.5 billion during the reporting year. At yearend, the company managed NOK 12.5 billion in equity capital in the areas of real estate, credit and maritime investments. The operating revenues of the company closed the year at NOK 90.6 million, up from the NOK 53.5 million posted in the preceding year. Pre-tax profits amounted to NOK 46.4 million, compared with the NOK 22.6 million reported in 2016.

Enter Fonder

2017 proved to be a profitable year for Swedish stocks and for Enter's equity funds. Enter's active management laid the foundations for strong returns on all the equity funds. Notwithstanding pressure on Swedish interest rates and small movements in fixed income markets, the fixed income business reported a healthy risk-adjusted return. The competition to attract fund clients is intense in Sweden, and even though the company delivered excess return over and above its reference indices, net subscriptions were negative. Assets under management at yearend 2017 amounted to NOK 9.2 billion. The company reported an operating profit of NOK 18.5 million, up from NOK 17.7 million in 2016.

Pareto Forsikringsmegling

Pareto Forsikringsmegling offers brokerage and advisory services within non-marine insurance to large and medium-sized enterprises in the private and public sectors in the Norwegian market.

Despite a challenging market characterised by stiff competition, the company succeeded in growing its operating revenues from NOK 69 million to NOK 71 million and achieved an operating profit of NOK 21.4 million (NOK 20 million in 2016).

Pareto Bank

At yearend, Pareto AS owned 15.22 per cent of the shares, while senior staff of the bank owned 1.08 per cent and senior personnel in the Pareto group owned 0.55 per cent.

Pareto Bank is Norway's leading project bank and specialises in real estate financing, corporate and securities financing and shipping and offshore financing. The bank collaborates with other companies in the Pareto group.

The bank recorded an operating profit of NOK 415 million, compared with NOK 328 million in the preceding year.

Total assets stood at NOK 13.1 billion at yearend, as compared with NOK 12.9 billion the year before.

Pareto's strategy

Pareto's strategy is to be a leading, independent Nordic investment company in which the individual subsidiary has a decentralised and focussed strategy.

Although priority is given to organic growth and the development of in-house expertise, acquisitions and mergers will also be considered if they serve to develop and complement the company and extend the product range. Pareto will cooperate with other players wherever appropriate and whenever doing so will offer our clients the optimum product.

Pareto's aim is to be the preferred Nordic provider of financial services, reflecting the company's thorough and detailed knowledge of social conditions, industries and individual companies. The energy and maritime sectors represent examples of industries of this nature.

The Directors believe that based on the group's proven ability to adapt and change, Pareto still has considerable potential for improvement and growth. One example of this is provided by the way in which Pareto has used its core expertise in selected industries as a platform for international expansion.

Outlook

In addition to the company's own efforts and development, Pareto's earnings are affected by the general levels of activity in the financial markets.

Pareto has a modest cost structure and a sound balance sheet and as a consequence is well equipped to tackle challenges in the market.

Global growth, optimism and a willingness to invest appear to have revived and favourable growth estimates for 2018 bear witness to a belief in the continued development of the world economy. The uncertainty attached to the significant level of public sector debt in a number of countries and political unrest has by no means been eliminated, but experience has shown that, such factors notwithstanding, well-run companies are able to produce satisfactory results.

Historically, the Pareto group has focused on petroleum and offshore related industries and the group's exposure to these industries remains substantial. The last two years have seen a rise in the oil price, but it remains considerably lower than before the downturn started in 2014. Accordingly, even though the group has built sources of income that offer a greater level of stability

and has expanded internationally, we remain vulnerable to major, long-term fluctuations in the price of oil and, above all, to a drop in the oil price to a low level that persists over the long term. This remains the case not least because the petroleum industry is also an essential driver of growth in the mainland economy in Norway.

While fully aware of these challenges, the Directors have a fundamentally optimistic outlook and take a positive view of Pareto's prospects, not only in the coming year but also in the longer term.

Distribution of profits and other matters

In addition to its role as the parent company of the group, Pareto AS' business consists of investing in various securities. The company is exposed to market risk on its own holdings of financial instruments. In addition, its subsidiaries are exposed to risks associated with some market making and client payments.

The working environment within the companies in the group is good and it has not been necessary to put in place special measures of any kind. The level of absence due to sickness within the group is low and no injuries or accidents were reported during the reporting year. The group practises equality of opportunity between men and women. In its recruitment policy the company makes a deliberate effort to attract the ablest candidates without discriminating on the basis of gender, ethnicity or other factors.

The company is not involved in research and development activities. The company's operations are not such that they pollute the external environment.

The group's profit after tax cost totals NOK 1 071 million. The parent company's after-tax profit is NOK 540 million. The Directors propose that the profit after taxes be transferred in its entirety to Other Equity.

At yearend, owner's equity in the parent company had increased to NOK 6 109 million. Consolidated group book equity stands at NOK 7 334 million.

The Annual Report and Accounts are rendered on the going-concern assumption, which assumption still applies. The Directors consider that the accounts give a true picture of the Pareto group's assets and liabilities, its financial situation and profits. The Directors wish to thank our employees for their excellent work in the past year and the group's clients for the trust they have continued to place in us.

Bjørn Gabriel Reed (Chairman)

Ole Henrik Bjørge

Oslo, 24 April 2018

Svein Støle (Director/CEO)

Lasse Ruud

Karsten Christensen

Income Statement

Parent company (NOK '000)

Group (NOK '000)

2016	2017		Notes	2017	2016
		Operating revenues			
0	0	Operating revenues	2	2 719 159	1 940 005
0	0	Total operating revenues		2 719 159	1 940 005
		Operating expenses			
-9 565	-6 797	Personnel costs	3	-1 322 875	-987 477
-3 786	-3 025	Sundry other operating costs		-478 753	-393 865
-281	-285	Ordinary depreciation & amortisation	4	-52 004	-53 297
-13 632	-10 106	Total operating expenses		-1 853 632	-1 434 640
-13 632	-10 106	Operating profit/loss		865 527	505 365
		Financial income/expenses			
313 296	154 631	Financial income		211 094	342 354
495 724	441 591	Share dividends		191 294	137 309
-5 881	0	Adjustments, securities	10	140 824	83 629
4 992	8 393	Share of associated companies	5	8 393	4 992
-51	0	Interest paid		-8 748	-4 375
-118 509	-34 531	Other financial expenses		-113 784	-187 739
689 571	570 083	Total financial income/expenses		429 073	376 170
675 939	559 977	Income before tax		1 294 600	881 535
-9 891	-20 058	Tax expense	13	-223 339	-139 690
666 048	539 919	Profit for year		1 071 261	741 845
		Allocations:			
0	0	- Minority's share of profit		-485	-9 242
0	0	- Provision for dividend		-200 077	-74 349
-666 048	-539 919	- Transferred to other equity		-870 699	-658 254
-666 048	-539 919	Net		-1 071 261	-741 845

Balance Sheet - Assets

Parent company (NOK '000)

Group (NOK '000)


31.12.2016	31.12.2017	Fixed assets	Notes	31.12.2017	31.12.2016
		Intangible assets			
		Goodwill acquired	4	22 712	55 235
0	0	Deferred tax assets	13	22 984	20 537
0	0	Total intangible assets		45 696	75 772
		Property, plant & equipment			
1 354	1 090	Fixtures, fittings, machinery etc.	4	49 901	45 595
		Financial fixed assets			
1 095 284	1 171 119	Shares in subsidiaries	5	0	0
28 288	35 686	Shares in associated companies	5	35 686	28 288
117 255	117 255	Other securities	6	134 013	117 255
0	5 429	Other non-current receivables	7	5 439	44
187	136	Premium fund	8	467	521
1 241 013	1 329 625	Total financial fixed assets		175 605	146 107
1 242 368	1 330 715	Total fixed assets		271 202	267 475
		Current assets			
		Receivables			
0	0	Trade receivables		848 747	667 712
21 388	45 963	Other receivables	9	545 909	311 182
21 388	45 963	Total receivables		1 394 655	978 893
		Investments			
4 237 570	4 734 269	Securities	10	6 315 117	5 549 161
4 237 570	4 734 269	Total investments		6 315 117	5 549 161
82 842	39 246	Bank deposits	11	2 320 040	2 117 787
4 341 800	4 819 477	Total current assets		10 029 812	8 645 841
5 584 168	6 150 192	Total assets		10 301 014	8 913 316

Balance Sheet - Equity and Liabilities


Parent company (NOK '000)

Group (NOK '000)

31.12.2016	31.12.2017	Equity	Notes	31.12.17	31.12.16
		Paid-in capital			
19 000	19 000	Share capital		19 000	19 000
24 301	24 301	Share premium reserve		0	0
43 301	43 301	Total paid-in capital		19 000	19 000
		Retained earnings			
5 525 653	6 065 572	Other equity		7 110 227	6 229 537
5 525 653	6 065 572	Total retained earnings		7 110 227	6 229 537
		Minority interests		204 872	138 126
5 568 954	6 108 873	Total equity	12	7 334 100	6 386 663
		Liabilities			
		Provision for commitments			
0	0	Pension commitments	8	2 740	3 182
36	27	Deferred tax	13	584	1 898
36	27	Total provision for commitments		3 324	5 080
		Non-current liabilities			
0	0	Other non-current liabilities	14	262 730	194 392
0	0	Capital contributed by silent partners		12 958	13 488
0	0	Total non-current liabilities		275 688	207 880
		Current liabilities			
3 479	21 002	Other current liabilities	9	2 241 262	2 090 897
9 810	20 058	Tax payable	13	195 269	101 502
0	0	Dividends		200 457	77 544
1 888	231	Government charges and special taxes payable		50 914	43 750
15 177	41 292	Total current liabilities		2 687 902	2 313 693
15 214	41 318	Total liabilities		2 966 914	2 526 653
5 584 168	6 150 192	Total liabilities and equity		10 301 014	8 913 316

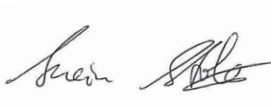


Bjørn Gabriel Reed (Chairman)

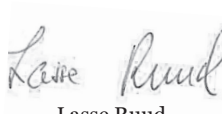


Ole Henrik Bjørge

Oslo, 24 April 2018



Svein Støle (Director/CEO)



Lasse Ruud



Karsten Christensen

Cash Flow Statement

Parent company (NOK '000)

Group (NOK '000)

2016	2017		2017	2016
		Cash flow from operating activities		
675 939	559 977	Ordinary profit before tax expense	1 294 600	881 535
-20 027	-9 818	Tax paid in period	-133 333	-164 985
281	285	Ordinary depreciation and amortisation	19 447	21 515
5 881	0	Securities adjustments	-140 824	-83 629
20	52	Net change in pensions without cash effect	-388	-388
0	0	Other items without cash effect	48 656	-29 981
-4 992	-8 393	Share of profits of associated company	-8 393	-4 992
26 997	-24 575	Change in receivables	-415 762	33 632
833	15 866	Change in other liability items	157 529	-27 280
684 931	533 393	Net cash flow from operating activities	821 533	625 428
		Cash flow from investment activities		
-49	-20	Payments for purchases of tangible assets	-23 753	-9 325
105 190	-496 699	Net cash flow, short-term investments	-625 132	-456 178
-723 020	-81 265	Payments for purchases of financial fixed assets	-22 154	-63 589
8 246	995	Received from sales of financial fixed assets	995	8 246
-609 633	-576 989	Net cash flow from investment activities	-670 044	-520 846
		Cash flow from financing activities		
-100 700	0	Dividend paid	-77 544	-228 896
0	0	Payment purchase of treasury shares	0	0
0	0	Change non-current commitments and liabilities	67 808	190 425
0	0	Payments of equity to/from minority interests	60 499	8 536
-100 700	0	Net cash flow from financing activities	50 764	-29 935
-25 403	-43 596	Net change in bank deposits	202 253	74 646
108 245	82 842	Bank deposits in hand at 1 Jan.	2 117 787	2 043 141
82 842	39 246	Bank deposits in hand at 31 Dec.	2 320 040	2 117 787

Notes to the Accounts

Note 1 Group structure

Pareto AS owns 66.7% of Pareto Securities AS, 87.5% of Pareto Asset management AS, 100% of Pareto Bassøe Shipbrokers AS, 100% of Pareto Shipbrokers AS, 100% of Pareto Wealth Management AS, 100% of Pareto Forsikringsmegling AS, 100% of Pareto Fondsinvest AS, 100% of Pareto Invest AB, 100% of Pareto Alternative Investments AS, 100% of Pareto Pensions AS, 100% of Pareto Commodity AS, 100% of Gazza Eiendom AS and 100% of Vilfredo Kapitalforvaltning AS.

Pareto Securities AS owns 100% of Pareto Securities Pte Ltd, 100% of Pareto Securities Inc., 100% of Pareto Securities AB, 100% of Pareto Securities Oy, 100% of Pareto Securities Ltd, 100% of Pareto Securities Pty Ltd, 50% of Pareto Securities GmbH, 87% of Pareto Offshore AS, 60% of North Atlantic Seafood Forum AS, 100% of Pareto Business Management AS, 100% of Pareto Business Management AB, 100% of Pareto Business Management A/S, 100% of Pareto Maritime Services AS, 100% of Pareto Eiendom AS and 100% of Pareto Investorservice AS, 50% of Pareto Restructuring Advisors GmbH, 50% of Pareto Alternative Investments GmbH & Co. KG and 100% of Pareto Securities AG.

Pareto Bassøe Shipbrokers AS owns 100% of P.F. Bassøe AS and Pareto Dry Cargo AS.

Pareto Forsikringsmegling AS owns 100% of Pareto Forsikringsrådgivning AS.

Pareto Shipbrokers AS owns 100% of Pareto Shipbrokers Ltd.

Pareto Invest AB owns 72.66% of Enter Asset Management AB (EAM) and EAM owns 100% of Enter Fonder AB.

Gazza Eiendom owns 51% of Mandal Hotel AS.

Consolidation principles

Investments in subsidiaries are valued at procurement cost. In the consolidated accounts, the cost price of shares in the subsidiaries is eliminated against the share capital in the subsidiaries at the time of purchase. Inter-company transactions, receivables and debts as of 31 December are eliminated in the consolidated accounts. Exchange differences in connection with the translation of the financial statements of foreign subsidiaries are charged to group equity.

Accounting policies

The annual financial statements are prepared in accordance with the rules provided for in the Norwegian Accountancy Act.

Income items are recognised as earned and when claims for payment arise. Income is recognised at the value of the payment at the time of the transaction.

Assets intended for permanent ownership or use are classified as non-current. Other assets are classified as current assets. Receivables payable within one year are classified as current assets. Corresponding criteria are applied for classifying current and non-current liabilities.

Fixed assets are valued at procurement cost, but are written down to their real value when a drop in value is not expected to be temporary. Assets with a limited economic life are depreciated systematically. Long-term loans are recorded in the balance sheet at the nominal sum received at the time of the establishment of the loan.

Investments in companies in which the company owns between 20 and 50 per cent and has a significant influence, are reported according to the equity method.

Current assets are valued at whichever is the lower of procurement cost and fair value. Current liabilities are entered in the balance sheet at the nominal sum received at the time of establishment. Current liabilities are not written up to their fair value as a consequence of changes in interest rates.

Some items are valued according to other principles, as explained below.

Some of the operational subsidiaries are principals in their respective internal partnerships. The accounts for the internal partnerships are incorporated in the principals' accounts, based on gross values. Silent partners' shares of the internal partnerships' profits are debited as personnel costs and other financial expenses, respectively. Debts to silent partners are recorded under other current liabilities.

Provisions for bad debts are based on an assessment of the individual receivable. In addition, a provision is made to cover estimated losses on other trade receivables.

Financial instruments in the trading portfolio that are traded on an efficient market are valued at their fair value as of the balance sheet date. Other financial instruments are valued at whichever is the lower of the average procurement cost and fair value as of the balance sheet date. Shares are valued in accordance with the policies for valuing portfolios.

Notes to the Accounts

the matching principle.

Tax expense is matched with the pre-tax book profit. Tax related to equity transactions is offset against equity. Tax expense consists of tax payable, change in deferred tax and reimbursements pursuant to the Tax Act.

Monetary items in foreign currencies are translated at the rate of exchange applicable on the balance sheet date.

Note 2 Operating revenues, consolidated

(NOK '000)

	2017	2016
Brokerage/Corporate finance	2 151 215	1 433 132
Management/Business management	567 944	506 873
Total operating revenues	2 719 159	1 940 005

Note 3 Salaries, number of employees, remuneration etc.

(NOK '000)

	<i>Parent company</i>		<i>Consolidated</i>	
	2017	2016	2017	2016
Salaries, holiday pay, nat. insurance	6 608	9 427	1 244 935	924 473
Pensions and other personnel costs	189	138	77 939	63 004
Total	6 797	9 565	1 322 875	987 477
Number of man-years	4	3	587	557

Remuneration to the CEO in 2017 amounted to NOK 2 300 000. A provision of NOK 300 000 has been made for fees for the directors of the parent company. A provision of NOK 2 068 000 has been made for fees for the directors of the group.

Deloitte AS received fees of NOK 269 000 for auditing the parent company and NOK 3 625 000 for the group. Payment for other assurance engagements totalled NOK 23 000 for the parent company and NOK 1 206 000 for the group. Payments to other auditors to the group amount to NOK 64 000.

Payments to Deloitte Advokatfirma DA for legal services amount to NOK 0 for the parent company and NOK 398 000 for the group. These figures are exclusive of VAT.

Note 4 Tangible fixed assets

(NOK '000)

	<i>Parent company</i>		<i>Group</i>	
	Fixtures and fittings, IT	Fixtures and fittings, IT	Goodwill	
Procurement cost 01.01	1 774	191 667	118 195	
Additions in year	20	23 113	0	
Disposals/sale	0	3 263	0	
Procurement cost 31.12.	1 794	211 517	118 195	
Acc. depreciation 01.01.	420	145 935	62 960	
Disposals/sale	0	3 766	0	
Depreciation this year	285	19 447	32 523	
Acc. depreciation 31.12.	704	161 616	95 483	
Book value 31.12.	1 090	49 901	22 712	
Economic life	3-6 years	2-7 years	3-5 years	
Depreciation plan	Straight-line	Straight-line	Straight-line	

The parent company has a 10-year lease on the premises at Dronning Mauds gate 1-3, which expires on 13 July 2020. The annual rent excluding common expenses is approximately NOK 21 million.

Notes to the Accounts

Note 5 Shares in subsidiaries

(NOK '000)

Selskap	Office	% stake and votes	Bookvalue 31.12.
Pareto Securities AS	Oslo	66.7 %	69 317
Pareto Asset Management AS	Oslo	87.5 %	24 298
Pareto Bassøe Shipbrokers AS	Oslo	100.0 %	40 600
Pareto Shipbrokers AS	Kristiansand	100.0 %	108 500
Gazza Eiendom AS	Oslo	100.0 %	23 906
Pareto Commodity AS	Oslo	100.0 %	52 205
Pareto Wealth Management AS	Oslo	100.0 %	64 739
Pareto Pensions AS	Oslo	100.0 %	10 220
Pareto Forsikringsmegling AS	Oslo	100.0 %	20 423
Pareto Alternative Investments AS	Oslo	100.0 %	75 429
Pareto Invest AB	Stockholm	100.0 %	76 724
Pareto Fondsinvest	Oslo	100.0 %	581 986
Vilfredo Kapitalforvaltning AS	Oslo	100.0 %	22 772
			1 171 119

Shares in associated companies

Company Office in Pareto's stake	Fondsforvaltning Oslo 35.0%	Odin Marine New York 25/50%	Total associated comps.
Procurement cost	40 001	30 906	
Equity at time of purchase	23 939	10 540	
Goodwill at time of purchase	16 062	20 366	
Opening balance 1 Jan.	7 364	20 924	28 288
Share of year's profit	1 186	7 207	8 393
Dividends received	-995	0	-995
Closing balance 31 Dec.	7 555	28 130	35 686

Note 6 Other shares/bonds

(NOK '000)

Other securities, parent company	Number	Cost price	Book value
Pareto Bank ASA	8 921 873	117 255	117 255
Total other securities, parent company		117 255	117 255
Other securities, subsidiaries		16 600	16 759
Total other securities, group		133 855	134 013

The shares have an estimated value at least equal to book value.

Note 7

The parent company has granted employees/partners of the subsidiaries interest-bearing loans on which the outstanding balance as of 31 December 2017 is NOK 5 429 299.

Note 8 Pensions

The group has a defined contribution pension scheme as required under the Act concerning Mandatory Occupational Pensions. Premium paid in 2017 totalled NOK 51 570 for the parent company and NOK 8 799 000 for the group.

One subsidiary has two unsecured pension agreements, and a provision in the amount of NOK 2 740 000 has been made in the balance sheet for this commitment as of 31.12.2017. The provision has been calculated on the basis of the assumptions normally employed in the insurance industry.

Notes to the Accounts

Note 9

The parent company has claims in the amount of NOK 45 962 603 on group companies.
The parent company has debts of NOK 16 875 812 to group companies.

Note 10 Securities

(NOK '000)

Mutual funds, parent company:	Cost	Book value	
Direct investment funds	51 609	51 609	
Equity funds	911 086	911 086	
	962 695	962 695	
Other securities, parent company:			
Shares (NOK)	1 506 164	1 506 164	
Shares (SEK)	190 079	190 079	
Shares (EURO)	971 886	971 886	
Shares (GBP)	187 103	187 103	
Shares (CHF)	13 838	13 838	
Shares (USD)	592 312	592 312	
Shares (KRW)	300 611	300 611	
Other securities	9 582	9 582	
	3 771 574	3 771 574	
Total securities, parent company			4 734 269
Shares and partnership interests		220 870	
Bonds and certificates		34 445	
Fixed income funds		127 391	
Equity funds		1 198 143	
Total securities, subsidiaries			1 580 848
Total securities, group			6 315 117

Note 11 Bank deposits

The parent company has a non-distributable deposit of NOK 101 353 lodged in an account for tax withholdings. The group's bank deposits include NOK 109 227 000 in non-distributable accounts, of which NOK 17 955 000 in accounts for tax withholdings.

Sums lodged in client accounts belonging to clients (client funds) are not recorded in the balance sheets of the companies.

Note 12 Equity

(NOK '000)

Parent company	Share capital	Share premium account	Other equity	Total
Equity at 1 Jan.	19 000	24 301	5 525 653	5 568 954
Year's profit			539 919	539 919
Total equity as of 31 Dec.	19 000	24 301	6 065 572	6 108 873
Group	Share capital		Other equity	Total
Equity at 1 Jan.	19 000		6 367 663	6 386 663
Provision for dividends			-200 457	-200 457
Translation differences, subsidiaries			16 133	16 133
Net minority interests			60 499	60 499
Year's profit after tax			1 071 261	1 071 261
Total equity as of 31 Dec.	19 000		7 315 100	7 334 100

The share capital as of 31 Dec. is NOK 19 000 000, divided into 38 000 shares with a nominal value of NOK 500 each.

	Number of shares	Stake and voting %
Svein Støle	35 000	92.1%
Svele AS / Svein Støle	3 000	7.9%
	38 000	100.0%

There are two classes of shares. Shares owned by Svele AS are classified as B shares and carry a preferential right to dividends as determined by the General Meeting.

Notes to the Accounts

Note 13 Taxes

(NOK '000)

<i>Parent company</i>			<i>Group</i>	
2016	2017		2017	2016
675 939	559 977	Profit before income tax	1 294 600	881 535
0	0	Group contribution	4 000	-3 693
-623 416	-466 126	Permanent differences	-347 974	-306 210
-3	45	Change in temporary differences	17 197	-50 723
0	0	Change in deficits carried forward	-30 643	20 516
52 520	93 895	Year's tax base	937 181	541 425
13 130	23 474	Tax payable	231 067	138 597
-3 320	-3 415	Tax payable, withholding	-35 798	-37 095
9 810	20 059	Total tax payable	195 269	101 502
Specification of temporary differences				
0	0	Current assets	-10 963	-23 535
202	147	Tangible fixed assets	-9 322	-12 803
-51	-41	Intangible assets	-3 204	-4 154
0	0	Other items	-54 178	-10 679
0	0	Remaining loss for carrying forward	-27 165	-60 084
151	106	Basis for calculating deferred tax benefit/tax	-104 832	-111 255
36	27	23 - 25% deferred tax benefit/tax	-22 400	-18 639
Year's tax expense				
9 810	20 059	Tax payable	227 319	135 135
82	9	Tax correction for earlier years	-219	-9 922
-1	-10	Change in deferred tax benefit/tax	-3 760	14 477
9 891	20 058	Tax expense	223 339	139 690
1,5 %	3,6 %	Effective rate of taxation	17,3 %	15,8 %
Reconciliation from nominal to true tax expense				
168 985	139 994	Anticipated tax expense at nominal rate	322 506	219 895
-155 854	-116 532	Permanent differences	-85 562	-76 590
-2	2	Change in tax rates	-6 047	-2 202
82	9	Correction previous year(s)	-826	-2 737
-3 320	-3 415	Other items	-6 732	1 323
9 891	20 058	Tax expense	223 339	139 690

Notes to the Accounts

Note 14 Owed to credit institutions

(NOK '000)

Lender	Euro loan 31.12.2016	Interest added to loan 2017	Increased loan amount 2017	Fair value 31.12.2017	Unrealized forex gain/(loss) 2017
Jyske Bank	-194 452	-771	-1 963	-212 989	-15 804

The euro loan matures in its entirety in July 2021 and is collateralised with investments in mutual funds. The lender will notify if the value of the mutual funds falls below a certain threshold. As at 31 December, the value of the fund investments furnished as collateral was approximately 3.5 times the loan value (3.3 in 2016). The loan rate corresponds to 3 months interbank interest rate + 0.5%. The loan interest is due monthly and is accrued to the loan cost basis.

In addition to this, other non-current liabilities with maturity within 1-5 years amounts to NOK 49 741 million.

Note 15

DNB has furnished guarantees for Pareto Securities AS and the company's participation in securities settlements with Norges Bank in the amount of NOK 100 million. These guarantees are secured by a first priority factoring lien on trade receivables and a lien on short-term securities.

Pareto Securities AS has given the Monetary Authority of Singapore an undertaking that it will cover any commitments its subsidiary Pareto Securities Asia Pte Ltd may have, to a maximum limit of SGD 12 million.

Note 16

The parent company is exposed to the risk of fluctuations in the price of its own securities. In addition, the subsidiaries are subject to risks linked with their own trading, market making and payments from clients.

The financial market risk relating to the business of the subsidiaries is managed according to the rules of the Companies Act, the Securities Trading Act and the Risk Management and Internal Control Regulations issued by Finanstilsynet (The Financial Supervisory Authority of Norway).

Note 17 Related-party transactions

Svein Støle holds the controlling ownership interest in the parent company, Pareto AS. No transactions were conducted with the controlling interest.

Sales of services to other group companies	2 784
Purchases of services from other group companies	2 233

Pareto AS bought all shares in Pareto Alternative Investments AS from Pareto Securities in 2017.

Transactions with related parties are on arm's length prices and terms.

The amounts include costs invoiced by external suppliers passed on between group companies.



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Translation from the original Norwegian version

To the General Meeting of Pareto AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pareto AS showing a profit of NOK 539 919 000 in the financial statements of the parent company and profit of NOK 1 071 261 000 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2017, 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.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2017, 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, including 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 and the Group 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 in accordance with law and regulations, including 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 and the Group'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, including 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 and the Group'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 and the Group'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 and the Group 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.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and 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 and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 24 April 2018
Deloitte AS

Jørn Borchgrevink

State Authorised Public Accountant (Norway)

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

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