












Annual Report 2005



 Pareto



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# This is the Pareto Group

Pareto is a leading and independent investment bank in the Norwegian financial services market. The company maintains offices in Oslo, Stavanger, Bergen, Kristiansand, Bryne and Haugesund, and cooperates with its partially owned brokerage house Nordic Partners Inc. in New York. Pareto was incorporated in 1986, and has evolved into a group offering a comprehensive range of products. The company has 220 employees. This vigorous expansion has been facilitated by dedicated and skilful personnel, focus on developing good products, controlled growth and, not least, by our customers and business associates having confidence in us.

## BUSINESS AREAS

<b>Securities Brokerage</b> <ul style="list-style-type: none"><li>• Equity</li><li>• Bonds</li><li>• Derivatives</li></ul>	<b>Corporate Finance</b> <ul style="list-style-type: none"><li>• IPO</li><li>• M&amp;A</li><li>• Refinancing</li></ul>	<b>Project Finance</b> <ul style="list-style-type: none"><li>• Public companies</li><li>• Limited partnerships</li><li>• Private equity</li><li>• Unlisted companies</li></ul>	<b>Asset brokerage</b> <ul style="list-style-type: none"><li>• Shipping</li><li>• Oil &amp; Offshore</li><li>• Real Estate</li></ul>	<b>Asset management</b> <ul style="list-style-type: none"><li>• Equity</li><li>• Bonds</li><li>• Structured products</li><li>• Real estate, shipping &amp; offshore</li></ul>
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### PARETO'S BUSINESS AREAS

Through its subsidiaries, Pareto offers a comprehensive range of services within stock brokerage, bond brokerage, partnership interest brokerage, management of offerings of various equity and debt instruments, as well as direct investments.

The company is also engaged in business management relating to direct investments, valuations, refinancing, financial advisory services and commercial property brokerage, and offers asset management within the equity and debt markets. Pareto is also involved, through ship brokerage, in the chartering, as well as the sale and purchase, of tanker tonnage.

In June 2004, Pareto acquired a majority shareholding in PPN AS, which is an independent manager and distributor of financial products in Norway. The company has distribution agreements with a number of independent advisors.

### THE STRENGTHS OF PARETO ARE DIVERSITY AND A LOCAL PRESENCE

The breadth of the Pareto product range has given the company the strength to grow and prosper even in a challenging economic environment. Likewise, this has contributed to our customers achieving a balanced and diversified portfolio, generating attractive long-term yields.

Pareto's longstanding presence in local markets and companies has equipped us with the experience and qualifications to treat each customer individually, and to attend to his interests in the best possible manner.

Pareto prioritises organic growth and internal competence development. Mergers and acquisitions are considered on an ongoing basis with a view to complementing existing company resources and furthering the continued development of the company. We cooperate with other banks and brokers when it is appropriate and will contribute to our customers getting the best product.

# Pareto's objective and strategy

The objective of Pareto is to be the preferred Norwegian supplier of financial services, based on sound and detailed knowledge of Norwegian society and industries wherein Norway enjoys special advantages. We shall create good financial solutions and contribute to high yields on the part of our customers. Pareto's strategy is based on focus, detailed knowledge, experience and long-term customer relations. We believe in continuous development and improvement. We have invested knowledge and financial resources with a view to the longer term. We require responsibility, integrity and a high ethical standard from our employees. We are independent, and wish to adopt a creative and different approach.

## Pareto in 2005

- Operating revenue for the **Pareto Group** was NOK 2.1 billion (2004: 973 mill.). Equity per 31. December 2005 was NOK 1.4 billion (2004: 725 mill.). The group has 220 employees.
- **Pareto Securities** was advisor and took part in 75 share offerings and listings, that increased the companies' equity with in total NOK 24.7 billion. The company was one of the largest brokers in the Norwegian secondary market with a 15 percent share of brokerage income registered by the Norwegian banking, Insurance and Securities Commission. Pareto Securities managed 54 bond issues worth in total NOK 19 billion.
- **Pareto Private Equity** managed as of year-end a project portfolio of 59 ships and 33 properties, worth in total NOK 15 billion.
- **Pareto Eiendom** traded real estate properties worth more than NOK 4 billion.
- The total assets under management by **Pareto Forvaltning** grew by more than 40 percent to NOK 19.3 billion, whereof NOK 9 billion invested in the Norwegian equity market. The company has developed its product range through the establishment of the international equity fund Pareto Aktiv Global and the Norwegian fixed income fund Pareto Kreditt.
- **Pareto Bassøe Shipbrokers** is one of the world's leading brokers within chartering of VLCC tonnage. The company established in 2005 the unit Pareto Dry Cargo, focusing on dry cargo chartering, and Pareto Shipbrokers, focusing on the market for purchase and sale/contracting of ships.
- Pareto's activities in the American market is carried out in cooperation with the partly owned American brokerage **Nordic Partners**. 78 roadshows for Nordic companies were organised in the North American market, as well as an offshore conference in New York.
- **Pareto Offshore** increased its activities within purchase, sale, contracting and chartering of oil and gas drilling units, and acted as broker/advisor in 9 rig transactions in 2005.
- **PPN** delivered financial products equalling NOK 3.4 billion through its network of independent financial advisors. The major part was fund related products.
- **Universal Fonds** sold investment products for NOK 550 million in addition to loans attached to investment products as well as mortgages for approximately NOK 400 million.









# Pareto Securities ASA

Pareto Securities focuses on industries wherein Norway enjoys special advantages. Our research efforts are based on thorough and detailed knowledge. This ensures that our research and brokerage products are highly appreciated by a wide range of national and international investors.

## SECURITIES BROKERAGE AND CORPORATE FINANCE SERVICES

Pareto Securities' services mainly comprise stock and bond brokerage, as well as corporate finance services. Pareto has maintained a leading position within both of these areas since 1997.

Our focus on Norwegian securities and industries wherein Norway enjoys special advantages enables us to deliver research based on a detailed knowledge of the companies and industries we address. This is of particular importance to our international investors, who specifically demand focus and first-hand knowledge of the companies in which they are to invest. Pareto's local presence is in this context seen to be a significant competitive advantage, and contributes to inspiring confidence on the part of investors.

Our corporate clients use our corporate finance services in connection with stock exchange listings, offerings, sales/acquisitions and mergers/demergers.

## PROXIMITY TO THE COMPANIES. INTERNATIONAL PLACING POWER.

The combination of local presence and international investor contacts forms the basis for Pareto Securities' placement power in the stock and bond market. International clients

accounted for more than 50 percent of our revenue in 2004, which enabled us to complete many large and complex projects.

Our European investors are serviced mainly from our offices in Oslo and Stavanger. In addition we have offices in Bergen, Haugesund and Kristiansand. We are therefore able to offer a combination of:

- Consecutive dialogue with analysts and brokers with focused and detailed knowledge
- Investor meetings with analyst
- Local events presenting company managements (roadshows and conferences)

Our US clients are also serviced from a group of brokers in Norway, but additionally we have a sales department in New York. In New York we cooperate with E. Öhman J:or Fondkommission AB of Sweden and Evli Bank Plc of Finland, under the joint name of Nordic Partners Inc. The cooperation between the offices in USA and Oslo allows us to combine proximity to the companies with proximity to the investors.

## SKILFUL EQUITY AND CREDIT ANALYSTS ARE THE ENGINE OF OUR BUSINESS

Our research team comprises 13 advisers boasting special knowledge within the industries on which they focus. The macro and interest

rate outlook is assessed continuously by our chief economist, whilst our three credit analysts follow the Norwegian and international credit markets and undertake credit analysis of selected companies. The credit analysts cooperate with the stock analysts, who are responsible for covering the key sectors and most of the larger companies on the Oslo Stock Exchange. Additionally, our equity analysts work closely with Pareto Bassøe Shipbrokers, Pareto Private Equity and Pareto Offshore within the areas of shipping, real estate and offshore.

## AN EXTENSIVE RANGE OF RESEARCH PRODUCTS

Pareto Securities' research product is made available to the company's clients on an ongoing basis on the website [www.pareto.no](http://www.pareto.no). The research team continuously prepares industry and company reports, which are published regularly on a daily, weekly and monthly basis. The research team issued about 700 reports during 2005, in addition to daily morning comments.

An important aspect of the research activities is to facilitate conferences and company visits for our investors. As an example, Pareto hosts an annual oil and offshore conference. This event has established itself as one of Europe's leading investment fora for oil and oil related companies. Over 800 private and institutional

investors from Norway and abroad participated in the conference in 2005. Other annual conferences include, amongst others, a technology conference in London, an offshore conference in New York and a corporate bonds conference in Oslo.

### FINANCIAL ADVISORY SERVICES ANCHORED IN INDUSTRIAL KNOWLEDGE AND PROXIMITY TO INVESTORS

Pareto Securities can as an independent financial adviser offer a complete range of financial services, ranging from stock and bond offerings, stock exchange listings and placings, to mergers/demergers and acquisitions/sales of businesses or companies.

As is the case with our research activities, our corporate finance activities are based on a long-term approach and in-depth knowledge of the industries on which we focus. Our offices in Oslo and Stavanger give us proximity to the most important industrial environments in Norway, and we have a corporate finance team comprising people with extensive management experience from industry, consultancy and the capital market.

Pareto Securities primarily focuses on listed businesses and businesses with the potential to achieve a listing within a reasonable time horizon. However, we also cooperate closely with Pareto Private Equity, Pareto Offshore, Pareto Bassøe Shipbrokers and Pareto Eiendom in order to also service companies in an earlier

phase of development, and to utilise the resources and network of the Pareto Group.

### BOND ACTIVITIES – AN IMPORTANT ASPECT OF OUR PRODUCT RANGE

Pareto is a major and independent player in the Norwegian bond market. This involvement enables us to offer our corporate clients debt financing. We also offer Norwegian and international investors investment opportunities in fixed income securities.

Like our equity activities, our bond activities are based on thorough research. This ensures trust on the part of investors and issuers. Within the secondary market, our market shares are largest within the areas on which we focus, i.e. within industry, banking, financing and mortgage companies, convertible bonds, indexed bonds as well as selected foreign bonds.

Interest rate and credit analysis forms an integral part of our research product. Pareto believes that first-hand knowledge of companies' loan capital is a prerequisite for analysts to comprehend these companies' scope of action within the equity market. Moreover, credit analysts benefit from cooperating with equity analysts, who possess a wealth of company-specific knowledge.

An important implication of this approach is a broad range of qualifications in terms of both corporate finance and sales. Consequently, Pareto is well placed to carry out transactions

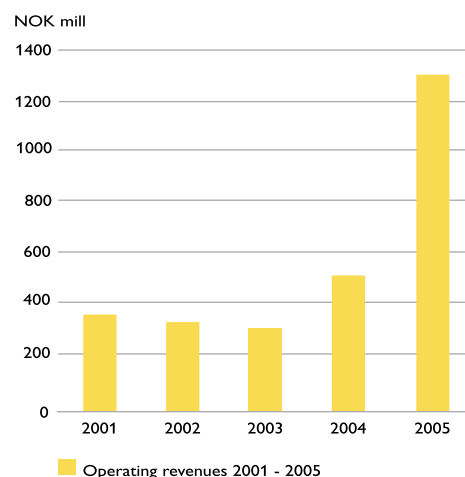
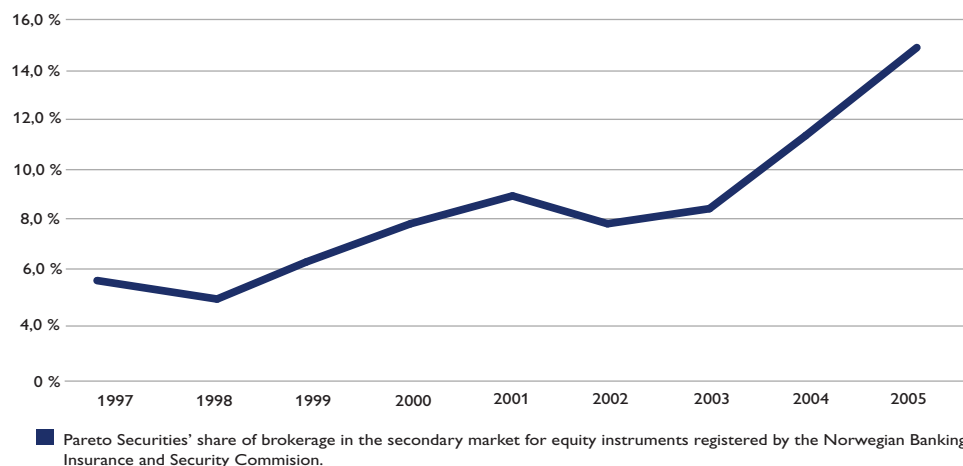
involving not only equity and debt, but also structured products like convertible loans, stock or bond offerings with pre-emptive rights attached, and fully or partly guaranteed equity products.

### 2005 - THE YEAR IN BRIEF

- 80 percent growth in brokerage fee revenue from stock brokerage
- One of the main players in the Norwegian stock market, with approximately 15 percent of overall brokerage fee revenue reported to the Norwegian Banking, Insurance and Securities Commission
- 70 percent growth in revenue from bond brokerage
- Norway's leading financial advisers, with 380 percent growth in revenue from corporate finance activities

### OUTLOOK FOR 2006

2005 was a good year for most Norwegian industries, and there was considerable international interest in investing in Norway. Pareto Securities managed to reinforce its leading position within both the secondary market for shares and bonds, as well as within the market for corporate finance services. We believe that we can further strengthen our position in 2006 by continuing to focus on industries wherein Norway enjoys inherent advantages, and by basing our activities on research founded on thorough and detailed knowledge.









# Pareto Private Equity ASA

Pareto Private Equity offers project finance services within shipping, offshore and real estate, as well as corporate finance services, mainly M&A and equity offerings, for non-listed companies. We have a highly qualified staff boasting extensive relevant experience. Pareto Private Equity is solution-oriented, and enjoys a comprehensive client and investor network domestically and abroad.

Pareto Private Equity is the parent company of Pareto Eiendom, which is engaged in sales and letting of commercial property, and of Pareto Investor Service, which offers business management services to single-purpose companies. In addition, Pareto Investor Service acts as business manager to several of the Pareto companies.

## PROJECT FINANCING WITHIN REAL ESTATE

Pareto Private Equity has extensive experience in syndicating real estate projects. As an alternative to investments in shares, bonds and the money market instruments, direct investments in real estate have offered a highly attractive yield. Pareto Private Equity has been active in the Norwegian market for 15 years, and has accumulated qualifications and experience that benefit investors in the selection and implementation of new real estate projects.

Pareto Private Equity can offer direct investments in real estate that feature an expected annual return on equity in the range between 10 and 20 percent, depending on the investment's risk profile.

Pareto's real estate portfolio mainly comprises large office premises, dual-purpose buildings (warehouse/office) and retailing properties. Our strategy is to focus on modern properties in a central location, with long leases and solid tenants.

Our real estate projects will normally entail an equity payment of NOK 300 – 600.000 as a minimum share. After the investment has been made, Pareto Private Equity will follow up on each individual project in order to offer an ongoing valuation and trade shares in the secondary market. Operation and management of the properties is undertaken by Pareto Investor Service.

During 2005 we have carried out several real estate projects with very high returns for the investors.

## PROJECT FINANCING WITHIN SHIPPING

Syndication of shipping projects formed the actual basis for the establishment of Pareto 20 years ago and today we command considerable experience and knowledge within this area. We act as advisers in connection with sales and acquisitions of companies, mergers/demergers and equity offerings. Moreover, we cooperate closely with Pareto Securities on assignments that involve stock-exchange listings and major equity offerings.

Pareto has managed more than 200 shipping projects, and currently features a large portfolio of active companies. We can offer direct investments in shipping with an expected annual return on equity of between 17 and 20 percent (IRR).

As an independent and long-term financial partner, Pareto Private Equity aims to offer shipping projects as an attractive financial investment. We are committed to offering projects with a high expected return, combined with acceptable risk. Project investment in shipping is a highly attractive alternative to other forms of investment. Shipping is international in nature, and is not much influenced by developments in the Norwegian economy. From a portfolio perspective, shipping investments may therefore be an appropriate means of spreading risk. We stick with the project from A to Z, by way of business management agreements with Pareto Investor Service, and investors are kept informed of developments on an ongoing basis through regular reporting.

We primarily focus on projects involving long-term charter parties and recognised charterers. To a large extent, we participate in projects in collaboration with experienced managers/shipowners who are themselves actively involved by assuming ownership interests in the project. This ensures optimal technical and commercial follow-up of the project as well as attractive financial terms.

## CORPORATE FINANCE

Pareto Private Equity has a dedicated team offering corporate finance services, with main emphasis on M&A and offerings in non-listed companies. Over the last four years, Pareto

Private Equity has assisted clients in completing a large number of corporate finance transactions, and we have accumulated considerable experience within this area. Our clients are offered access to a large national and international investor base, including venture and private equity investors as well as strategic and financial investors.

Pareto Private Equity has access to attractive projects from a broad network of leading industrial players, and we also contribute actively to the projects between the transaction phases.

**PARETO PRIVATE EQUITY'S CORPORATE FINANCE TEAM OFFERS SERVICES WITHIN:**

- Capital increases and equity offerings
- M&A
- Advisory services
- Financial restructuring

**PARETO INVESTOR SERVICE AS**

Pareto Investor Service offers business management and accounting services, to both single-purpose investment companies and larger companies.

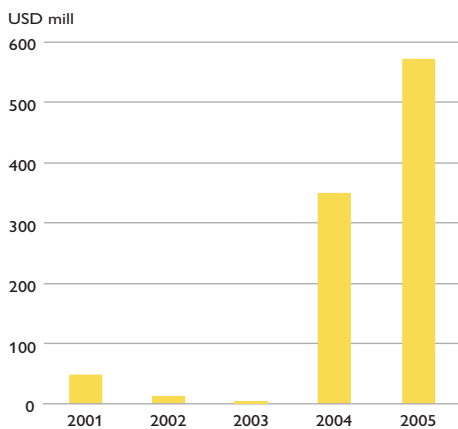
Pareto Investor Service provides accounting services, tax advice and guidance in connection with the annual reports. Pareto Investor Service has extensive experience of offering business management to many different types of companies – hereunder both limited partnerships and limited companies – and is currently the business manager of 80 investment companies within shipping and real estate. In addition, Pareto Investor Service is the business manager of several of the companies within the Pareto Group.

**THE YEAR IN BRIEF**

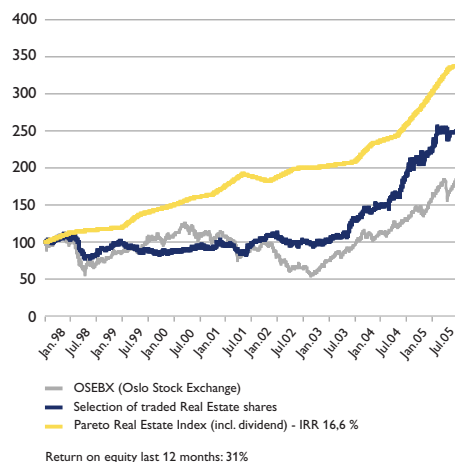
2005 has been a very good year for Pareto Private Equity, with considerable growth in both turnover and profits. We have also increased the number employees steadily throughout the year, and we have successfully

focused on our three main areas of commitment: shipping/offshore, real estate and corporate finance. We have placed a large number of shipping and real estate projects during 2005, and have completed several large corporate finance assignments, including Crew's acquisition of Guinor, the Smedvig family's sale of Smedvig Drilling shares to Noble as well as the stock exchange listings of Grenland Group and Norddiag. Within project financing for shipping we experienced an international breakthrough, and were awarded the "Deal of the Year" award from Marine Money, as well as the award for "Best Provider of Private Equity to Shipping" from Lloyds Shipping.

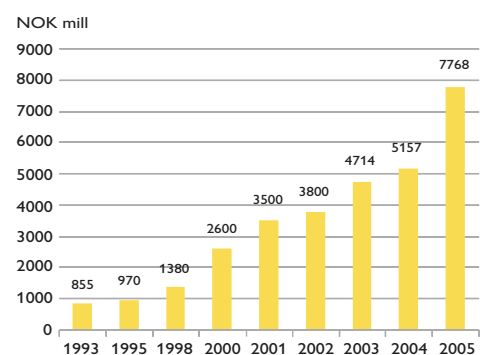
**Syndicated volume per year**



**Development of Paretos' real estate portfolio**



**Development in the value of the real estate portfolio**









# Pareto Eiendom AS

Pareto Eiendom was established in 1995. The company is engaged in commercial property brokerage, and focuses on the sale of larger commercial properties, such as offices, warehouses, manufacturing premises, retail properties/ shopping centres and hotels. In addition, Pareto Eiendom is involved in letting activities within the segments offices and dual-purpose buildings featuring offices and warehouses. Pareto Eiendom effects sales throughout Norway, whilst the letting assignments are concentrated on the Oslo region.

The company adopts a long-term philosophy in its work, focusing on high quality in the implementation of its projects. The main bulk of its business in recent years has been the brokerage of properties valued in the NOK 50 – 500 million range. Pareto Eiendom benefits from long and extensive experience in the Norwegian property market and has highly qualified personnel. The company is often used as advisor in connection with the assessment of projects and strategies.

## 2005 - SALES

The activity in the sales market for commercial property has been very high throughout 2005. A continued low interest rate level and considerably larger demand than supply has resulted in further pressure on the required rate of return. Pareto Eiendom had a high activity level throughout the year and sold properties worth in total more than NOK

4 billion. The transactions were mainly financially tailored real estate projects with a transparent tenant mix and long leases. As a result of the low interest rate, this market has been particularly active throughout 2005. Record yields have been registered for several of these transactions.

## 2005 - LETTINGS

The lettings market has bottomed out and the rents have increased significantly in certain areas. The greatest change is seen within modern properties in central locations. Vacancies for example in the Vika area of Oslo are reduced to approximately 4 percent, and the prices increased by approximately 20 percent last year. Properties that do not fulfil high technical standards and/or are located outside Oslo have so far not benefited from the market upturn.

## 2006

The access of capital to the real estate market remains high. A high number of players focusing on distribution of real estate products in the private market as well as considerable investment requirements from the life assurance companies will contribute to high activity levels also in 2006.

Pareto Eiendom has in 2005 put considerable work into building a portfolio of attractive properties for lease. We expect the positive market development to continue and will further enhance our focus on lettings.





# Pareto Forvaltning ASA

A long-term perspective, fundamental research and consistency characterise our asset management philosophy, as confirmed by our success throughout ten years of operating in the securities market. Our investments are based on a cautious and selective investment strategy, and have over time offered an attractive excess yield when compared to index and a risk-free interest rate.

## **LONG AND EXTENSIVE EXPERIENCE OF THE NORWEGIAN SECURITIES MARKET**

In spring 1995, Pareto Fonds became involved in asset management. As a result of the strong growth of this business and a desire to focus on the asset management market, Pareto Forvaltning ASA was established in 1998.

The company offers discretionary management and fund management, as well as advisory services for investors in the securities market. Our clients are large and medium-sized entities within the private and public sectors, pension funds, foundations and high net worth individuals. The company has 14 asset managers and strategic advisers, with an average of 15 years' relevant experience. Three employees are involved in advisory and management services. Other services like research, settlement services, technology and accounting are outsourced to Pareto Securities and Pareto Investor Service.

## **STRATEGIC ADVICE AND ASSET MANAGEMENT**

Pareto Forvaltning offers its customers asset management in the market for listed securities, through the investment service Discretionary Asset Management or through the fixed income funds Pareto Likviditet, Pareto Obligasjon and Pareto Høyrente, as well as the equity funds Pareto Aksje Norge, Pareto Aktiv, Pareto Verdi and Pareto Aktiv Global.

Many investors wish to handle all or part of their asset management by themselves.

Limitations within their own organisation in terms of, for example, qualifications and systems, may complicate such an approach. In addition to traditional asset management, we therefore offer Business Management, whereby Pareto Forvaltning becomes a strategic partner contributing to the investor's asset management resources. This is a flexible and attractive concept for larger investors, who see the value of outsourcing part of their activities, whilst at the same time maintaining a high degree of control of, and influence over, the various stages of the investment process.

We have also developed an asset management service for debt instruments, Liability Management, whereby we handle complex debt portfolios for larger customers in terms of tender processes with financial institutions, interest rate risk management and reporting.

## **LIMITED NUMBER OF CUSTOMERS - FOCUS ON INDIVIDUAL SOLUTIONS**

Every investor has a unique risk profile. Hence, effective and risk-calibrated asset management should be founded on individual asset management solutions. Our asset management concept is to provide a combination of modules, which enable us to tailor asset management services to the various needs and risk profiles of customers.

A service concept characterised by close and individual follow-up excludes Pareto Forvaltning from the mass market. Nevertheless, favourable asset management performance has generated considerable growth in recent years. As per 31.12.2005 we manage NOK 19.3 billion in the Norwegian securities market, of which NOK 9 billion in the stock market.

Our Internet reporting makes the required information available at any time - day and night - offering, amongst other things, a daily report based on the Oslo Stock Exchange closing prices as per the previous business day. Available reports will include detailed portfolio reports, yield reports and consolidated contract notes.

## **CONSERVATIVE, CONSISTENT AND LONG-TERM STYLE OF ASSET MANAGEMENT**

*"To have the courage and conviction to put all the eggs in one basket"* Warren Buffet

Proximity and a thorough understanding of our investments are at the core of our asset management philosophy. The asset management is based on detailed internal research. Our investments are concentrated on companies characterised by effective operations, sober pricing and a solid balance sheet. The number is kept low, with normally around 20 different positions in the Norwegian stock market. It is our view that such a number achieves sufficient risk

diversification, whilst at the same time permitting thorough and continuous follow-up of each individual investment. At the core of our asset management philosophy are investments in companies demonstrating stable yields, profits and dividends over time.

### ANNUAL AVERAGE YIELD OF 19 PERCENT

Acceptance and appreciation of a long-term approach and a value-oriented asset management philosophy has resulted in high performance. It is illustrative that our first client, who joined us in August 1995, remains on the client list, satisfied with an annual average yield of 19.4 percent, net of costs, over the entire period. This represents a significant excess yield as compared to both the 5.2 percent which could have been earned on bank deposits and the 11.7 percent annual yield on the Oslo Stock Exchange.

Despite a very challenging stock market over the last seven years, our portfolios have generated an overall positive yield of 338 percent. This represents an excess yield of 185 percentage points when compared to the Oslo Stock Exchange, which during the same period generated a yield of 153 percent. The worldwide index FT World (ex. dividend) had an almost flat development of only 6 percent measured in Norwegian kroner.

### 2005 - THE YEAR IN BRIEF

- Good inflow of new asset management assignments and a stable customer pool
- Successful effort within institutional asset management
- Solid growth in terms of assets under management, especially in terms of new stock mandates and the equity fund Pareto Høyrente.
- Favourable yield figures on our stock and fixed income portfolios
- Establishment of the international equity fund Pareto Aktiv Global

### LOW INTEREST RATES, HIGH EQUITY MARKET YIELD

After yet another particularly good year in the Norwegian equity market, the Oslo Stock Exchange registered a 2005 return of no less than 40.5 percent. Since bottoming out on 27 February 2003, the Norwegian stock market has offered an amazing 235 percent increase in value. However, it is more important to

note that since the composite index was introduced in 1983, the Oslo Stock Exchange has rendered an annual return of about 14.4 percent, which translates into an annual excess yield above bank interest rates of 7 percentage points.

In light of a very good development over the last three years on the Oslo Stock Exchange, one should take note of the fact that the market has rebounded from very low levels. A number of well-run companies with solid balance sheets and a high return on equity remain moderately priced, and are consequently candidates for inclusion in a long-term equity portfolio.

### OUTLOOK FOR 2006

The growth rate of the gross domestic product in the OECD area is approximately 3 percent, the consumer price inflation less than 2 percent and utilisation moderate.

The situation in Norway is rather similar, even though the utilisation is higher. The interest rates are relatively low, and only small and cautious changes are expected.

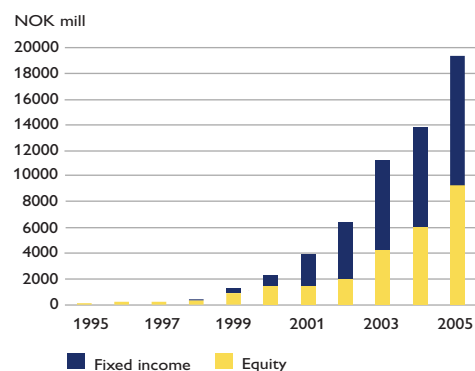
The oil companies have raised their long-term price expectations in evaluating investment projects from 16-18 to 23-25 USD/barrel. The world production is moving from explored areas in politically steady America and Europe to less steady areas in third world countries. A higher risk premium, that is a higher oil price, will be essential in order to attract the needed capital for exploration and production in the new areas. Brent oil for delivery in 2012 is priced above 50 USD/barrel. Based on the above we assume that there is backing for prices in the range 30-35 USD/barrel.

Many sturdy companies with good profit margins and strengthened competitive positions are still attractively priced. We have tried to select the best Norwegian companies for our clients' portfolios. These are shares with a price compared to next year's earnings (P/E) in the 10-12 range. The companies' equity ratios are strong, on average around 45 percent of their total capital. The return on net capital has been on average 20 percent the last five years. Parts of the profits are paid out, and the portfolios currently achieve a dividend yield of around 2.5 percent.

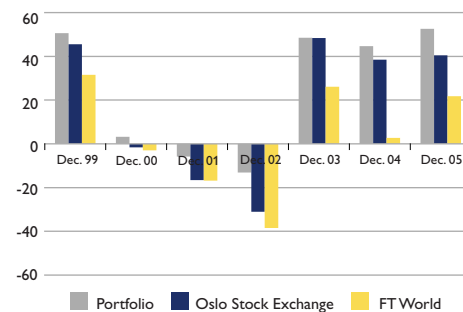
As for the interest rate trend, we base our strategy on small and infrequent increases of the key rate. A great confidence in the Norwegian central bank's ability to keep the inflation within the mandate is prevailing, hence long interest rates will remain low.

We recommend our clients in the equity market to regard their portfolios as fundamentally healthy and reasonably priced, and to take on a patient hold strategy. In our view, tactical transactions (short term trades) with the aim of increasing the return can easily result in the opposite.

### Assets under management 1995 - 2005



### Time-weighted annual return vs. indices Pareto Forvaltning's main profile









# Pareto Bassøe Shipbrokers AS

Pareto's shipbroking services are organised under the umbrella Pareto Bassøe Shipbrokers, comprising the following three companies:

- P.F. Bassøe AS: tanker chartering and freight derivatives
- Pareto Shipbrokers: sale & purchase / newbuildings
- Pareto Dry Cargo: dry cargo chartering

## P.F. BASSØE AS

P.F. Bassøe's core activities being chartering and derivatives broking. We have a highly professional pool of clients and our services are anchored in solid knowledge of the markets in which we operate. Our aim is to bring value to our customers through creativity and the best possible information and level of service. We seek to expand and develop our range of services within the market segments we enjoy special advantages by combining gut feeling and decision-making with an analytical approach.

P.F. Bassøe has presence in all tanker segments from 300 000 dwt supertankers (VLCC) to 20 000 dwt product carriers. We have an international customer base with main emphasis on clients in Korea, Hong Kong, Singapore and Scandinavia.

## CHARTERING

P.F. Bassøe is heavily involved in the transportation of both crude oil and refined products world-wide. Our clients are international oil companies and shipowners. Crude oil is shipped from the large export regions in the

Middle East Gulf, West Africa, Russia and the North Sea for unloading in both the Western and Eastern hemispheres. Refined products are also transported throughout the world, with an emphasis on loading in Europe and the Middle East Gulf.

Customers in all time zones are continuously kept informed of market developments. We also attach considerable weight to following up the transport assignments after commercial terms have been agreed. Our operations department is made up of skilful personnel with experience from the sea and shipowners' offices.

The chartering department has fixed 68 VLCCs, 69 Suezmax and 109 Aframax tankers in the spot market during the course of the year, as well as 238 product tankers. The total amount of freight is approximately 50 million tonnes, corresponding to approximately 360 million barrels of oil and oil products.

An important future area of growth for P.F. Bassøe being tailor-made chartering solutions. This can involve purchase of tonnage with charter-parties back to the seller, longer time charters or solutions that also involves freight derivatives in combination with physical tanker contracts. During the year we have concluded time charters on Suezmax, Aframax and product tankers.

## FREIGHT DERIVATIVES

The derivatives market for tankers demonstrated strong growth and development during 2005, both in terms of number of transactions and traded volumes. The market evolves in line with the oil trend and is becoming ever more sophisticated in terms of new instruments and routes. P.F. Bassøe has established a position as one of the most active brokers within this market, with an ever-increasing customer base covering the US, Europe and Pan-Asia. P.F. Bassøe is one of the leading developers of new products and structures within freight derivatives, which has resulted in several large, innovative transactions.

The derivatives department works closely with the chartering and research departments, and its brokerage is in large part based on in-depth knowledge of the underlying market. In an immature market undergoing rapid development, this type of information is instrumental in making correct decisions at the right time.

Our role as brokers is to keep our customers continuously updated on prices, trades and the factors that drives the market as well as to provide advisory services relating to risk management through the use of derivatives

## RESEARCH

Market research is an important support



service to both customers and our own brokers. The research work entails ongoing market surveillance, forecasts and in-depth surveys of segments and trends within our markets. The objective is to help the customer by way of the best possible information as to developments affecting important aspects of the framework facing the tanker market. In addition, we aspire to be a competency centre and a discussion partner in order to thereby increase our customers' scope for making the best possible decisions, on the shipowning, the chartering, as well as the derivatives side. As part of this work, we prepare research both on a regular basis and ad-hoc, and we also make presentations. In addition, we have been used as experts on the market side in connection with public prospectuses. We cooperate closely with the other Pareto Companies, and deliver services to the companies and their customers.

#### **THE TANKER MARKET IN 2005 – OUTLOOK FOR 2006**

Last year was yet another very good year for the tanker market with historically high earnings. However comparing to the record year 2004 an evident decline was seen, especially for the crude oil tankers. The increase in oil consumption was considerably lower than the previous year, especially in China, and the market pressure was lightened by the increase in crude oil storage. In addition, the tanker fleet demonstrated the most rapid growth since the 70ies, as a result of high orderbooks and low scrapping. The product tankers did substantially better, and experienced extremely high rates in the aftermath of the Rita and Katrina hurricanes, which led to major shut-downs of American oil refineries and consequently increased import requirements.

2006 has shown a positive trend for all segments, with on the whole very high earnings so far in the first quarter. The world economy seems to be strong in spite of high oil prices, and the growth in oil consumption is estimated to increase from last year. Fewer newbuilds will be delivered to the crude oil tanker fleet this year, and the foundation for a continued steady market should therefore be in place. In the product tanker market the fleet growth will increase and the dependence on a strong economic environment will increase.

#### **THE YEAR IN BRIEF:**

- Second highest turnover of NOK 91 million in the history of the company and in a more difficult market (2004: 128 mill., 2003: 73 mill.).
- Position as one of the world's leading players within chartering of VLCC tonnage maintained.
- 10 percent increase in turnover for the clean divisions (refined products)
- The derivatives division doubled its staff to meet a rapidly growing market. Ranked by our clients as number two internationally and as number one on options.
- Position as leading analyst of the tanker market reinforced.

#### **PARETO DRY CARGO AS**

Pareto Dry Cargo was established January 1st 2006. The company is managed by two experienced senior brokers. Our main task is to service our clients in a personal and professional way.

In this globalised industry we are working closely with shipowners and ship operators in Norway and Denmark, as well as clients from the rest of Europe, USA, Singapore, Hong

Kong and China. Our expertise in commodities represent large industrial clients within aluminium, cement, grain and minerals. Pareto Dry Cargo has a solid base within dry cargo bulk chartering focusing primarily on Handymax/Handysize tonnage. In addition to servicing the spot market we dedicate our efforts to the long term period market and freight contracts as well as projects. Pareto Dry Cargo will also service the Panamax- and Capesize market.

#### **PARETO SHIPBROKERS AS**

Pareto Shipbrokers AS commenced business in January 2006 and was established to enhance the Pareto Group's position in asset broking. The team being specialists in sales&purchase and newbuildings of vessels with a mission to offer clients the best possible services within the following market segments:

- Crude tankers
- Product carriers
- LPG & Chemical carriers
- Bulkcarriers

Pareto Shipbrokers capitalises on extensive experience from shipbroking and close cooperation with sister companies in the Pareto Group. The partners have substantial track-records from conclusion of numerous successful transactions and enjoy close relationships with leading shipowners, shipyards and financial institutions world-wide.

Besides adding value to transactions, Pareto Shipbrokers is dedicated to the financial community and provides reliable valuations and market assessments.







# Pareto Offshore ASA

Pareto Offshore focuses on the purchase and sale of drilling rigs. The company was established in October 2004 – although with three partners who have been involved in the majority of all rig transactions since 1990.

## **BROKING OF ALL TYPES OF DRILLING UNITS**

Pareto Offshore offers broking of all types of drilling units – jack-ups, semi-submersibles, drilling ships and land rigs. We also offer assistance in connection with the chartering, newbuilding and financing of drilling units, and perform valuations, market updates, as well as strategic assessments in cooperation with our clients' senior management.

The main focus of Pareto Offshore has been on the purchase and sale of mobile drilling units, mostly on behalf of US rig owners, who own the majority of the world's drilling units and consequently are involved in the largest number of transactions.

We are rarely given purchase or sales assignments pure and simple, and must normally keep the customer informed of potential purchases and render visible the value of the customer's existing rigs. An important part of our work is also to keep customers informed of which rigs may be developed for sale, or be exchanged for other rigs in cases where such an exchange would be strategically correct for both parties.

## **THE RIG MARKET**

Rates for drilling services increased steadily throughout 2005 – as the result of a high and

robust oil price, overestimates of reserves and the unwillingness of oil companies to invest in new exploration activities for reasons of cost focusing and consolidation. All segments have firmed considerably, thus resulting in increasing oil rig values. Margins are robust and new players are entering the market, financed by optimistic investors. Traditional rig owners, on the other hand, are more reticent and conservative.

## **NEWBUILDING ACTIVITY**

US rigowners remain very cautious about bringing new capacity onto the market without anchorage in long-term contracts. This results in Norwegian companies being amongst the most active players as far as speculative contracts are concerned. At the moment of writing, 24 jack-up units are under construction in Singapore, the US and China. These owners are in possession of another 10 options that probably will be declared.

As far as semi-submersible units/drilling ships are concerned, a total of 17 units are currently under construction, with options on another 10 units. Daily rates for new semi-submersible ultra-deepwater units are approaching USD 500,000, and with a utilisation rate of close to 100 percent we will see more projects materialising during 2006.







# Nordic Partners Inc.

Nordic Partners Inc. is a joint venture between three leading Nordic brokerages; E. Öhman J:or Fondkommission AB of Sweden, Evli Bank Plc of Finland, and Pareto. In addition, in 2005 we acquired a strong Danish partner in Gudme Raaschou and Nordic Partners now offers access to all the Nordic and Baltic markets.

## LEADING POSITION IN THE NORDIC SECURITIES MARKET

Nordic Partners was established in 1998 as a distributor of the products and services of its owners in the North American market. The joint venture partners had an overall turnover of over US\$ 500 million in 2005. The overall number of employees in the consortium is in excess of 600.

Nordic Partners is the fourth largest U.S. based broker in the Nordic securities market with an estimated market share of 10%. In the Norwegian market, Pareto is ranked as the best brokerage house in surveys performed by Starmine and Prospera. In Sweden, Öhman is ranked number one by Starmine and AQ Publications, Evli has been awarded a top ranking in Finland by AQ Publications as has Gudme Raaschou for Denmark. Furthermore, Suprema, our Baltic broker (owned by Evli) is ranked number one in Finland.

As an indication of the improved penetration amongst US accounts, Nordic Partners was ranked joint number two for Nordic markets in the highly influential Greenwich survey of large US institutions.

## EXPERIENCED TEAM BASED IN NEW YORK

The company is based in New York. It has achieved a strong position as a broker of Nordic

shares amongst North American institutional investors. The team comprises Nordic specialists on shares and bonds, with wide-ranging experience from both local markets as well as US companies. Through the four Nordic brokerages, Nordic Partners has access to more than 60 analysts, many of whom are accredited with top rankings within their respective sectors. The four companies tie Nordic Partners into a trading network based on membership of the Oslo Stock Exchange, the Stockholm Stock Exchange, the Helsinki Stock Exchange and the Copenhagen Stock Exchange. Its extensive local network of contacts enables the company to offer first-rate analysis from all the Nordic markets to a broad international customer base with a focus on the Nordic region.

Nordic Partners also offers its customers the opportunity to trade on the US stock exchanges, as well as an important flow of information to the local markets.

## 2005 – THE YEAR IN BRIEF

Nordic Partners has during the year achieved significant improvements in terms of earnings, development of the customer base and expansion of the product range. Revenues rose by 45% from 2004 to \$11.5mn in 2005

- A total of 78 management roadshows was executed.

- For the second year running, the number of new customers increased by more than 30 percent. Additionally, there is a good balance between the various types of investors.
- The expanded depth and breadth of our customer base has enabled us to participate in over 40 major transactions during the year, with the highlight being the \$500mn Stolt Offshore transaction in January, heralding a very active year for us in oil services.
- Turnover grew by more than 40 percent over the year, and we are now in an excellent position to continue the expansion in the North American market with the support of our customers, owners and dedicated personnel.

## OUTLOOK FOR 2006

Nordic Partners enters the new year with considerable drive and much optimism. For the first time in many years, US money flows into international funds exceeded flows into domestic funds.

We will further expand the team during the year, by supplementing the sales desk to meet the increasing demand. The market is expected to be aggressive as far as new transactions are concerned, and our partners will be active with regards to mergers and acquisitions, floatations and block trades.



# PPN ASA

PPN is a manager of financial concepts for independent financial advisors (IFA) in Norway. Our Plug and Play Concept offers customers access to strong brand names, functional technical solutions and a unique service level. PPN represents eleven national and international suppliers and more than 400 active financial advisors. This means that the concept is Norway's main distribution force outside the banking system.

## PPN IS ALONE IN OFFERING ITS CONCEPT IN NORWAY

PPN is an investment firm, and was established in 1998. This was the foundation of what is now Norway's leading manager of financial concepts for independent financial advisors. Our services are unique in this country, inasmuch as we have a service organisation created for financial advisors, with products tailor-made to this customer group, whilst we are also amongst the leaders in the market and one step ahead when it comes to technological development.

PPN's business idea is to develop proprietary product concepts on an independent basis, whilst at the same time sourcing products from all over the world which contribute to making financial advisors competitive in their local markets.

The concept reduces the need for administration, and frees up time for recruiting customers, rendering advice and following up on existing customers. Likewise, our suppliers make considerable savings by concentrating their efforts on product development and the actual investment product or service.

PPN currently represents suppliers such as Aviva, Credit Suisse, Commercial Union Life, East Capital, Holberg, Pareto, Skagen

Fondene, Sydbank, Sydinvest, Skandia, Jyske Bank and Vertikal.

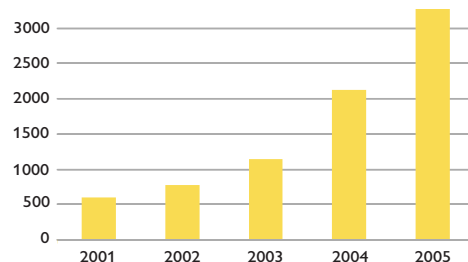
## A STRONG 2005 – AN EXCITING 2006

During the course of 2005, PPN delivered financial products valued at NOK 3.4. Most of this was made up of fund-related products.

There was a strong increase in terms of new advisers employed by the various firms in 2005, and this is expected to continue. During the year, a new supplier was brought to PPN; East Capital. This is a Swedish asset manager noted for its good performance.

The future for financial advisory services with a forthcoming regulation looks exciting and interesting for PPN and our customers. New investments within the technology area and continued positioning of our different investment platforms form the assumptions for a prosperous 2006.

Sales NOK mill 2001 - 2005









# Universal Fonds Oslo ASA

The company's activities consist of marketing financial instruments, financial advisory services and debt. Oslo and its surrounding areas is the company's primary market. The company holds a marketing license according to the Securities Trading Act.

## UNIVERSAL FONDS – THE MARKET AND OUR CLIENTS

Universal Fonds provides investment products to the personal customer market. Our principal supplier is PPN and its partners. As a financial advisor, we emphasise accommodating the different investment products to our clients' needs according to their present and expected economic positions. With an ever more stringent regulation, the company stress the importance of securing competence and developing products and personnel. The company also actively pursue customer courtesy. The challenge in our industry beyond having good products is the customer relationships we strive to create. This has been our focus of attention through 2005 and continue to be a priority area going forward.

## THE YEAR 2005

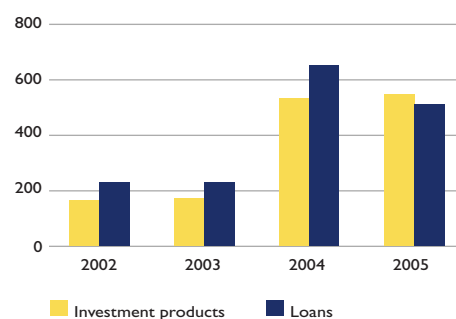
The company has 16 employees. 12 of these are advisers, two are trainees and 2 make up the backoffice. During the year we have had some employee replacements and in our opinion we are now a good team prepared for further development. We sold investment products worth NOK 550 million in 2005 in addition to loans attached to investment products and mortgages for approximately NOK

400 million. Securities' funds and structured products make up about 80 percent of our turnover.

## OUTLOOK FOR 2006

We have a positive view on 2006 with good prospects in the world economy. This, along with a low Norwegian interest rate, will steadily increase the demand for our products. Priority areas for 2006 will continue to be product development and internal skills development, as well as building good and strong client relations. Our client base consists of approximately 3000 clients. The company will grow, and recruitment is therefore another area of concentration in 2006.

## Sales





# www.pareto.no – The Pareto Group united in one site

Pareto.no is the gateway that provides access to the Pareto Group's complete range of products and services.

The website provides access to a broad range of financial services and information to clients and other interested parties.

Our logon pages give our clients access to their portfolios and investments together with all the details of their customer relationship. Clients with relations to various Pareto companies may easily and well arranged gather all their investments under one logon.

## ONLINE STOCK TRADING

Via Pareto.no, you can access a complete online program trading service. The service is suitable for active traders as well as long-term investors. You can place your own orders directly on the stock exchange in less than a second, and you are in complete control of your orders and portfolio. Electronic trading is swift, simple and inexpensive!

- Orders are sent directly to the stock exchange
- Price and market information may be accessed in real time
- Immediate confirmation of fulfilled orders
- Detailed portfolio
- Complete overview of all orders and contract notes
- Sophisticated order categories such as hidden volume and stop-loss
- Access to Pareto's extensive research service
- Online trading in the US (NYSE, NASDAQ, AMEX and OTC)
- Tax reporting
- Competitive conditions

## IMPROVED BASIS FOR DECISIONMAKING THROUGH PARETO'S RESEARCH

Pareto Securities is a research-driven investment firm. We attach great importance to our extensive research service, to which all our active clients can get access. The research is accessed real-time. The objective of the service is to provide our customers with the best possible basis for making their investment decisions, and at Pareto.no we offer, amongst other things:

- Pareto's research reports, comments and presentations
- Updated recommendations, key ratios, estimates and fundamental data for all the companies tracked by Pareto
- Current list of recommendations with risk assessments and targets
- 'Pareto Rating Module' – our tool for rating companies through key ratios
- Notification service for new research via e-mail and sms.
- Today's technical recommendations
- Interactive module for own research

## ONLINE BOND TRADING

Pareto also offers electronic trading in government bonds and commercial papers in the Norwegian market. This solution entails orders being routed directly to the stock exchange in a simple and efficient way and at very low cost.

The main players in Norway are already satisfied users, and it is gratifying to note that foreign investment banks also are users of this service.

## REAL-TIME INFORMATION - PARETO STREAMER

To investors and traders who wish to follow the market continuously we offer the Pareto Streamer solution, which is a professional work tool where market information is automatically updated in real time. A wide range of information is available, from order books on Oslo Stock Exchange to Brent oil intraday. Both online traders and broker clients can make use of Pareto Streamer.

Pareto Streamer give the users the possibility to put together their own screen display with order books, graphs, quote lists and much more. This enables the opportunity to view the market information you want without any punch. All the quotes are "streamed" out to the users and automatically updated, enabling possibilities for fast reactions to changes in the market.

For more information, please see our web pages [www.pareto.no](http://www.pareto.no) or send an e-mail to [info@pareto.no](mailto:info@pareto.no).



# Directors' Report

## **BUSINESS OBJECTIVE**

Pareto is to continue its development as a focused and profitable company. The directors and management of the company wish to found its business on respect and trust on the part of the company's customers, its competitors and the authorities.

## **EARNINGS**

The revenues and earnings of the company improved significantly as compared to the previous year. The company reinforced its position within several focal areas.

Pareto's 2005 operating revenue amounted to NOK 2 126.4 million, as compared to NOK 973.2 million in 2004. Operating profits were NOK 1 429.9 million, as against NOK 599.9 million in 2004. Post-tax profits were NOK 681.1 million, as against NOK 238.8 million in 2004.

The Board considers the earnings achieved in 2005 to be most satisfactory.

## **ACTIVITIES**

The companies are involved in financial advisory services, securities broking, real estate and shipping, project development and asset management.

Pareto's main office is in Oslo. The activities of the group are primarily carried out through its subsidiaries Pareto Securities ASA, Pareto Private Equity ASA, Pareto Forvaltning ASA, P.F. Bassøe AS, PPN ASA and Universal Fonds Oslo ASA. Pareto AS is the parent company of the group.

## **GENERAL MARKET CONDITIONS**

Low interest rates and high commodity prices contributed to another strong year for Norwegian economics. GDP growth seems to be ending above 3 percent. The economic growth situation internationally is also sturdy.

In the Euro area and Japan, the growth has been weak, but is finally showing signs of recovery. In addition, the growth in China and the US keep on growing at high levels. Improvement of company earnings has continued and financial markets have benefited from both low interest rates and reduced risk aversion. Shareprices have climbed and credit spreads have narrowed further.

The economic recovery has resulted in growth approaching maximum capacity in a number of countries, resulting in signs of mounting inflation. High commodity prices, and the high oil price in particular, have put further pressure on inflation. This has resulted in central banks around the world now gradually having started to increase interest rates from historically low levels in 2005, and further increases are expected in 2006. However, there are clear signs of an approaching interest rate peak in the US, while at the same time the peak is probably already reached in the UK. Furthermore, the inflation remains low in most countries, and the interest rate hike is therefore expected to be modest and to pose only a limited threat to economic growth.

A high oil price (and high commodity prices in general), low interest rates and a Norwegian krone exchange rate that is no longer felt to be particularly problematic on the part of trade and industry, have resulted in continued favourable developments for Norwegian businesses. Earnings growth for the companies listed on the Oslo Stock Exchange was good, with a return on equity of more than 20 percent. The Norwegian stock market thereby continued its positive development in 2005. The Oslo Stock Exchange registered an appreciation of almost 40 percent for the year as a whole.

## **Pareto Securities ASA**

Pareto Securities ASA improved its earnings considerably during 2005.

We are of the view that Pareto Securities ASA has continued to reinforce its position as against its competitors during 2005. Our brokerage revenue increased by 96 percent, whilst the overall market registered an increase of 50 percent from 2004 according to figures from the Norwegian Banking, Insurance and Securities Commission.

2005 was a good year for the company's corporate finance activities. Pareto Securities took part in 21.5 percent of all transactions and IPOs registered on the Oslo Stock Exchange (measured in NOK) and in about 58 percent of all offerings that were registered on the NFMF OTC. The company earned 24 percent of the corporate finance revenue reported by the industry to the Norwegian Banking, Insurance and Securities Commission.

Pareto's bond department enjoyed a good 2005, and the company's position in the bond market was maintained at a very high level. Pareto has over the last three years managed bond issues totalling approximately NOK 70 billion.

## **Pareto Private Equity ASA**

2005 was a good year for Pareto Private Equity, with substantial growth in both revenues and earnings. Manning has increased steadily through the year, and the company has successfully cultivated the three core areas shipping/offshore, real estate and corporate finance. The company placed a large number of shipping and real estate projects and managed several large corporate assignments.

Pareto Eiendom AS had a good year, and consolidated its position as an important player within the broking of large commercial properties.

Pareto Investor Service AS, which is the business manager of companies and projects managed and syndicated by Pareto Private Equity ASA, is undergoing steady and positive development.

#### **Pareto Forvaltning ASA**

In 2005, Pareto Forvaltning ASA achieved favourable yield figures on its portfolios as compared to reference indices, and a 40 percent growth in assets under management. The company has been awarded a number of new mandates in the Norwegian fixed income and stock market, and the client portfolio is considered stable.

In total, as per yearend, the company managed approximately NOK 9 billion in the form of equities and NOK 10.3 billion in the form of fixed income securities. In addition, the company acts as business manager for, and a strategic partner of, clients controlling a portfolio valued at an additional NOK 2.3 billion.

#### **P.F. Bassøe AS**

Last year P.F. Bassøe AS experienced a decrease in the number of closings within their core area, crude oil chartering, of approximately 30 percent. A large part of this was compensated by the product department, who increased their number of closings with more than 20 percent.

The derivatives department has continued its strong development, and doubled the number of trades during 2005. The department's strong market position within traditional trades with charter parties is maintained, and the department has developed into a market leader within options.

The research department has extended its scope of work with a closer look at the product tanker market.

As per 01.01.2006 Pareto's ship broking services will be carried out by three companies beneath the Pareto Bassøe Shipbrokers umbrella. In addition to the existing P.F. Bassøe AS, Pareto Shipbrokers AS will focus on purchase and sale including newbuildings, and Pareto Dry Cargo AS will operate chartering broking within the dry cargo segment. Both companies are manned with highly experienced brokers from established environments.

#### **PPN ASA**

Through its distribution network, PPN ASA saw a financial products turnover valued at NOK 3.4 billion during the course of 2005. 20 percent of this was represented by structured products, and 80 percent was made up of fund-related products. The overall portfolio as per yearend was NOK 6.2 billion. The portfolio of loan products was NOK 3.4 billion.

At present, the company represents 12 national and international advisors through Aviva, Credit Suisse, Commercial Union Life, East Capital, Holberg, Skagen Fondene, Sydbank, Sydinvest, Skandia, Jyske Bank, Vertikal and Pareto. PPN has distribution agreements with about 60 partners, and works with more than 500 active financial advisors.

#### **Universal Fonds Oslo ASA**

Universal Fonds Oslo ASA is one of PPN ASA's financial advisors. The company has during the course of 2005 sold investment products in the private market worth about NOK 550 million and loans worth about NOK 400 million. Approximately 60 percent of the company's revenues derives from fund related products and 35 percent from structured products.

The company has since its establishment in 2002 had a steady and good turnover development. The company will in 2006 increase its sales team and focus on customer rela-

tions and product/human resources development.

#### **PARETO'S STRATEGY**

The company's strategy remains the same. Pareto is to be a leading, independent and focused Norwegian investment company. The company prioritises organic growth and internal competency development, but will also undertake acquisitions and mergers if these may complement and add to the company's development. Pareto will cooperate with other players when appropriate, and when it provides our customers with the best product. An example may be transactions that require more international competency and distribution than Pareto itself is able to offer. Pareto aims to be the preferred Norwegian supplier of financial services, based on a thorough and detailed knowledge of Norwegian society and of industries within which Norway enjoys special advantages. Energy and maritime industries may serve as examples.

The Board is of the view that Pareto still has considerable scope for improvement and growth. Pareto is experiencing an increasing degree of acceptance of its research- and advice-based activities within brokerage, syndication and asset management.

The company has over the last few years invested a considerable amount in the upgrading and development of IT systems and Internet solutions. One has chosen to develop Internet services as an integrated aspect of the regular business. Communication, reporting and trading over the Internet offer great opportunities for Pareto in combination with the company's traditional and personal brokerage and advisory services.

#### **OUTLOOK**

In addition to the company's own efforts and development, Pareto's earnings are affected by

the general level of activity in the financial markets. Activity within securities markets is high, and the Board is therefore optimistic as far as concerns the company's development and earnings.

#### **ALLOCATION OF PROFITS AND OTHER MATTERS**

Apart from being the parent company of the group, Pareto AS is involved in investing in different securities.

The company is exposed to market risk in relation to its own portfolio of financial instruments. In addition, its subsidiaries face risks relating to own-account trading, market making and settlement from customers.

The internal workplace environment of the group companies is good, and it has not been necessary to implement any special measures. There is little sickness absence within the group, and no injuries or accidents have been reported during the year. The company does not practise differential treatment of women and men.

The company's activities are not of such a nature as to pollute the external environment.

The group's profits, net of tax, are NOK 681.1 million. The post-tax profits of the parent company are NOK 200.5 million, which the Board proposes be allocated to other equity. The parent company's equity at the end of the

year has increased to NOK 694.3 million, of which NOK 235,2 million are revenue reserves as according to the Companies Act. Recorded equity for the group has increased to NOK 1 411.7 million.

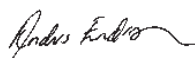
The annual accounts have been prepared under the assumption of continued operation. The board holds the opinion that the annual accounts give a true picture of the Pareto Group's equities and debts, financial position and results. The Board would like to thank the company's customers for the trust they have placed in Pareto, and its employees for their efforts over the last year.

Oslo, March 27, 2006

  
Erik Bartnes


  
Kristen Jakobsen

  
Petter Borg

  
Anders Endreson

  
Ole-Rikard Hammer

  
Uno Grønlie (Managing Director)

  
Svein Støle (Chairman)



# Profit and Loss Statement

PARENT COMPANY (NOK 1 000)				GROUP (NOK 1 000)	
2004	2005	OPERATING REVENUE:	Notes	2005	2004
0	0	Fee income	2	2 126 400	973 172
<b>0</b>	<b>0</b>	<b>TOTAL OPERATING REVENUE</b>		<b>2 126 400</b>	<b>973 172</b>
		<b>OPERATING EXPENSES:</b>			
-385	-376	Personnel costs	3	-469 628	-225 730
-4 036	-1 793	Other operating expenses		-211 617	-136 926
-40	-40	Ordinary depreciation	4	-15 223	-10 619
<b>-4 461</b>	<b>-2 209</b>	<b>TOTAL OPERATING EXPENSES</b>		<b>-696 468</b>	<b>-373 275</b>
<b>-4 461</b>	<b>-2 209</b>	<b>OPERATING PROFIT</b>		<b>1 429 932</b>	<b>599 897</b>
		<b>FINANCIAL REVENUE/EXPENSES:</b>			
14 947	14 084	Financial revenue		44 148	15 168
95 117	184 386	Share dividends		11 105	3 792
601	2 150	Adjustment securities	10	4 147	601
2 713	3 097	Profit share associated companies	5	3 097	2 713
0	0	Interest expenses		-851	0
-1 254	-204	Other financial expenses		-556 444	-266 952
<b>112 124</b>	<b>203 513</b>	<b>TOTAL FINANCIAL REVENUE/EXPENSES</b>		<b>-494 798</b>	<b>-244 678</b>
<b>107 663</b>	<b>201 304</b>	<b>PROFITS BEFORE TAX</b>		<b>935 134</b>	<b>355 219</b>
-17 168	-851	Tax	13	-254 071	-116 432
<b>90 495</b>	<b>200 453</b>	<b>ANNUAL PROFIT</b>		<b>681 063</b>	<b>238 787</b>
		Allocations;			
0	0	- Profit attributable to minority interests		-149 946	-1 563
0	0	- Dividends allocated to minority		0	-53 326
-90 495	-200 453	- Allocated to other equity		-531 117	-183 898
<b>-90 495</b>	<b>-200 453</b>	<b>Net</b>		<b>-681 063</b>	<b>-238 787</b>

# Balance Sheet

ASSETS


PARENT COMPANY (NOK 1 000)				GROUP (NOK 1 000)	
31-12-04	31-12-05	FIXED ASSETS	Notes	31-12-05	31-12-04
		<b>Intangible fixed assets</b>			
0	0	Acquired goodwill	4	16 315	40 525
1 761	910	Deferred tax assets	13	15 246	7 030
<b>1 761</b>	<b>910</b>	<b>Total intangible fixed assets</b>		<b>31 561</b>	<b>47 555</b>
		<b>Tangible fixed assets</b>			
388	348	Furnishings, machinery, etc.	4	14 242	8 115
		<b>Fixed asset investments</b>			
105 011	132 859	Shares in subsidiaries	5	0	0
10 136	11 314	Shares in associated companies	5	11 314	10 136
34 443	149 265	Other securities	6	149 304	35 896
17 701	18 622	Other long-term receivables	7	18 981	18 269
0	0	Pensions assets	8	15 013	15 430
<b>167 291</b>	<b>312 060</b>	<b>Total fixed asset investments</b>		<b>194 612</b>	<b>79 731</b>
<b>169 440</b>	<b>313 318</b>	<b>Total fixed assets</b>		<b>240 415</b>	<b>135 401</b>
		<b>CURRENT ASSETS</b>			
		<b>Receivables</b>			
0	0	Accounts receivable	9	822 409	474 901
27 188	16 677	Other receivables		0	0
<b>27 188</b>	<b>16 677</b>	<b>Total receivables</b>		<b>822 409</b>	<b>474 901</b>
		<b>Investments</b>			
294 563	356 548	Securities	10	1 075 352	495 661
<b>294 563</b>	<b>356 548</b>	<b>Total investments</b>		<b>1 075 352</b>	<b>495 661</b>
<b>5 824</b>	<b>8 447</b>	<b>Bank deposits</b>	11	<b>485 680</b>	<b>457 458</b>
<b>327 575</b>	<b>381 672</b>	<b>Total current assets</b>		<b>2 383 441</b>	<b>1 428 020</b>
<b>497 015</b>	<b>694 990</b>	<b>TOTAL ASSETS</b>		<b>2 623 856</b>	<b>1 563 421</b>

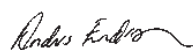
# Balance Sheet

EQUITY AND LIABILITIES

PARENT COMPANY (NOK 1 000)				GROUP (NOK 1 000)	
31-12-04	31-12-05	EQUITY	Notes	31-12-05	31-12-04
<b>Called up and fully paid share capital</b>					
14 100	18 800	Nominal share capital		18 800	14 100
0	439 427	Premium fund		0	0
<b>14 100</b>	<b>458 227</b>	<b>Total called up and fully paid share capital</b>		<b>18 800</b>	<b>14 100</b>
<b>Retained earnings</b>					
479 739	236 065	Other reserves		1 209 114	681 794
<b>479 739</b>	<b>236 065</b>	<b>Total retained earnings</b>		<b>1 209 114</b>	<b>681 794</b>
<b>Minority interests</b>					
				<b>183 794</b>	<b>29 471</b>
<b>493 839</b>	<b>694 292</b>	<b>Total equity</b>	12	<b>1 411 708</b>	<b>725 365</b>
<b>LIABILITIES</b>					
<b>Provisions for liabilities and charges</b>					
0	0	Pension liabilities	8	1 853	1 687
0	0	Deferred tax	13	383	64
<b>0</b>	<b>0</b>	<b>Total provisions for liabilities and charges</b>		<b>2 236</b>	<b>1 751</b>
<b>Long-term liabilities</b>					
0	0	Funds furnished by silent partners		33 690	27 396
<b>0</b>	<b>0</b>	<b>Total long-term liabilities</b>		<b>33 690</b>	<b>27 396</b>
<b>Current liabilities</b>					
3 123	487	Other current liabilities	9	871 081	629 069
0	0	Tax payable	13	245 373	100 797
0	0	Dividends		0	53 326
53	211	Outstanding government charges		59 768	25 717
<b>3 176</b>	<b>698</b>	<b>Total current liabilities</b>		<b>1 176 222</b>	<b>808 909</b>
<b>3 176</b>	<b>698</b>	<b>Total liabilities</b>		<b>1 212 148</b>	<b>838 056</b>
<b>497 015</b>	<b>694 990</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2 623 856</b>	<b>1 563 421</b>

December 31, 2005  
Oslo, March 27, 2006

  
Svein Støle (Chairman)


  
Anders Endreson

  
Erik Bartnes

  
Ole-Rikard Hammer

  
Kristen Jakobsen

  
Petter Borg

  
Uno Grønlie (Managing Director)

# Cash Flow Statement

PARENT COMPANY (NOK 1 000)			GROUP (NOK 1 000)	
2004	2005		2005	2004
		<b>Cash flow from operating activities:</b>		
107 663	201 304	Ordinary profit before tax	935 134	355 219
-1 583	0	Tax paid during the period	-100 144	-36 676
40	40	Ordinary depreciation	15 223	10 619
-601	-2 150	Securities adjustment	-4 147	-601
0	0	Net change in pensions without cash effect	583	-3 521
-2 713	-3 097	Profit share associated companies	-3 097	-2 713
-41 239	10 511	Change in receivables	-347 508	1 451 048
-4 579	-2 478	Change in other liabilities	276 063	-1 379 773
<b>56 988</b>	<b>204 130</b>	<b>Net cash flow from operating activities</b>	<b>772 107</b>	<b>393 602</b>
		<b>Cash flow from investment activities:</b>		
0	0	Payments for tangible fixed assets	-10 780	-51 875
-35 738	-59 835	Net cash flow short-term investments	-575 544	-125 565
-55 012	-143 795	Payment for fixed assets investments	-117 029	-30 123
3 681	2 123	Proceeds from investments in fixed assets investments	2 123	3 681
<b>-87 069</b>	<b>-201 507</b>	<b>Net cash flow from investment activities</b>	<b>-701 230</b>	<b>-203 882</b>
		<b>Cash flow from financing activities</b>		
0	-444 127	Dividends paid	-497 453	-24 591
0	444 127	Proceeds from equity issue	444 127	0
0	0	Change in long-term liabilities	6 294	2 632
0	0	Payments made/received in respect of minority equity	4 377	-627
<b>0</b>	<b>0</b>	<b>Net cash flow from financing activities</b>	<b>-42 655</b>	<b>-22 586</b>
-30 081	2 623	Net change in bank deposits	28 222	167 134
35 905	5 824	Bank deposit balance as per 01.01	457 458	290 324
<b>5 824</b>	<b>8 447</b>	<b>Bank deposit balance as per 31.12</b>	<b>485 680</b>	<b>457 458</b>



# Notes to the accounts

## **NOTE 1**

### **GROUP STRUCTURE**

Pareto AS holds 75.0% of Pareto Securities ASA, 80.0% of Pareto Private Equity ASA, 82.1% of Pareto Forvaltning ASA, 100.0% of P.F. Bassøe AS, 100.0% of Pareto Shipbrokers AS, 100.0% of Pareto Dry Cargo AS, 75.0% of PPN ASA and 100.0% of Universal Fonds Oslo ASA.

Pareto Securities ASA holds 100.0% of the shares of Pareto Offshore ASA. Pareto Private Equity ASA holds 100.0% of the shares of Pareto Eiendom AS, Pareto Investor Service AS and Pareto Consulting AS. Pareto Commodity AS holds 100.0% of the shares of Pareto Commodity Consulting AS.

### **CONSOLIDATION PRINCIPLES**

Investments in subsidiaries are valued at acquisition cost. In the consolidated accounts, the cost price of the shares of the subsidiaries is eliminated against the equity of the subsidiaries as per the acquisition date. Internal transactions between the companies, as well as receivables and debts as per 31 December, have been eliminated in the consolidated accounts.

### **ACCOUNTING PRINCIPLES**

The annual accounts have been prepared in accordance with those provisions of the Accounting Act that apply to larger enterprises.

Assets intended for permanent ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables to be repaid within one year are classified as current assets. Corresponding criteria have been applied to the classification of current and long-term liabilities.

Fixed assets are valued at acquisition cost, but are written down to real value when the loss of value is expected not to be temporary. Fixed assets with a limited economic life are depreciated systematically. Long-term loans are entered in the balance sheet at the nominal amount received as per the start date.

Investments in companies of which the company owns between 20 and 50 percent, and exercises material influence, are treated pursuant to the equity method.

Current assets are valued at the lower of their acquisition cost and real value. Current liabilities are entered in the balance sheet at the nominal amount received as per the start date. Current liabilities are not revalued at real value as a result of changes in interest rates.

Certain items are valued according to different principles, and are explained below.

The operative subsidiaries are the principals of the respective internal partnerships. The accounts of the internal partnerships are included in the accounts of the principals on a gross basis. Silent partners' shares of the profits of the internal partnerships are charged as expenses in the form of personnel costs and other financial expenses, respectively. Debts owed to silent partners are included in other current liabilities.

Loan loss provisions are made on the basis of an individual assessment of each receivable. In addition, a non-specified provision is made in respect of other accounts receivables to cater for estimated loss.

Financial instruments that are included in the trading portfolio and traded in an efficient market are valued at real value as per the date of the balance sheet. Other financial instruments are valued at the lower of average acquisition cost and real value as per the date of the balance sheet.

Pensions are entered in the accounts according to a linear contribution profile, and with the expected final salary as the contribution basis. Deviations from estimates are amortised over the expected remaining contribution period to the extent that these exceed 10% of the higher of the pension obligations and the pension assets.

Tax is applied to pre-tax accounting profits. Taxes relating to equity transactions are set off against equity. Tax comprises payable tax, changes to deferred tax, and reimbursement claims pursuant to the Taxation Act.

Monetary items in foreign currency are converted at the exchange rate prevailing as per the date of the balance sheet.

## NOTE 2

<b>Group operating revenue:</b>	<b>2005</b>	<b>2004</b>
Brokerage	1 079 008	488 897
Corporate Finance	840 791	347 496
Asset/business management	190 169	116 137
Other operating revenue	16 432	20 642
<b>Total operating revenue</b>	<b>2 126 400</b>	<b>973 172</b>

## NOTE 3

### Salary costs, number of employees, remuneration etc.

	<b>Parent company</b>		<b>Group</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Salaries, holiday allowance, social security contributions	346	348	116 625	90 947
Profit-related remuneration	0	0	341 517	127 581
Pensions and other personnel costs	30	37	11 486	7 202
<b>Total</b>	<b>376</b>	<b>385</b>	<b>469 628</b>	<b>225 730</b>
Average number of employees	1	1	210	180

The Managing Director has received a remuneration of NOK 304,302. NOK 250,000 has been allocated to parent company directors' emoluments. A remuneration of NOK 150,000 has been allocated to the Boards of the daughter companies.

Fees to Deloitte Statsautoriserete Revisorer AS in respect of auditing amount to NOK 70,000 for the parent company and NOK 1,165,000 for the group. Fees in respect of other services amount to NOK 20,000 for the parent company and NOK 405,000 for the group. Fees to Deloitte Advokatfirma DA amount to NOK 656,000 for the parent company and NOK 1,687,000 for the group. Fees to remaining auditors in the group amount to NOK 239,000. Remunerations are exclusive of value added tax.

## NOTE 4

<b>Tangible fixed assets</b>	<b>Parent company</b>		<b>Group</b>	
	<b>Furnishing, IT</b>	<b>Furnishing, IT</b>	<b>Furnishing, IT</b>	<b>Goodwill</b>
Acquisition cost 01.01	553	66 033		45 955
Subsequent acquisitions	0	10 780		343
Deduction value depreciation	0	0		11 913
Subsequent disposals	0	0		2 067
<b>Acquisition cost 31.12</b>	<b>553</b>	<b>76 813</b>		<b>32 318</b>
Acc. depreciation 01.01	165	57 921		5 430
Subsequent depreciation	40	4 650		10 573
<b>Acc. depreciation 31.12</b>	<b>205</b>	<b>62 571</b>		<b>16 003</b>
<b>Book value 31.12</b>	<b>348</b>	<b>14 242</b>		<b>16 315</b>
Economic life	3-10 years	3-10 years		3-3,5 years
Depreciation plan	Linear	Linear		Linear

## NOTE 5

### Shares of subsidiaries:

Company	Office	Ownership and voting share	Book value as per 31.12.
Pareto Securities ASA	Oslo	75,00 %	50 728
Pareto Private Equity ASA	Oslo	80,00 %	6 886
Pareto Forvaltning ASA	Oslo	82,14 %	14 941
Pareto Shipbrokers AS	Oslo	100,00 %	6 175
P.F.Bassøe AS	Oslo	100,00 %	3 542
Pareto Dry Cargo AS	Oslo	100,00 %	3 000
Pareto Commodity AS	Oslo	100,00 %	7 205
Universal Fonds Oslo ASA	Oslo	100,00 %	3 457
PPN ASA	Bryne	75,00 %	36 925
			132 859

The acquisition of the minority interest's shares of Universal Fonds Oslo ASA in 2005 gave an increase in goodwill of NOK 343,000. The sale of shares of PPN ASA gave a goodwill reduction of NOK 2,067,000. The shares of Pareto Commodity AS were acquired as per 30 April 2005 at a cost that were NOK 11,913,000 less than reported equity. The amount is registered as a reduction of goodwill.

### Shares of associates companies:

Company:	Fondsforvaltning Oslo	Nordic Partners New York	Total associated companies
<b>Office:</b>			
<b>Pareto's holding:</b>	<b>35,0 %</b>	<b>33,3 %</b>	
Acquisition cost	40 001	1 269	41 270
Equity as per acquisition date	23 939	-316	23 623
Goodwill as per acquisition	16 062	1 585	17 647
Balance as per 01.01	8 641	1495	10 136
Subsequent acquisitions	0	203	203
Share of annual profit	1 513	2 113	3 626
Goodwill depreciation	0	-528	-528
Dividends received	-2 123	0	-2 123
Balance as per 31.12	8 031	3 283	11 314

## NOTE 6

Other shares/bonds:	Number	Cost price	Book value
Other securities held by parent company:			
International Maritim Exchange ASA	61 490	4 551	4 551
Oslo Børs Holding	163 100	37 149	37 149
VPS Holding	494 600	103 003	103 003
Norsk Tillitsmann	5 925	4 562	4 562
Total other securities held by parent company		149 265	149 265
Other securities held by subsidiaries		39	39
Total other securities held by the group		149 304	149 304

The value of the shares is estimated at no less than book value.



## NOTE 7

The parent company's contribution to the Pareto Group Pension Fund amounts to NOK 2,490,000. The parent company has made an interest-bearing loan to Nordic Partners Inc. in the nominal amount of USD 868,000, which has been converted as NOK 5,241,505 as per 31.12.2005. The parent company has made an interest-bearing loan with a balance due of NOK 10,890,869 to employees of its subsidiary PPN ASA.

## NOTE 8

### Pensions:

The group maintains a pension scheme applicable to 87 people. The actuarial assumptions respecting demographic factors and retirement are based on the assumptions normally made within the insurance industry.

	2005	2004
Net present value of pension contributions during the year	2 961	2 727
Interest cost on pension obligations	1 889	1 941
Estimate adjustments entered in the profit and loss account	215	-71
Return on pension assets	-3 887	-3 376
Net pension cost before employer's social security contribution	1 178	1 221
Accrued employer's social security contribution	105	1 318
Net pension cost after employer's social security contribution	1 283	2 539
Calculated pension obligations	-35 659	-36 428
Pension assets (at market value)	59 121	53 654
Estimate adjustments not entered in the profit and loss account	-8 446	-1 791
Accrued employer's social security contribution	-3	-5
Pension assets entered on the balance sheet (incl. employer's social security contribution)	15 013	15 430
Unsecured pension obligations (incl. employer's social security contribution)	-1 853	-1 687
<b>Financial assumptions:</b>		
Expected return on fund assets	7,0 %	7,0 %
Discount rate	5,0 %	6,0 %
Expected salary growth	3,0 %	3,0 %
Expected adjustment of the base amount of the social security system	3,0 %	3,0 %

## NOTE 9

Accounts receivable in subsidiaries:	2005	2004
Specified loss provisions as per 01.01	325	1 513
Materialised loss in respect of which loss provisions have previously been made	-224	-1 309
Adjustment to specified loss provisions	618	121
Specified loss provisions as per 31.12.	719	325

## NOTE 10

### Securities

	Number	Cost price	Book value
<b>Mutual fund units held by the parent company:</b>			
Pareto Høyrente	12 465	12 525	12 772
Kommunalbank AIO	10 000	10 000	10 000
Pareto Aksje Norge	101 222	148 748	148 748
Pareto Aktiv Global	49 850	50 000	50 000
		221 273	221 520
<b>Shares held by the parent company:</b>			
Sparebanken Pluss	10 150	1 746	1 746
Bergens Tidende	3 189	1 116	1 116
Adresseavisen	13 290	3 944	3 944
Norges Handels- & Sjøfartstid.	12 464	9 598	9 598
Norsk Hydro	50 000	24 694	24 694
Stavanger Aftenblad	161 421	9 951	9 951
Solstad Offshore	109 000	2 998	2 998
Komplett	78 000	3 529	3 529
Wilh. Wilhelmsen	74 000	3 626	3 626
Berkshire Hathaway Inc.	1	471	471
TD Banknorth Inc.	4 900	919	919
Bear Stearns Cos Inc.	10 004	6 045	6 045
Anheuser-Busch Comp.	30 000	8 067	8 067
Eaton Vance Corp.	60 000	8 287	8 287
Johnson & Johnson Inc.	10 000	3 721	3 721
MBNA Corp.	10 000	1 855	1 836
Legg Mason Inc.	15 000	5 696	5 696
McGraw-Hill Inc.	40 000	11 041	11 041
North Fork Bancorp	15 000	2 913	2 776
Raymond James Financials	50 000	9 299	9 299
Toronto Dominion Bank	2 351	606	606
T-Row Price	30 000	12 903	12 903
Wells Fargo & Co	5 000	1 942	1 942
Andre aksjer		232	217
		135 199	135 028
Total securities held by the parent company			356 548
		<b>Market value</b>	
Shares:		81 797	
Bonds and commercial paper:		577 331	
Mutual fund units:		59 676	
Total securities held by subsidiaries			718 804
Total securities held by group			1 075 352

## NOTE 11

### Bank deposits

The parent company holds NOK 138,347 as restricted funds in the withholding tax account. Restricted funds represent NOK 88,590,000 of the group's bank deposits, of which NOK 6,318,000 are held as restricted funds in the withholding tax account.

## NOTE 12

### Equity

Parent company	Share capital	Premium fund	Other equity	Total
Equity as per 01.01	14 100	0	479 739	493 839
Dividends 30.11.2005			-444 127	-444 127
Equity issue 30.11.2005	4 700	439 427		444 127
Annual profits			200 453	200 453
Total equity as per 31.12	18 800	439 427	236 065	694 292

Group	Share capital	Other equity	Total
Equity pr. 01.01	14 100	711 265	725 365
Equity issue 30.11.2005	4 700	-4 700	0
Change in sharevalues of subsidiaries		903	903
Net payment received from in minority interests		4 377	4 377
Annual profits after tax		681 063	681 063
Total equity as per 31.12	18 800	1 392 908	1 411 708

As per 31.12, the share capital is NOK 18,800,000, divided into 47,000 shares of NOK 400 each.

	Number of shares	Ownership voting share
Svein Støle	35 000	74,5 %
Castel AS / Erik Bartnes	3 000	6,4 %
Skoghøy Invest AS / Anders Endreson	6 000	12,8 %
Svele AS / Svein Støle	3 000	6,4 %
	47 000	100,0 %



**NOTE 13****Taxes**

<b>PARENT COMPANY</b>			<b>GROUP</b>	
<b>2004</b>	<b>2005</b>		<b>2005</b>	<b>2004</b>
107 663	201 304	Profits before tax	935 134	355 219
-4 233	-198 253	Permanent differentials	-58 248	5 030
-8 794	-5 503	Change in temporary differentials	-2 886	-6 405
0	0	Losses brought forward from previous years	0	-121
94 636	-2 452	Annual tax base	874 000	353 723
26 498	0	28% payable tax	244 720	99 042
-26 508	0	Compensation for dividends received	0	-1 356
0	0	Payable tax before reimbursement claims	244 720	97 686
0	0	Payable tax supplement	653	3 111
0	0	Payable tax	245 373	100 797
		Specification of temporary differentials		
-5 481	-159	Current assets	-159	-4 319
-36	-50	Fixed assets	-2 644	-1 524
-737	-589	Intellectual property	-29 582	-15 881
-35	-2 452	Residual loss to be brought forward	-20 698	-3 159
-6 289	-3 250	Basis for computation of deferred tax benefit/tax	-53 083	-24 883
-1 761	-910	28% deferred tax benefit/tax	-14 863	-6 967
		Annual tax cost		
0	0	Payable tax	244 720	100 797
0	0	Acquired tax benefit this year	17 247	0
530	0	Tax corrections pertaining to previous years	0	-2 696
16 638	851	Change in deferred tax benefit/tax	-7 896	18 331
17 168	851	Tax cost	254 071	116 432
15,9 %	0,4 %	Effective rate of taxation	27,2 %	32,8 %
		Adjustment from nominal to actual tax cost		
30 146	56 363	Expected tax cost based on nominal rate	261 835	103 029
-760	-55 512	Permanent differentials	-16 309	-658
-26 508	0	Compensation for dividends received	0	-1 356
14 290	0	Other items	8 545	15 417
17 168	851	Tax cost	254 071	116 432

#### **NOTE 14**

Pareto Securities ASA is under a statutory obligation to furnish guarantees with the Norwegian Banking, Insurance and Securities Commission and with the Norges Bank. Brokerage guarantees have been furnished in the amounts of NOK 25 million with the Norwegian Banking, Insurance and Securities Commission and NOK 153 million with the Norges Bank. The guarantees have been secured by way of a first preferred security interest in accounts receivable, as well as a security interest in the company's short-term securities.

#### **NOTE 15**

The parent company is exposed to the risk of price fluctuations on its own securities portfolio. In addition, its subsidiaries face risks relating to own-account trading, market making and settlement from customers.

The financial market risks to which the subsidiaries' activities expose themselves, are managed pursuant to the provisions of the Public Limited Companies Act and the Internal Control Regulations laid down by the Norwegian Banking, Insurance and Securities Commission.

## Deloitte.

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To the Annual Shareholders' Meeting of Pareto AS

Translation from the original Norwegian version

### AUDITOR'S REPORT FOR 2005

We have audited the annual financial statements of Pareto AS as of 31 December 2005, showing a profit of NOK 200,453,000 for the parent company and a profit of NOK 681,063,000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to produce the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den Norske Revisorerforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company and of the Group as of 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Oslo, 27 March 2006  
Deloitte

Jørn Borchgrevink (signed)  
State Authorised Public Accountant (Norway)

Audit, Tax & Legal, Consulting, Financial Advisory.

Medlemmer av Den Norske Revisorerforening  
Org.no: 980 211 282

Member of  
Deloitte Touche Tohmatsu





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