

# Pareto Annual Report 2012



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

# This is the Pareto group

*Pareto is a leading, independent operator in the Norwegian market for financial services. The company has offices in Oslo, Stavanger, Bergen, Trondheim, Kristiansand, Bryne, Stockholm, Malmö, Helsinki, Copenhagen, Rio de Janeiro, Singapore and New York. Pareto was founded at the tail end of 1985 and since that time has grown into a corporate group offering a wide array of products. The group has 580 employees and shareholders' equity of some NOK 4.1 billion.*

## Business sectors

Through its subsidiaries, Pareto offers a wide range of services within the broking of shares, bonds and partnership interests, the management of issues of equity and debt capital instruments, and direct investments. The group also provides business management services, valuations, refinancing, financial advisory services, commercial property and insurance brokerage, investment advisory services, investment management, asset management and system solutions for independent investment advisors. Furthermore, Pareto is involved in chartering and buying and selling tanker and dry bulk tonnage and drilling rigs through its ship brokerage business, as well as providing technical management services for vessels. The company works closely with Pareto Bank, in which Pareto is the largest shareholder.

## Diversity and a strong local presence

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

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

## Pareto's aims and strategies

Pareto's goal is to be the preferred Norwegian supplier of financial services, based on a thorough and detailed knowledge of Norwegian social conditions and of businesses and industries in which Norway enjoys particular advantages. Our aim is to create sound financial solutions and to secure high returns for our clients. Pareto's strategy is based on maintaining our focus, in-depth knowledge, experience and long-term client relationships.

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

## The Pareto Group – what we do

Securities brokerage/ financial advisory services	Ship/offshore brokerage	Project financing/ investment/ management	Asset management / wealth management	Banking and insurance
Pareto Securities	Pareto Offshore	Pareto Project Finance	Pareto Forvaltning	Pareto Bank
	Pareto JGO Shipbrokers			Pareto Forsikringsmegling
	Pareto Shipping			
	Pareto Dry Cargo		Pareto Nordic Investments	
	P. F. Bassøe	Pareto Business Management	Pareto Wealth Management	

# The Pareto group in 2012

*The pessimism that had prevailed in the latter half of 2011 continued into the first six months of 2012, but in June the mood changed. Throughout the second half of the year securities markets were buoyed up by rising levels of optimism and risk tolerance. Even so, liquidity and willingness to invest remained modest.*

All in all, this course of events produced higher total revenues and higher profits for the Pareto group than in the preceding year.

- Revenues for the Pareto group amounted to NOK 1.9 billion (2011: 1.7 billion). The operating profit totalled NOK 789 million (750 million), and the pre-tax operating profit was NOK 689 million (570 million). The profit for the year was NOK 536 million (436 million). The group's losses on accounts receivable remain negligible. The total personnel count of the group is expanding slowly and has now reached 580. Equity at yearend stood at NOK 4.1 billion.
- Pareto Securities holds a leading position in the Norwegian capital market. The company acted as advisor in a number of high-profile transactions, including the sale of TTS' energy division to Cameron, Dockwise's acquisition of Fairstar (in collaboration with Pareto Project Finance) and the sale of Morpol to Marine Harvest. Pareto Securities was involved in arranging equity placements to a value of over NOK 25 billion for, amongst others, Höegh LNG Holdings, Sparebank 1 SR Bank and Det Norske Oljeselskap, as well as the listing of Selvaag Bolig. The company also arranged the placement of high-yield bond issues to a value of over NOK 16 billion for, inter alia, Seadrill, Aker, Prosafe, Kistefos and Austevoll Seafood, as well as last year's biggest transaction in the Norwegian high-yield bond market: the 500 million dollar issue by OSX-3 Leasing B.V. Since 2004, Pareto Securities has been involved in over 80 IPOs on Oslo Børs/Oslo Axess, which is equivalent to 40 per cent of all listings in the period. The company is a leading player in the Norwegian secondary market for both equities and bonds. During 2012, the company established operations in Finland, Denmark and Brazil.
- Pareto Project Finance consolidated its leading position in the Norwegian market for project finance. The company advised on and was involved in the acquisition and syndication of real estate to a value of approximately NOK 5 billion and the purchase/sale and syndication of shipping/offshore projects to a value of approximately NOK 3 billion. At yearend, subsidiary Pareto Business Management managed some 140 investment companies with a combined gross value of NOK 40 billion.
- Pareto Forvaltning reported a substantial improvement in performance and very satisfactory portfolio management results. Over the last five years the company's main global equities fund has recorded an excess return of 25.5 percentage points relative to the MSCI World Index, a performance that ranks amongst the very best recorded by not only Norwegian but also international managers. The company's portfolio of Norwegian equities has recorded a total return of 522 per cent since the company was founded in 1998, as compared with the 217 per cent recorded by Oslo Børs and just 9.3 per cent recorded by the World Index. All four fixed-income funds also reported substantial excess returns, with corporate bonds (high yield) performing especially well. At yearend, the company had assets of NOK 40 billion under management.
- Pareto JGO Shipbrokers had yet another year of very high activity levels, reporting an excellent result, the lion's share being attributable to the offshore department, as in previous years. The company has a very healthy order backlog on the supply market.
- The fortunes of Pareto Bassøe Shipbrokers in 2012 were more mixed. The freight market was challenging in terms of both dry bulk (Pareto Dry Cargo) and tanker business (P.F. Bassøe). Even so, Pareto Dry Cargo reported a marked improvement in its performance.
- Pareto Wealth Management consolidated its organisation following the extensive restructurings in 2011. Assets under management increased, but the company lost income from sales to other investment firms.
- At yearend 2012, Pareto Bank's total assets stood at close to NOK 8.3 billion, following a substantial growth in lending, especially for real estate project funding. The profit after taxes increased by over 40 per cent. The company has a deposit-to-lending ratio of almost 80 per cent and a capital ratio of 14 per cent.
- In its second full year as part of the Pareto group, Pareto Forsikringsmegling reported continued growth, notwithstanding consistently tough price competition.
- Pareto Nordic Investments launched a hedge fund in a UCITS format in 2012. This means that the fund may be marketed in Norway. The performance of some of the company's funds has been outstanding.

# The market and the economy in 2012

*Taking the long view was by no means easy in 2012 ... but it was profitable.*

As in recent years, the financial markets in 2012 were characterised by political risk, marked pessimism and the occasional glint of hope and greed, and the unceasing pursuit of the next macroeconomic key figure and nervous interpretation of ambiguous indicators.

And yet again, much of the information flow could best be described as short-term noise. Most companies carried on as normal, making money and building value for their shareholders, employees and lenders. The upshot was that, taken as a whole, 2012 turned out to be a more than satisfactory year for players in most sections of the financial markets.

Even so, 2012 saw certain structural changes of interest as well as concealing some danger signals that it might be worth bearing in mind. In our assessment, the key features of the 2012 financial year were:

- weak growth in leading Western countries produced lower interest rates.
- Sound growth on the part of our real trade drivers made for good export conditions.
- This combination fuelled an upturn in the stock market and a record year on the bond market.
- The Norwegian economy was solid to the core – but was probably more oil-fuelled than most people realise.

## It's an ill wind ...

Generally, low interest rates are a bad sign. They normally signal poorer growth prospects, either because they reflect the desire of the authorities to stimulate growth (low short-term interest rates) or the fear of the markets of bad times ahead (low long-term rates).

Both of the above have been true of much of our financial environment. The eurozone countries recorded a total reduction in GDP of 0.5 per cent last year, the UK was treading water, and even Sweden was barely able to clock up a growth rate of 1.3 per cent, according to Statistics Norway.

With economic conditions like this it is not hard to understand that central bank key rates of interest are kept low. The US Federal Reserve has long maintained a target zone of 0-0.25 per cent, whereas the European Central Bank slashed its key rate to 0.75 per cent last year. Similarly it is understandable that market rates of interest should be low. And given our small open economy and free exchange rates, Norway has little choice but to follow suit, at least part of the way.

Thus in 2012 we saw low and falling interest rates at both ends of the yield curve. Last year the Norwegian key policy rate was cut from 1.75 to 1.5 per cent, money market rates fell by over one percentage point to just over 1.8 per cent, and the yield on 10-year government bonds shrank from 2.4 to just over 2.0 per cent. This gave the Norwegian economy a stimulus that it hardly needed.

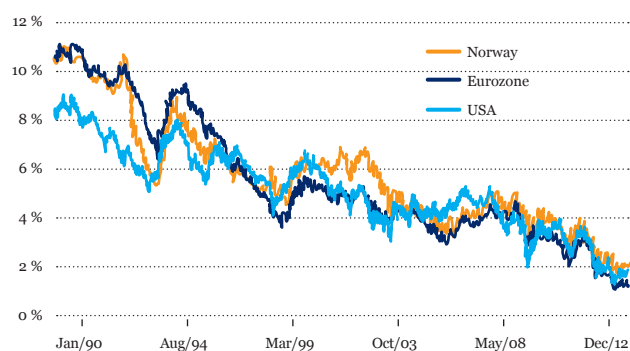
## Underlying trading partners?

Macroeconomics tends to focus on Norway's trading partners. It is probably more correct to say that the low rates of interest came to us from our financial partners – an overlapping but not entirely identical concept. Furthermore, the truth is that our trading partners do not provide a full picture of the situation for Norwegian exports.

The stock market attempts to understand market risk as exposure to various risk factors, from growth and inflation to oil prices and exchange rates. An equivalent train of thought can be applied to the macroeconomy. If Norway sells oil to Belgium, economic growth in China will be of greater importance in determining the sales price than growth in Belgium.

In this example China represents our underlying exposure. And of course, that's an area of healthy growth. In fact, worldwide 2012 was an entirely average year in the context of GDP growth since 1980. Emerging nations compensated for weak or non-existent growth on the part of our traditional trading partners – a situation from which the Norwegian economy has benefited.

## Falling and falling – until now



Yield to redemption 10-year government bonds. Source: FactSet

## An ideal year for the stock market



OSEBX. Source: Oslo Børs

### A good year for equities ...

Thus many investors had their cake and ate it too, with excellent corporate earnings, low capital costs and rising valuations. A good recipe for stock market appreciation. And when the mood on Wall Street shifts from scepticism to cautious optimism it is hardly surprising that Oslo Børs should want to tag along.

The word mood has been chosen with care. For the last 2-3 years the stock market has been characterised by mood swings lasting for six months to a year. In industry jargon the market has been sentiment-driven.

The sentiment changed about halfway through 2012. After bottoming out at around the six-month mark, all the signs pointed upwards. On the stock market the upward trend didn't stop until the Oslo Børs benchmark index had paid a return of 15.4 per cent, not far off the figure recorded by the S&P 500 in the US. For the long-term investor this is an almost ideal state of affairs. A sound reward for risk, not least when compared to interest rates, but not so hefty as to herald its own reversal.

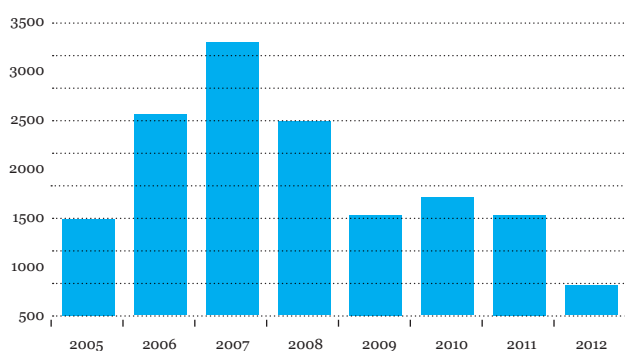
### ... for some, at least

Nevertheless, the willingness to invest did not keep pace. Firstly, last year's Norwegian stock market was characterised by low liquidity. Although the establishment of new marketplaces means that Oslo Børs is no longer synonymous with the Norwegian equities market, it is striking that trading in equities on Oslo Børs fell by over a third last year.

Secondly, the fall was not equal for all shares. Trading was concentrated around the most liquid shares, which also meant a less rewarding share price development for many less liquid shares – and represented a greater challenge for investors who in the past would have been able to harvest an excess return on shares of precisely this nature. In 2012, this strategy produced a negative excess return.

Thirdly, interest in investing in equities was still modest. It seems likely that low supply rather than high demand was behind the price gains. Figures published by the Norwegian Fund and Asset Management Association show that in 2012 net subscription for equities funds by Norwegian private customers was just NOK 232 million. Net subscriptions by Norwegian institutional customers were only about 10 times as high, of which half in December alone. Small amounts, in this context.

### Stock market less liquid



Turnover on Oslo Børs in NOK billion. Source: Oslo Børs

So where did the money go?

### A record year on the bond market

Answer: it went to the bond market. And the bond market had a record year, in more ways than one.

During the course of 2012 corporate bonds were issued to a value of over NOK 96 billion, which was over twice the volume issued in the preceding year. More than half of this was high yield bonds, i.e. loan notes with a higher risk and, accordingly, a higher expected return.

In terms of industry, shipping and oil-related industries accounted for approximately half. However, other sectors increased their share of the pie.

This growth is an indirect after-effect of the financial crisis. The banks are subject to increasingly stricter capital adequacy requirements, meaning that they are obliged to restrict the growth in their lending. In Norway, this has primarily impacted on corporate customers, while lending for housing purposes has continued as normal. The upshot has been that a demand for alternative forms of corporate funding has emerged.

In institutional terms the bond market has been well equipped to face the challenges. In Norway we have developed efficient arrangements, with extensive documentation and a well functioning trustee scheme. Incidentally, Pareto Securities has recently been involved in setting up a similar trustee scheme in Sweden.

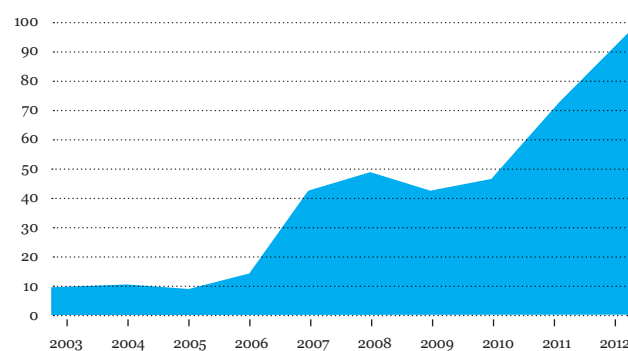
Hence, from this perspective there are sound grounds for interpreting the growth in the bond market as structural. That being said, this growth was well aided by cyclical factors in 2012.

### High high-yield

Although government bond yields are low, corporate bonds paid a very handsome return last year. Risk premia, expressed as the increment on a risk-free rate of return, remain at an all-time high – not least as a proportion of total interest yield.

The outcome has been that rates of return have also been historically high. According to Pareto Securities, BB-rated bonds issued in Norwegian kroner generated an average return of 9.1 per cent, while B-rating paid investors 13.8 per cent and CCC rating no less than 21.8 per cent.

### Interest, nothing but interest



Accumulated difference in NOK billion between net subscriptions for fixed-income funds and net subscriptions for equities funds, Norwegian institutional clients. Source: VFF

Bonds denominated in Norwegian kroner generally have a floating rate, meaning that the rate is adjusted in line with changes in the market rate. In such cases, the high return for investors reflects the high cost of debt capital for the issuing companies. Why do they nevertheless opt to seek funding in the bond market? One reason is undoubtedly that equity capital remains expensive, in the sense that pricing in the equities market is still relatively low.

Many Norwegian companies, typically those deriving their revenues in dollars, issue bonds denominated in dollars. These are normally fixed-rate. In 2012, this offered investors wonderful rewards, because of the downturn in both the risk-free rate and credit premiums: the average return on dollar-denominated bonds in the Norwegian market was over 20 per cent, and in the CCC-rated category the return was 40 per cent and more!

Nevertheless, it must be borne in mind that record-level returns are a function of higher risk.

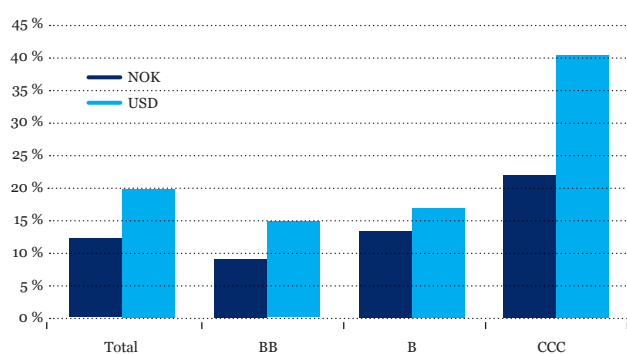
### Oil-fuelled mainland economy

A more fundamental form of risk applies to the Norwegian economy, which in 2012 was both lively and robust. Over the longer term, this situation can not be taken for granted. Pareto's analyses indicate that the Norwegian economy has been even more oil-fuelled than is generally appreciated.

Traditional GDP figures do not pick up oil price changes, so it may be useful to start with revenue figures. According to the Norwegian Government's latest report on long-term perspectives for the Norwegian economy, increases in the price of oil and natural gas contributed 2.0 percentage points to the average annual growth of 3.3 per cent in real disposable income in Norway in the period 2004-2011. A high proportion? In our assessment, this is more likely to be an underestimate. Static calculations have been applied in determining the contribution made by oil. The missing factor is the way in which high oil prices stimulate the mainland economy.

One essential figure is missing when Statistics Norway publishes key figures for mainland Norway: our biggest export market. According to Pareto's estimates, last year the mainland economy "exported" goods and services to the petroleum industry to a value of over NOK 215 billion, more than three times as much as the entire Nordic region combined – and more than three times as much as in 2001.

### Interest-rate bonanza



Average returns in 2012 for bonds on the Norwegian market by currency and rating category. Source: Pareto Securities

Measured as a proportion of mainland GDP this corresponds to almost 10 per cent. Why is the figure so high?

### Oil – a mainland business

Clearly, higher oil prices will result in higher levels of activity in the North Sea and, as a consequence, higher levels of activity on the part of onshore contractors. But this does not tell the entire story. Just as important is the fact that the cost of producing the oil has increased. Mature oil fields and complicated geology have provided the ingredients for a bonanza for mainland Norway.

The development in Statoil's costs provides a useful illustration. Whereas in 2001 operating costs and depreciation amounted to less than seven dollars a barrel, by last year the corresponding items had increased to a total of almost 20 dollars a barrel. And here's the key: much of the difference has ended up in mainland Norway.

So it is not the case that high oil prices and hefty profits in the North Sea have spilled over into the mainland economy. Rather, the opposite applies: the mainland has benefited from the fact that the oil industry has not earned as much as might be suggested by the rise in price. Far more of each petroleum krone ends up in the mainland economy than was the case just a few years ago. And that is how the economy of mainland Norway has also come to be oil-fuelled.

### What the Norwegian Government Pension Fund could have become

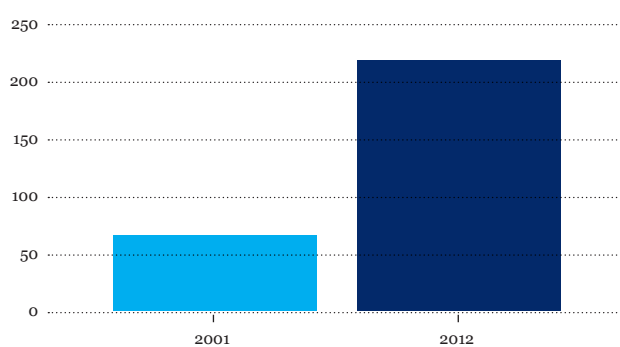
For the Norwegian economy this is far more important than the income effect of the oil price. It is also far more difficult to apportion than the more marginal part of the oil revenues that the politicians discuss.

The Norwegian Government Pension Fund Global was worth over NOK 3,800 billion at year-end. Almost half, nearly NOK 1,760 billion, can be attributed to higher oil prices than those projected when the pension fund was started.

However, the Government Pension Fund Global is not NOK 1,760 billion larger than was projected at the time. It is "only" just under NOK 500 billion larger, according to our estimates.

Lower real returns than the expected four per cent account for well over half of the difference. The rest – by coincidence, this too

### Almost 10 per cent of mainland GDP



Demand by the oil industry directed at the Norwegian mainland economy in billions of NOK. Pareto's estimates



amounts to almost NOK 500 billion – can largely be attributed to the fact that more of the oil revenues have leaked out in the form of higher costs. And these costs have largely represented revenues for mainland companies.

### The real stimulus

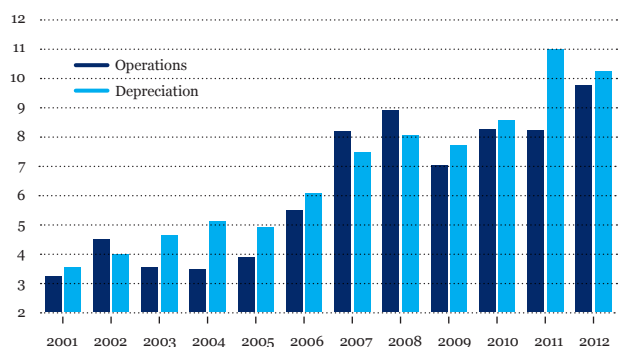
Scope is not an insignificant factor here. The Government has made an issue of the fact that less oil revenue is being spent now than is indicated under the "budgetary rule" governing the use of capital gains generated by the Government Pension Fund Global. Since the Fund was established this "underconsumption" has amounted to a total of 42 billion 2012-kroner.

In reality, more money has probably been spent than was intended, since the budgetary rule automatically indicates higher expenditure when the Pension Fund grows. Now that the Fund has grown almost NOK 500 billion bigger than anticipated, this provides scope for using roughly NOK 20 billion more a year without breaching the budgetary rule.

However, this effect is of far greater importance and, moreover, underestimated: increasing or decreasing the national budget by a few million kroner will be a drop in the ocean when compared with the almost NOK 500 billion that has leaked out and stimulated the mainland economy. Furthermore, in this calculation we have not included a single krone in knock-on effects (multiplier effects).

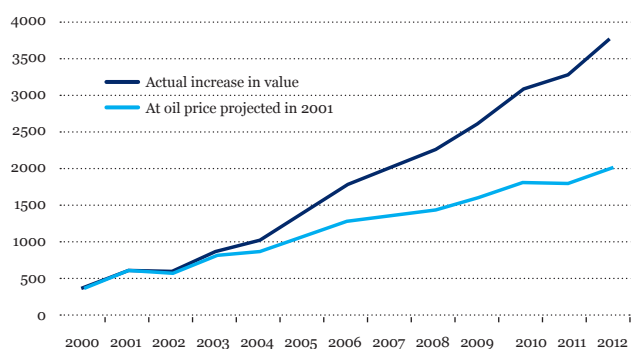
The outcome: the mainland economy too fluctuates in line with the oil price.

### Statoil's costs keep rising



US dollars per barrel. Source: Pareto

### Enormous oil price bonus



Figures in NOK billion. Source: NBIM, Pareto

Just look at (see figure) the way in which the difference between GDP growth in mainland Norway and in Sweden follows the oil price, albeit with a lag.

Obviously, the fact that the oil revenues have benefited a larger portion of Norwegian business and industry is a good thing. This has generated fresh business activity, high levels of employment and a sound return for the shareholders.

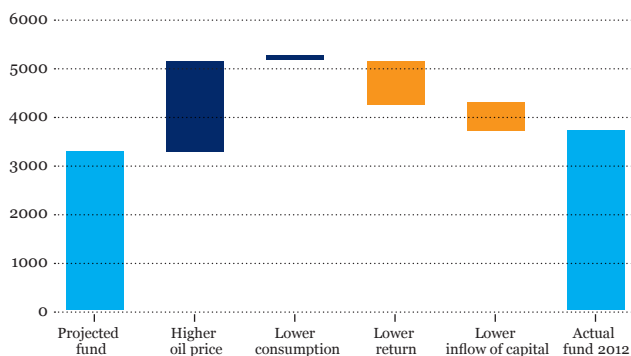
But it must be noted that this return is not risk-free. It is unlikely that the Norwegian economy is as immune to economic downturn as many appear to believe.

### 2012 in a nutshell

OSEBX	+15.4%
S&P 500 return	+16.0%
MSCI World net	+15.8%
3-month NIBOR	from 2.89% to 1.83%
10 year Norwegian Treasury	from 2.41% to 2.04%
Share turnover Oslo Børs (value)	-35.2%
Brent Blend	from USD 106.87 to USD 109.89
USD/NOK	from 5.99 to 5.57
EUR/NOK	from 7.75 to 7.34
GDP growth global	3.2%
GDP growth Norway	3.2%
GDP growth Mainland Norway	3.5%

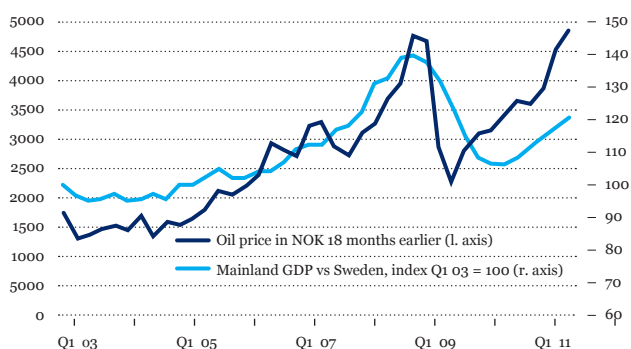
Sources: Oslo Børs, S&P Dow Jones Indices, MSCI, Norges Bank, FactSet, IMF, Statistics Norway, Pareto.

### Factors underlying the growth of the Norwegian Government Pension Fund Global



Milliarder 2012-kroner. Kilde: Pareto

### Oil lubricates the mainland economy



# Pareto Securities AS

*Pareto Securities raises equity and loan capital for Nordic business and industry and for the international energy and oil service industry. We are a leading independent operator within stock and bond brokerage and financial advisory services in the Nordic Region.*

## Broking and financial advisory backed up by in-depth research

Pareto Securities provides financial advisory services in connection with corporate financing, stock exchange listings, and mergers and acquisitions, as well as stock, bond and currency broking services. Pareto has held a leading position in these fields since the end of the last century. We also offer rig and ship broking services through subsidiary companies.

Our brokerage desk, corporate finance department and research team have in-depth knowledge of the industries and companies with which we work. As a consequence our research and advice are always well founded. This gives us a valuable competitive edge and helps us to maintain the confidence of our clients.

## International placement power

The combination of a local presence and a network of international investor contacts forms the foundation for Pareto Securities' placement power in the stock and bond markets. International clients are the source of over half of our revenues, which enables us to undertake a large number of large-scale, complicated projects. The company is experiencing considerable growth, not only in the proportion of revenues deriving from international clients, but also in the number of international clients.

## Share brokerage

Our European investors are largely serviced by our offices in Oslo, Stockholm and Stavanger. Our US clients are the responsibility of brokers in New York and a dedicated team of brokers in Norway. We also have offices in Bergen, Kristiansand, Trondheim and Malmö, Helsinki and Copenhagen.

Our advice is always based on thorough research.

We offer investors a combination of:

- regular dialogue with analysts and brokers

- visits by our analysts
- local events attended by company management (road shows and conferences).

We also operate an efficient online trading system.

## Case-based research products

The bedrock of our research is thorough and detailed data and a long-term commitment. As a consequence our research and brokerage products have come to be valued highly by an extensive international community of investors.

Our equities research staff of 15 analysts in Norway, 10 in Sweden and three in Finland work continuously to ensure that they have the market's best intelligence on the companies and sectors in which they specialise. A unique understanding of Nordic companies and industries is essential if we are to be able to service our clients efficiently. All of Pareto Securities' departments are able to draw on the knowledge garnered by our research team.

In 2012, the focus of the research department shifted towards cases and away from the maintenance of analyses and company updates. This has increased the relevance of the research products to investors.

The research department serves as a recruitment and training unit where young talent are schooled in corporate research and finance. After one or more years these new recruits are given the opportunity to transfer to other departments in Norway, Sweden, New York or Singapore. Our philosophy is that a solid grounding in research enhances the likelihood of success in the other areas of our business, and we have seen several very successful transitions from research to brokerage and corporate finance.

Four credit analysts in Norway and two in Sweden monitor the Norwegian and

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

## Conferences and road shows

An important aspect of our research work is arranging seminars and field trips for our investors. Amongst other events, Pareto Securities hosts an annual oil and offshore seminar, which has become one of Europe's leading investment forums for oil and oil-related companies. No fewer than 1,400 private and institutional investors and other interested parties from Norway and abroad attended the 2012 conference. Other events included an energy seminar in Oslo which attracted over 360 attendees. We regularly take company representatives to meet our clients in the US and Europe, in addition to which our analysts travel around to discuss the latest investment opportunities.

## A substantial bond brokerage

Pareto Securities is a major independent operator in the Nordic bond market. This business enables us to offer debt funding to our corporate clients and profitable investment opportunities to our international investment clients. This business area grew substantially in 2012.

As is the case for our stock market activities, our bond brokerage is based on thorough research. This secures us the trust of investors and issuers alike.

## A comprehensive range of advisory services

Pareto Securities advises clients on raising equity and debt capital, stock exchange

listings, diffusion sales, mergers/demergers, valuations and acquisitions/disposals of businesses or companies. Our advisory services are in particular directed at businesses that are already listed on a stock exchange or have the potential for listing within a reasonable time frame.

As are our research activities, our advisory services are based on a long-term approach and in-depth knowledge of the industries in which we specialise. Our advisory team comprises people with broad management experience drawn from industry, consultancy and the capital market.

In the area of mergers, acquisitions and sales of businesses (M&A) our experienced advisors offer valuation and advisory services to both buyers and vendors. In 2012, demand for these services rose and a number of sales and acquisitions were consummated. In addition, we work closely with Pareto Offshore, Pareto Shipping, Pareto JGO Shipbrokers and Pareto Project Finance in order to serve companies at an early stage in their development and to draw on the group's expertise and networks.

#### Pareto Securities Inc.

In 2009, Pareto Securities acquired all the shares of New York-based Nordic Partners and renamed the company Pareto Securities Inc. The staff now comprises 21 employees. The subsidiary has established a strong position in the North American institutional investor community as a broker of Norwegian shares and bonds. An expanding corporate department works closely with headquarters in Norway to offer US clients equity and debt financing. The collaboration between our offices in the US and Norway enables us to combine closeness to the issuing companies with proximity to the investors.

#### Pareto Securities Asia Pte. Ltd.

Subsidiary Pareto Securities Asia in Singapore was founded in 2006 and now has a staff of fifteen people. The company offers advisory services to local companies and expatriate Norwegian operators, mostly in the shipping and offshore sectors. Pareto Securities Asia has held a licence to conduct its corporate business since it was established. This licence was extended in 2010,

as a consequence of which the company is now authorised to provide both corporate and brokerage services.

#### Pareto Öhman AB

On 15 September 2011, we acquired Swedish investment firm E. Öhman J:or Fondkommission AB, which was subsequently renamed Pareto Öhman AB. The company provides services within stock and bond brokerage as well as financial advisory services in Sweden and has offices in Stockholm and Malmö. The business has 77 employees. The performance of the company improved substantially during 2012 and it is now a key player in the Swedish corporate bond market.

#### Pareto Securities AS – Danish branch

In November 2012, Pareto Securities opened a branch office in Copenhagen with a staff of three. The company provides services within stock and bond brokerage as well as financial advisory services.

#### Pareto Securities Oy

On 1 June 2012, we acquired Finnish investment firm E. Öhman J:or Fondkommission Finland AB. The company provides services within stock and bond brokerage as well as financial advisory services in Finland from offices in Helsinki. The business has 19 employees.

#### Pareto Offshore AS

Subsidiary Pareto Offshore is a leading broker of offshore rigs and provider of advisory services to the global drilling industry. The firm's staff of five also undertakes valuations and market updates.

#### Pareto Shipping AS

Subsidiary Pareto Shipping offers brokerage services relating to the purchase and sale of ships and the contracting of newbuilding orders. The company has six employees.

#### Pareto Securities Representação Ltda.

Pareto Securities' representative office in Rio de Janeiro started trading in the spring of 2012. The office serves as a bridgehead on the Brazilian oil and oil service industry and works closely with the corporate department in Norway. The company has one employee.

#### Other services

Pareto Securities has conducted currency operations since 2006 as an integral part of our investment services. A staff of three now provides these services. The company is also a broker of freight and commodity derivatives, which activities form an integral part of our investment services.

#### Integrated web solution

During 2010, the business of Pareto Online became part of Pareto Securities. The background to this integration is an increased commitment to electronic securities trading.

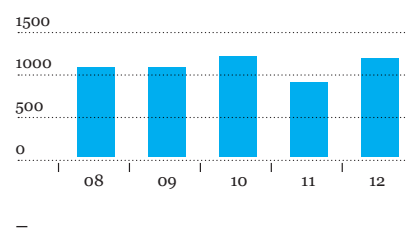
#### Credit and trading for own account

Pareto Securities does not grant credit to clients. The company's approach to managing its capital holdings does not include trading in shares for its own account. Surplus liquidity is deposited in financially sound Norwegian banks and in Norwegian treasury papers.

#### Slight reduction in personnel numbers

Personnel numbers have remained fairly stable. At the outset of the year Pareto Securities and subsidiaries employed 317 people. By the end of the year the count was down to 312. The company recruits young talent, focusing on the ablest students from the best schools. The company offers them a flat organisational structure, attractive incentives and early responsibility.

#### Revenues NOK mill.



#### Pareto Securities AS

Dronning Mauds gate 3  
P.O.Box 1411 Vika  
Oslo, Norway  
Telephone 22 87 87 00  
Turnover 2012: NOK 1.2 billion  
Number of employees 312  
CEO: Ole Henrik Bjørge  
ole.henrik.bjorge@paretosec.com  
[www.paretosec.no](http://www.paretosec.no)

# Pareto Project Finance AS

*Pareto Private Equity (PPF) offers project financing services within the shipping, offshore and real estate sectors, as well as related M&A and corporate services. In addition, PPF has a substantial business securing funding for and managing investment companies. The company has a wide network of clients and investors in and outside Norway.*

## Shipping and Offshore

PPF has extensive experience and expertise in syndicating and managing shipping/offshore projects. At present we hold a portfolio of 71 ships/vessels, having sold off a substantial number of ships in recent years. Our ambition is that the projects we arrange should provide a combination of an annual return on equity (IRR) of between 15 and 20 per cent and regular dividends, at an acceptable level of risk. Over the last ten years, our portfolio has generated an annual return of 19 per cent. Our primary focus is on projects involving long-term charters and charterers of high repute, although we also arrange asset play projects where the market risk for investors is greater. Our projects are generally established in collaboration with experienced shipowners/managers who take an active role as owners. In recent years, PPF has been the biggest operator by far in the Norwegian market for project financing. In 2012, the company was involved in purchases/sales and syndications of shipping/offshore projects to a value of approximately NOK 3 billion. Since its launch in 2011 Pareto Maritime Services AS has proved to be a very successful venture. The company now manages several project companies and its technical expertise enhances our ability to follow up projects.

In 2012, PPF formed a company in Singapore. This venture gives us even greater scope for identifying promising projects for our investors.

## Real Estate

With over 20 years of experience, PPF is a leading financial operator in the Norwegian real estate market. The company acts as advisor on major real estate transactions, including IPOs and purchases and syndications of real estate in both Norway and internationally, and has extensive experience within the field of corporate finance services. PPF arranges direct investments

in modern, centrally located properties with long-term, financially sound tenants. An alternative to investing in equities, bonds and the money market, these investments have generated very satisfactory returns. With a total value of NOK 22 billion and a total floor area of approximately 1.2 million m<sup>2</sup>, the company's real estate portfolio is one of Norway's largest. The average term of contracts of lease in Pareto projects is approximately 11.5 years. The expected annual rate of return on equity is between 10 and 15 per cent. In 2012, PPF was involved in acquiring, syndicating and advising on property transactions with a total value of some NOK 5 billion and the company was one of the biggest fund raisers in the Norwegian real estate market.

## Investment companies

PPF manages diversified investment companies in the real estate, shipping and offshore sectors. The combined equity capital of these companies totals approximately NOK 3.3 billion. Capital structures are both geared and ungeared.

Since the market bottomed out in the wake of the financial crisis our investment companies have performed well, notwithstanding volatile markets. PPF will continue to focus on building investment companies in the real estate, offshore and shipping sectors. We are also developing new investment companies, which will be offered to our investors directly and through existing distribution networks.

## Pareto Business Management

Pareto Business Management AS (PBM) is Norway's leading financial service and support partner in the real estate and shipping/offshore sectors. We provide professional asset management and business management services and have administrative responsibility for some 140 investment companies with a value of approximately NOK 40 billion. PBM's staff includes

experienced professionals in the areas of accountancy, financing, taxation, corporate law and technical management. Efficient web-based reporting tools have been established for sharing information, calculating returns and managing portfolios.

## The sale and broking of shares and partnership interests

Trading in shares and partnership interests in established projects is an important business area for PPF. We have a dedicated brokerage desk which works systematically to ensure the liquidity of shares and project holdings invested in by PPF investors. The ability to place shares and partnership interests in the market is a prerequisite for successfully executing the assignments entrusted to us by our clients. The volume traded in 2012 was close to half a billion kroner measured in terms of equity capital. The brokerage desk has increased its manning levels to give added strength to its international activities, protect the company's high market share and to continue to be able to offer a broad range of products.

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## Pareto Project Finance AS

Dronning Mauds gate 3  
P.O.Box 1396 Vika  
0114 Oslo, Norway  
Telephone: 22 87 87 00  
Turnover 2012: NOK 211 million  
Number of employees: 70  
CEO: Anders Endreson  
anders.endreson@pareto.no  
[www.paretoprojectfinance.no](http://www.paretoprojectfinance.no)

# Pareto Forvaltning AS

*Pareto Forvaltning is an independent asset management company offering discretionary management, equities funds and fixed income funds. Having recorded high returns over a number of years, the company today manages securities to a value of over NOK 40 billion.*

## Pareto's in-house asset manager

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

At yearend 2012 the company managed assets to a value of NOK 17.2 billion in the equities market and NOK 23.0 billion in fixed-income instruments, of which a total of NOK 20.2 in securities funds.

The company manages no less than NOK 2.9 billion on behalf of companies and personnel in the Pareto group, making them the company's biggest "client". Our willingness to invest in our own products underscores our faith in our ability to invest wisely, our methodologies and our asset management philosophy.

The company has a staff of 38 people, including 11 fund managers and 19 strategic advisors with an average of 16 years' relevant experience. The company is located in Oslo. Pareto AS and the company's partners own 82.35 per cent and 17.65 per cent of the company, respectively.

## Asset management philosophy

Our management of equities is value-oriented and research-based. Over time, there will be a close correlation between a company's financial performance and the returns on its share, which is why we concentrate on analysing individual companies rather than market or technical analyses.

Our approach is based on investment principles developed by Benjamin Graham and David Dodd which have provided the basis for the spectacular success of Warren Buffett's investment company Berkshire Hathaway. This approach entails determining the value of a company by looking at a number of key figures (profits, dividends, assets, capital structure) and its strategy/business model. We focus on a sound

capital structure, a high historical return on equity and moderate pricing (P/E). The analysis devotes little attention to speculative factors, such as special market conditions (technical, manipulative and psychological) or other factors associated with a high degree of uncertainty.

We limit the number of shares in the portfolio, because in our judgement a high degree of risk diversification can be achieved with as few as 25-30 stocks. A concentrated portfolio allows us to monitor our investments closely and continuously. We are long-term owners and thus avoid high turnover with the associated high decision-related risk and transaction costs that eat away at the return on the portfolio.

## High long-term excess returns

Since the company was founded in the autumn of 1998, our main profile under active management in the Norwegian stock market has recorded a total return of 522 per cent net of expenses. This represents an excess return of 305 per cent over Oslo Børs, which during the same period delivered 217 per cent. The MSCI World Index delivered only 9.3 per cent, measured in NOK.

The development in the value of our portfolios in the Norwegian stock market represents an annual average return of 14.0 per cent net of all expenses. This has generated a very satisfactory excess return relative to both the 8.6 per cent return recorded by Oslo Børs and a three-month NIBOR of 4.1 per cent during the period.

At yearend, our global equities fund management team reached its fifth anniversary and could look back on returns that are amongst the very best reported by any Norwegian fund and in the top two per cent in Europe. Measured against the benchmark index (MSCI World) the fund recorded an accumulated excess return during this period of 25.5 per cent.

## Excess return on fixed-income funds

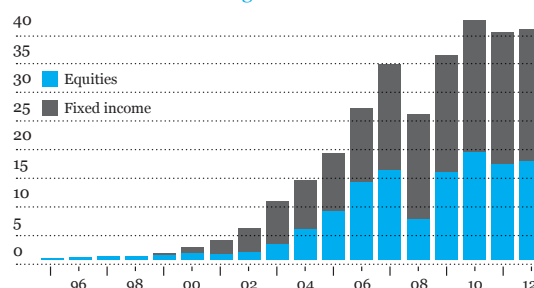
Similarly, our management of fixed-income instruments is based on a fundamental analysis of the financial situation of the individual issuer and an assessment of relevant macro-economic conditions. In the case of our two credit funds the risk premium and the right choice of companies can make a substantial contribution to excess return. In the period since the financial crisis this philosophy has generated returns considerably in excess of the risk free rate. In the case of our liquidity fund and bond fund with investment grade counterpart risk, we seek excess return by taking positions in selected areas of the yield curve.

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## Pareto Forvaltning AS

Dronning Mauds gate 3  
P.O. Box 1396 Vika, 0114 Oslo, Norway  
Telephone 22 87 87 00  
Turnover 2012: NOK 275 million  
Number of employees: 38  
CEO: Petter W. Borg  
petter.borg@pareto.no  
[www.paretoforvaltning.no](http://www.paretoforvaltning.no)

Total Assets Under Management NOK billion





## Pareto JGO Shipbrokers AS

*Pareto JGO Shipbrokers AS (JGO) offers shipping and offshore broking services and has a staff that represents a substantial fund of knowledge and experience of the company's market segments. The company joined the Pareto group in 2006.*

### Southern Norway's preferred shipbroker

JGO's history dates back to 1912, when the firm started out in the lumber and ship broking business. The company played a central role in establishing and building up many of Southern Norway's shipping companies in the late 1920s and 1930s. Until as recently as about 1980, the company remained the exclusive broker for a great many shipping companies in Southern Norway for chartering, contracting newbuildings, buying and selling tonnage. Since the 1980s, the company has expanded from being mainly a shipbroker for local shipowners into a competitive shipbroker serving shipowners, operators and charterers the world over.

Today, JGO offers brokerage services in two major markets: tanker and offshore.

### The tanker department

The primary business of the tanker department is fixing contracts for the shipment of crude oil by large tankers. The department is especially active in the market segment for tankers from 80,000 to 150,000 dwt, known as Aframax and Suezmax tankers. JGO acts as a broker for charterers and oil companies needing tonnage to carry crude, as well as for shipowners seeking cargoes for their ships.

The department is staffed by experienced brokers and operators who have earned the confidence and trust of clients by providing efficient professional services and follow up.

### The offshore department

The offshore department is numbered among the leaders in its field in Norway. It was formed in the 1970s, when the supply vessel companies started to appear. Since then, the department has become a major operator in most segments of the offshore market. The offshore brokers arrange long-term contracts between the owners of supply vessels and the operators/oil companies, securing rights of disposition over the vessels for long periods of time, from a few months to several years. In the spot market the brokers arrange short contracts for supply vessels to carry cargoes and supplies to drilling and production platforms and other offshore installations. They also arrange contracts for anchor-handling vessels and tugs for moving and towing rigs. Furthermore, JGO arranges the chartering, buying and selling of oil rigs.

Over the years, the department has developed broad expertise in the areas of needs assessments and the design of future supply ships and special units for offshore operations. In collaboration with marine architects, designers and shipowners, the department has developed a range of new ship projects and contracted for a number of newbuildings. In addition, the department has built up a comprehensive database of the international fleet of supply ships. This provides a sophisticated and useful tool for the department and for the company's clients.

When Johan G. Olsen Shipbrokers joined the Pareto group in 2006, the range of services available to the company's clients became even broader. For example, working in collaboration with Pareto Securities and Pareto Project Finance, JGO is able to offer package solutions that include contracting for building/buying ships, full financing of equity and debt capital, as well as employment for the new ship.

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### Pareto JGO Shipbrokers AS

Dronningens gate 3  
4610 Kristiansand  
Norway  
Telephone 38 12 31 11  
Turnover 2012: NOK 65 million  
Number of employees: 21  
CEO: Karsten Christensen  
karstenc@jgoship.no  
**www.jgoship.no**

# Pareto Bassøe Shipbrokers AS

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

## P.F. Bassøe AS

P.F. Bassøe is a ship brokerage which primarily concentrates on tanker chartering. Our services are founded on a thorough knowledge of the markets in which we operate, and we seek to give our clients added value by means of accurate and timely information, a high level of service, reliability and creativity. We offer chartering services in most tanker segments and our client base is international, consisting of shipowners, international oil companies and oil traders.

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

In addition to standard chartering services we undertake project-oriented work on long-term charter parties and affreightment contracts, as well as custom-tailoring solutions to the specific requirements of our clients.

Market research is an essential support service for our clients and for our own brokers. This work involves continuous market monitoring, projections, and in-depth studies of segments and trends within our markets. We work closely with the other companies in the Pareto group, especially Pareto Shipping and Pareto Dry Cargo.

## Pareto Dry Cargo AS

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

## P.F. Bassøe AS

Dronning Mauds gate 3  
P.O. Box 1396 Vika  
0114 OSLO  
Norway  
Telephone 24 02 81 80  
Turnover 2012: NOK 7 million  
Number of employees: 5  
CEO: Odd Jacob Fritzner  
crude@pfbassoe.no  
**[www.pfbassoe.no](http://www.pfbassoe.no)**

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## Pareto Dry Cargo AS

Dronning Mauds gate 3  
P.O. Box 1411 Vika  
0115 Oslo  
Norway  
Telephone: 24 02 81 90  
Turnover 2012: NOK 14 million  
Number of employees: 6  
CEO: Morten Lie  
dry@pareto.no  
**[www.pareto.no](http://www.pareto.no)**

# Pareto Wealth Management AS

*The goal of the company is to be in the vanguard of the investment advisory service and wealth management sector in Norway.*

## Building strength

Following a period of two years of extensive change, Pareto Wealth Management AS has emerged as a bigger, more clearly defined operator with even greater expertise in its area of business. The size of the company's staff has grown substantially; in part as a result of the expansion at the head office in Oslo and in part through the establishment of branch offices in other Norwegian towns and cities. In parallel with this process, the company has assumed responsibility for managing and following up a not insubstantial portfolio of clients and products from the company formerly known as Orkla Finans. The primary target group – high net worth individuals, and small and medium-sized enterprises – is followed up by a dedicated team of investment advisors. A high proportion of the company's employees work as advisors.

Clients who do not require active advisory services are serviced by the Pareto Customer Service Centre, which has introduced an online service featuring streamlined and standardised solutions for registering orders and tracking portfolios.

During 2012, the company moved into a new area of business in collaboration with insurers Danica: pension fund management. The interest in the business and the inflow of client funds have outstripped expectations.

In addition, the company devoted a great deal of time and attention to developing and honing its product portfolio, especially in the latter half of the year. We are expecting to see the fruits of this effort as early as in 2013.

## Strategy

Pareto Wealth Management has remained true to its strategy of building a sound, appropriate and long-term client portfolio, rather than chasing after short-term product sales. Mutual funds, Norwegian and international, in combination with various private banking solutions, as well as independent investment fund solutions, have accounted for a high proportion of turnover, but the company also tailors products to suit the needs of the more capital-rich investor.

Product development in collaboration with other Pareto companies is therefore given high priority with a view to creating a robust platform for our clients. The company also seeks to establish a broad

product range outside traditional Pareto products, to supplement the client's overall investment portfolio.

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

The regulatory changes enacted in recent years and the challenges accompanying changing financial markets have sharpened the awareness of both the industry and its clients, and the quality of products and companies alike have been improving. There are no indications that the shift in the direction of a sharper focus on managed products, at the expense of shorter more speculative "stories", is abating.

Precisely for this reason we continue to focus on providing advisory services with a more conservative bent to the more high net worth end of the market. This is a track that we are more than comfortable following. In the longer term, it will provide better quality advice, higher customer returns and improved earnings.

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## Pareto Wealth Management AS

Dronning Mauds gate 1

P.O. Box 1418 Vika

0115 OSLO

Norway

Telephone 23 23 99 00

Turnover 2012: NOK 68 million

Number of employees: 60

CEO: Rune Wassum

rune.wassum@pareto.no

[www.pareto.no](http://www.pareto.no)



# Pareto Nordic Investments

*Pareto Nordic Investments manages a range of Nordic securities funds. The company's approach is long term and value-focused.*

In November 2010, Pareto acquired all the shares of the company then known as Orkla Finans. As part of a major process of reorganisation, all the asset management business of the newly-acquired entity was concentrated in Pareto Nordic Investments. The company defines its role within the Pareto group through its investment universe, which is increasingly focused on the market for Nordic securities.

At the time of writing, Pareto Nordic Investments manages eight different funds with total assets under management of approximately NOK 2 billion.

At yearend 2012 the company offers its clients five traditional funds:

- a Nordic equities fund (Pareto Nordic)
- a Nordic combination fund (Pareto Nordic Value)
- a Norwegian equities fund (Omega Investment Fund)
- a Norwegian combination fund (Omega Kombi)
- a liquidity fund (Omega Likviditet)

Very satisfactory performances by some funds during the course of the year have thus far had only a modest impact on net subscriptions. With a view to remedying this situation the company intends to focus greater attention on sales.

The company also manages two investment companies registered in Ireland. Here the aim is to achieve a full stock market return at significantly lower risk. For these funds too the Nordic region is defined as the investment universe.

The company recently launched a hedge fund in a UCITS format (Pareto Nordic Alpha), which entails that the fund is regulated as a standard securities fund and may be marketed in Norway. In practice, the fund will mirror one of the Irish-registered investment companies and provide comparative results, although the performance record of this company cannot be utilised in the marketing of the new fund.

## Pareto Nordic Investments AS

Dronning Mauds gate 3  
 P.O. Box 1724 Vika  
 0121 Oslo  
 Tel: 22 87 87 00  
 Turnover 2012: NOK 16 million  
 Number of employees: 6  
 CEO: Tore Været  
[tore.vaeret@pareto.no](mailto:tore.vaeret@pareto.no)  
[www.pareto.no](http://www.pareto.no)

# Pareto Forsikringsmegling AS

*Pareto Forsikringsmegling AS is an independent advisor and insurance broker offering bespoke non-life, life and pension insurance solutions and general insurance advice. We purchase insurance cover to a value in excess of NOK 1 billion kroner a year on behalf of our clients.*

## Insurance brokerage and advisory services

Pareto Forsikringsmegling offers brokerage and advisory services within non-marine insurance. Our clients are large and medium-sized enterprises in the private and public sectors.

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

The company has 33 employees: 29 in Oslo and four in the new branch office in Kristiansand that was opened in June 2012. All our personnel have extensive experience and a high level of expertise within their professional fields. Pareto Forsikringsmegling is a member of the independent Wells Fargo Global Broker Network.

## Non-life insurance

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

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

## Pension and life insurance

The life and pension department arranges group pension and personnel cover in collaboration with our clients and their employees. The market is characterised by intense competition between suppliers and by the major changes in the framework conditions that have accompanied the introduction of a new pension system in Norway and of new financial strength requirements for suppliers.

Part III of the recommendation of the Norwegian Banking Law Commission has not brought the hoped-for clarification. On the positive side, defined benefit schemes will be allowed to continue until 2017, giving clients a longer period to adjust to the new regime. The pension reform introduced with effect from 2011 has thrown up new challenges for all parties. Competition has increased, stricter capital requirements are squeezing profits and there are clear signs

that the insurance companies are raising their prices. Clients have increased flexibility and greater choice than in the past. The increasing complexity of the insurance market and increased margins make new demands with regard to the acquisition and management of insurance cover and, not least, communicating personnel benefits to employees. A new feature in 2012 has been that many of the larger suppliers are in fact rejecting defined benefit schemes. The consequence of this development is that clients must be even more vigilant to avoid ending up in a portfolio that is being wound up.

We offer a broad range of insurance services comprising multiple advisory modules within the areas of pension and personnel insurance.

## Our modules include:

- Monitoring the market
- Mapping insurance strategy
- Economic analyses of the insurance programme and of suppliers
- Analyses of price and conditions
- Communicating with and advising employees
- Basic insurance brokerage

## Damage prevention

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

Our damage prevention advice encompasses risk assessment and damage prevention analyses relating to risk management, safety culture and preparedness.

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## Pareto Forsikringsmegling AS

Dronning Mauds gate 3

P.O. Box 1527 Vika

0117 Oslo

Telephone: 22 87 87 00

Turnover 2012: NOK 56 million

Number of employees: 33

CEO: Vegard M. Finsæther

vmf@pareto.no

[www.pareto.no/forsikringsmegling](http://www.pareto.no/forsikringsmegling)

# Pareto Bank ASA

*Pareto Bank specialises in the provision of funding for real estate projects, securities and projects in the maritime sector.*

With a staff of 31 employees, Pareto Bank is a compact organisation, where close contact with the client and personal attention form a natural part of our day-to-day banking operations. A high level of banking expertise combined with efficient decision-making processes enables decisions to be made quickly and precisely.

## Real estate, securities and the shipping and offshore sectors

Since the founding of the bank in 2007, Pareto Bank has established a strong position in the market for financing residential property development projects in the Oslo region.

The bank offers a full range of securities financing products and investment services and through the Pareto group has access to expertise, clients and efficient system solutions.

The bank is also establishing itself as a niche player in field of shipping and offshore financing. The motivation for the venture is to take even greater advantage of the opportunities afforded by the bank's ties to the Pareto group.

## The fifth year of operations

In its fifth year of operations, Pareto Bank's profits have developed well. Post-tax profit increased to NOK 67.7 million (47.6 million in 2011). This represents a return on equity of 8.6 per cent after taxes (up from 6.3 per cent). Total revenues increased to NOK 176.4 million (from 146.0 million). Operating costs and total impairments remained at more or less the same level as in 2011 and taken as a whole this contributed to the very satisfactory increase in profits.

At yearend 2012, the bank held total assets of NOK 8,283 million (7,644 million in 2011). Lending grew by NOK 1,261 million in 2012, largely in the area of real estate project funding. At yearend, loans to customers stood at close to NOK 6,734 million, while undrawn credit facilities and guarantees amounted to NOK 1,703 million.

The deposit-to-lending ratio is high; customer deposits correspond to almost 80 per cent of total lending to customers. At yearend, net outstanding securities debt amounted to NOK 1,585 million.

Tier 1 capital was further strengthened in 2012 with the issuance of a perpetual bond loan, and at yearend the Tier I and primary capital of the bank amounted to NOK 1,022 million. The capital ratio at yearend stood at 14.40 per cent and the Tier I capital ratio at 11.07 per cent.

## The biggest shareholders of Pareto Bank

Name	Stake
Pareto AS	15,00 %
Geveran Trading Co Ltd.	8,02 %
Indigo Invest AS	7,60 %
Rasmussengruppen AS	6,50 %
Tonsenhagen Forretningssentrum	4,88 %
Centennial AS	4,52 %

*Senior staff of Pareto Bank ASA and senior staff of the Pareto group own a total of 3.8 per cent of the shares.*

## Pareto Bank ASA

Dronning Mauds gate 3

P.O. Box 1823 Vika

0123 OSLO

Norway

Total assets 2012: NOK 8,283 million

Telephone: 24 02 81 20

Number of employees: 31

CEO: Tiril Haug Villum

tiril.villum@paretobank.no

**[www.paretobank.no](http://www.paretobank.no)**

## A history of robust success

*The figures below tell the story of how Pareto has built value and earned money in both good and bad times.*

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

Pareto was originally founded as a limited partnership owned by the partners. The present organisation of the company, comprising limited companies and internal partnerships, was established in connection with the establishment of Pareto's securities business in 1992.

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

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

	Revenues	Operating profit	Profit for the year	Equity	Oslo Børs
1992	40	9	8	43	-10,0 %
1993	90	33	23	31	64,8 %
1994	82	17	15	37	7,1 %
1995	83	24	22	59	11,6 %
1996	160	82	50	101	32,1 %
1997	364	222	115	170	31,5 %
1998	232	121	46	239	-26,7 %
1999	291	162	71	293	45,5 %
2000	548	313	149	432	-1,7 %
2001	507	201	79	466	-16,6 %
2002	458	164	41	435	-31,1 %
2003	517	265	139	541	48,4 %
2004	964	600	239	725	38,4 %
2005	2044	1430	681	1412	40,5 %
2006	3277	2324	1099	2049	32,4 %
2007	3470	2349	1126	2931	11,5 %
2008	1755	927	2	2801	-54,1 %
2009	1606	832	715	3270	64,8 %
2010	1899	1024	650	3310	18,3 %
2011	1680	750	436	3707	-12,5%
2012	1869	789	536	4147	15,4 %

*Consolidated figures expressed in millions of Norwegian kroner. Operating profit is shown after bonuses and other variable employment remuneration, but before returns paid to silent partners. The parent company now holds a substantial investment portfolio, as a result of which fluctuations in share prices may cause major variations in the performance recorded by the company. However, our accounting policies are prudent and conservative: we apply the tried and tested "lowest value principle" whereby our portfolio of securities is booked at the lower of historical cost and market value. Oslo Børs stock market returns are based on the Benchmark Index linked backwards to the former All Shares Index.*

# The Directors' report

## Our business objectives

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

## Operations

The company's business is the provision of financial advisory services, brokerage in the field of securities, ships, real estate and insurance, project financing and project development and asset management. Pareto's head office is located in Oslo. Most of the group's business activities are conducted through the subsidiaries Pareto Securities AS, Pareto Project Finance AS, Pareto Forvaltning AS, Pareto JGO Shipbrokers AS, Pareto Bassøe Shipbrokers AS, Pareto Wealth Management AS, Pareto Forsikringsmegling AS and Pareto Nordic Investments AS. Pareto AS is the parent company of the group.

## The market

The first six months of 2012 were characterised by falling share prices and rising risk premiums in the fixed income market. Most of this was more than reversed in the second half of the year.

By and large, the underlying themes were the same as in the preceding year: sovereign-debt crises, fear of austerity measures and an absence of economic growth in the West. This fear was not unfounded; many countries recorded falling GDP figures for one or more quarters.

But not Norway. High oil prices and low interest rates lifted GDP growth from 1.2 to 3.2 per cent, the highest level since 2004. Growth in the mainland economy of Norway, increasingly influenced by the oil sector, ended up at 3.5 per cent, according to the provisional national accounts. The US economy, which remains an important engine for global growth, proved to be surprisingly robust.

By the end of the year it was clear that 2012 had provided shareholders and bondholders alike with a substantial return, some 15 per cent for the main Norwegian index and, interestingly, more or less the same figure for B-rated corporate bonds in the Norwegian market.

However, liquidity was low and there was little willingness to take risk. On Oslo Børs the turnover value fell by over 35 per cent, and notwithstanding an upturn in prices, net subscriptions for equities funds totalled just NOK 7.2 billion, as compared with NOK 32.3 billion for fixed income funds.

The final months of the year brought news of a trend change, however. Many of the stock market's least liquid shares, typically smaller value shares, received renewed attention and, not least, a significant lift in prices. At the same time there were signs of an emerging willingness to invest, both abroad and here in Norway.

All in all, the economic framework conditions can be said to have been satisfactory for Pareto in 2012.

## Earnings

Developments on the securities markets have a significant effect, both directly and indirectly, on Pareto's income statement. Thus the positive, albeit somewhat uneven, performance of the market last year had a moderately beneficial impact on the operations of the group. Given this backdrop, the income statement was very satisfactory. Once again, in the assessment of the Directors, Pareto's operating model played its part in ensuring that attention was focused on committed shopkeeping, sensible cost levels and low risk.

The parent company of the group has for many years invested surplus liquidity in the securities market and has built up a relatively substantial portfolio of securities, much of which is in the form of investments in the group's own equity and fixed income funds.

Group operating revenues in 2012 amounted to NOK 1,869 million, compared with NOK 1,680 million in 2011. Operating profit was NOK 789 million, as against NOK 750 million in 2011. Pre-tax profits totalled NOK 689 million, compared with NOK 570 million in 2011.

The financial strength and liquidity of the group are good. Book equity at yearend stood at NOK 4,147 million. Bank deposits amounted to NOK 1,236 million. Investments not related to operations amounted to NOK 3,760 million, most of which were equity investments. The group has limited interest-bearing debt.

The Directors are satisfied with the progress made by the subsidiaries and have elected to continue the long-term investment strategy of the parent company. Distributions received from the subsidiaries will largely be employed in developing new ventures or invested in equities and other securities.

## Pareto Securities

For Pareto Securities 2012 was a very satisfactory and successful year. Total revenues rose from less than NOK 1.0 billion to almost NOK 1.2 billion and the operating profit grew from NOK 424 million to NOK 470 million. A continued conservative stance on risk has ensured that losses on accounts receivable and own positions have been limited.

Pareto Securities strengthened its position in the Nordic capital market in 2012. The company acted as advisor in a number of high-profile transactions, including the sale of TTS' energy division to Cameron, Dockwise's acquisition of Fairstar (in collaboration with Pareto Project Finance) and the sale of Morpol to Marine Harvest. Moreover, Pareto Securities was involved in arranging equity placements to a value of over NOK 25 billion for, amongst others, Høegh LNG Holdings, Sparebank 1 SR Bank and Det Norske Oljeselskap, as well as the listing of Selvaag Bolig.

The company also participated in arranging the placement of high-yield bond issues to a value of over NOK 16 billion for, inter alia, Seadrill, Aker, Prosafe, Kistefos and Austevoll Seafood, as well as last year's biggest transaction in the Norwegian high-yield bond market: the 500 million dollar issue by OSX-3 Leasing B.V.

Since 2004, Pareto Securities has arranged over 80 IPOs on Oslo Børs/Oslo Axess, which is equivalent to 40 per cent of all listings in the period. At the same time the company is a leading player in the Norwegian secondary market, for both equities and – to an even greater extent – high-yield bond loans.

2012 saw a significant expansion in the company's international presence.

In the spring, operations got underway at the representative office in Rio de Janeiro – Pareto Securities Representação Ltda. Even during the first year of operations it was clear that the office was commercially justified. The office has one employee.

On 1 June 2012, the company acquired Finnish investment firm E. Öhman J:or Fondkommission Finland AB of Helsinki, subsequently renamed Pareto Securities Oy. The business has 19 employees.

In November, a branch office was opened in Copenhagen with three employees.

During the company's first full year of operations since becoming part of the Pareto group, subsidiary Pareto Öhman in Sweden succeeded in turning a significant loss into a 27 million kroner profit. Considerable work was put into transferring corporate culture, operating model and expertise, not least in the loan capital area of the business.

Subsidiary Pareto Offshore notched up an impressive year. Operating revenues totalled almost NOK 112 million, more than double the figure recorded the year before, while operating profits were a shade under NOK 81 million.

Despite the company's international expansion, personnel numbers have been reduced from 317 to 312.

### Pareto Project Finance

For Pareto Project Finance, too, 2012 was a good year, although the performance of the company did not quite match that of the preceding year. Operating revenues were down from NOK 259 million

to NOK 211 million, while the operating profit fell from NOK 139 million to NOK 102 million.

The company advised on and was involved in the acquisition and syndication of real estate to a value of approximately NOK 5 billion and the purchase/sale and syndication of shipping/offshore projects to a value of approximately NOK 3 billion. In the assessment of the Directors, Pareto Project Finance has consolidated its position as the largest player in the Norwegian project financing market. The company supplied related corporate finance services to real estate companies and investors, including the recapitalisation of SveaReal AS and the subsequent share issue.

Pareto Project Finance has worked systematically to create liquidity in the second-hand market for holdings in projects that it has arranged, the ambition of the company being to be the leading player in the secondary broking of project holdings.

At yearend, the subsidiary Pareto Business Management managed approximately 140 investment companies to a gross value of NOK 40 billion.

### Pareto Forvaltning

Last year was a year of considerable success for Pareto Forvaltning, with operating revenues rising from NOK 187 million to NOK 275 million. The operating profit increased to NOK 175 million, up from almost NOK 115 million the year before.

Assets under management increased marginally to NOK 40.2 billion. Some movement out of Norwegian shares was offset by high returns in all of the three primary areas of business.

Since Pareto Forvaltning was established in the autumn of 1998, the company's main profile under active management on the Norwegian stock market has recorded a total return of 522 per cent, as compared with the 217 per cent recorded by Oslo Børs and just 9.3 per cent recorded by the World Index (measured in NOK).

At yearend, the global equities fund management team had five year's history and a total excess return for the flagship fund of 25.5 per cent against the World Index, a magnificent performance and well up to even the highest European standards. International equities management is one of the company's most rapidly growing fund management products.

All four fixed-income funds recorded creditable excess returns, with corporate bonds (high yield) performing especially well.

### Pareto JGO Shipbrokers and Pareto Bassøe Shipbrokers

Pareto JGO Shipbrokers, which up until last year traded under the name of Johan G. Olsen Shipbrokers, recorded yet another successful year. In a buoyant market for newbuildings of technically sophisticated supply vessels, the company succeeded in generating revenues of NOK 65 million, which was somewhat lower than the



NOK 76 million reported in 2011, and an operating profit of NOK 35 million (NOK 44 million in 2011).

For the brokers at Pareto Bassøe Shipbrokers, 2012 was a year of mixed fortunes. In a weak market for dry bulk charters, Pareto Dry Cargo succeeded in increasing their revenues to NOK 14 million and recording an operating profit of over NOK 7 million. P.F. Bassøe had a less profitable year, generating revenues of NOK 7 million and an operating profit of less than one million, the tanker market being especially weak.

### Pareto Wealth Management

The year before having been characterised by extensive restructuring, 2012 was a year of consolidation for Pareto Wealth Management. Operating revenues fell from NOK 83 million to NOK 68 million, while the operating profit was down from NOK 10.5 million to NOK 1 million.

In the main this development can be attributed to a marked fall in the external client portfolio, i.e. investments conducted through third-party investment firms that use the company's systems solutions. Many undertakings of this nature have had to close down or reduce their operations.

At yearend, the revenue-generating client portfolio amounted to NOK 7.5 billion.

During 2012, attention was devoted to further developing the product portfolio. The company has embarked upon pension fund management in collaboration with insurers Danica. The response has been good.

### Pareto Forsikringsmegling

In its second full year of operations as part of the Pareto group, Pareto Forsikringsmegling increased its operating revenues from NOK 52 million to NOK 56 million. The operating profit of the company ended up at NOK 3.3 million, a modest reduction on the preceding year – but a significant improvement on the years prior to Pareto's acquisition of the company.

The company provides brokerage and advisory services within non-marine insurance to large and medium-sized enterprises in the public and private sectors in Norway.

### Pareto Nordic Investments

At year-end Pareto Nordic Investments had total assets under management of the order of NOK 2 billion, on a par with one year earlier. So far, some fairly impressive performance figures have had but a modest effect on net subscriptions.

The company manages a variety of funds with an emphasis on Nordic securities. The accounts report operating revenues of some NOK 16 million and an operating profit of NOK 3.6 million.

Towards the end of 2012 the company launched a new hedge fund, Pareto Nordic Alpha. The new fund shares many features

in common with the existing Nordic Alpha fund, but has a UCITS format, allowing it to be sold on the Norwegian market.

### Vilfredo Kapitalforvaltning

There were major changes to the asset side in Vilfredo Kapitalforvaltning during 2012. Receivables of in total NOK 21.5 million were realised in their entirety, as were some less liquid shareholdings. The proceeds were invested in sound bonds and equities.

The company recorded a pre-tax profit of just over NOK 2 million.

A decision by the Norwegian Supreme Court in what has come to be known as the Røeggen Case is thought to be imminent and may have an impact on existing client complaints.

### Pareto Bank

In January 2007, Pareto AS was the instigator of a project to found a new bank in Norway. The bank commenced trading on 4 January 2008.

In accordance with the terms of the licence, Pareto AS holds a 15 per cent stake. Senior employees of the Pareto group and of Pareto Bank own a total of 3.8 per cent of the shares.

Pareto Bank specialises in providing banking services for three customer segments: real estate, securities and shipping/offshore. The bank collaborates with other companies in the Pareto group, not least in terms of securities lending.

In its fifth year of operations the bank recorded an operating profit of NOK 94 million, as compared to NOK 66 million in 2011 and NOK 31 million in 2010.

Following another year of substantial growth, total assets stood at NOK 8.28 billion at yearend, as compared with NOK 7.64 billion in the preceding year.

### Pareto's strategy

The group's strategy remains unaltered: to be a leading, independent Norwegian investment company in which the individual subsidiary has a decentralised and focused strategy. Although priority is given to organic growth and the development of in-company expertise, acquisitions and mergers will also be options if they serve to develop and complement the company and extend the product range. Pareto will cooperate with other players wherever appropriate and whenever doing so will offer clients the optimum product.

One example might be transactions requiring broader international competence and distribution than Pareto is able to provide from its own resource base.

Pareto's aim is to be the preferred Norwegian provider of financial services, reflecting the company's thorough and detailed knowledge of Norwegian social conditions and businesses in which Norway enjoys particular advantages; for example, energy and maritime industries.

The Directors believe that Pareto still has considerable potential for improvement and growth. Pareto is registering a steady rise in the recognition accorded to the company's research- and advisory-based approach to brokerage, syndication and asset management. Over the past few years, Pareto has invested substantial sums in upgrading and developing its IT systems and Internet solutions. Communicating, reporting and trading over the Internet offers major business opportunities for Pareto, especially when combined with the company's traditional and personal brokerage and advisory services.

### Outlook

In addition to its own efforts and development, Pareto's earnings are affected by general activity on the financial markets.

Pareto has a modest cost structure and a very sound balance sheet and is therefore well equipped to tackle market challenges, as evidenced by developments in recent years.

Following a significant downturn during and in the wake of the financial crisis, global growth has picked up again, and a stable rise in prices recorded during 2012 and into 2013 bear witness to renewed optimism in the securities markets. On the other hand, high sovereign debt in a number of countries, a need for long-term austerity measures and political unrest speak of considerable uncertainty as to how the world economy will develop in the future.

Similarly, it is now clear that the high level of petroleum activity has been a more important driver of growth in the Norwegian mainland economy than many observers seem to have appreciated. Accordingly, Pareto's primary focus on oil-and-offshore-related industries makes the company particularly vulnerable to larger long-term fluctuations in the oil price.

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

### Distribution of profits and other matters

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

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

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

The group's profit after tax cost totals NOK 536.3 million. The parent company's after-tax profit is NOK 428.6 million. The Directors propose that the entire profit after taxes be transferred to Other Equity.

At yearend, owner's equity in the parent company had increased to NOK 3,582.8 million, of which NOK 3,224.1 million is distributable capital as provided for in the Norwegian Companies Act. Consolidated book equity stands at NOK 4,147.1 million.

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

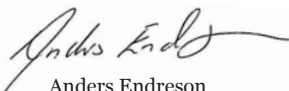
Oslo, 21 March 2013



Erik Bartnes (chairman)



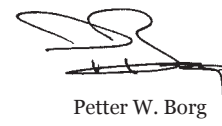
Ole Henrik Bjørge



Anders Endreson



Svein Støle (director/CEO)



Petter W. Borg



Mette Andersen



# Income Statement

Parent company (NOK '000)

Group (NOK '000)

2011	2012	Operating revenues	Notes	2012	2011
0	0	Operating revenues	2	1 868 636	1 679 932
<b>0</b>	<b>0</b>	<b>Total operating revenues</b>		<b>1 868 636</b>	<b>1 679 932</b>
<b>Operating expenses</b>					
-4 915	-6 153	Personnel costs	3	-756 458	-633 474
-5 229	-2 618	Sundry other operating costs		-304 575	-275 165
-482	-17	Ordinary depreciation & amortisation	4	-18 674	-21 255
<b>-10 626</b>	<b>-8 788</b>	<b>Total operating expenses</b>		<b>-1 079 707</b>	<b>-929 894</b>
<b>-10 626</b>	<b>-8 788</b>	<b>Operating profit/loss</b>		<b>788 929</b>	<b>750 038</b>
<b>Financial income/expenses</b>					
83 020	182 397	Financial income		152 058	109 729
455 093	276 288	Share dividends		64 672	67 224
-43 204	-2 572	Adjustments, securities	10	2 084	-47 989
8 439	2 098	Share of associated companies	5	2 098	8 439
-81	-76	Interest paid		-820	-3 335
-7 005	-11 077	Other financial expenses		-320 352	-314 139
<b>496 262</b>	<b>447 058</b>	<b>Total financial income/expenses</b>		<b>-100 260</b>	<b>-180 071</b>
<b>485 636</b>	<b>438 270</b>	<b>Income before tax</b>		<b>688 669</b>	<b>569 967</b>
-7 003	-9 679	Tax cost	13	-152 413	-133 554
<b>478 633</b>	<b>428 591</b>	<b>Profit for year</b>		<b>536 256</b>	<b>436 413</b>
<b>Allocations</b>					
0	0	Minority's share of profit		-5 470	-34 030
0	0	Provision for dividend		-71 943	-34 437
-478 633	-428 591	Transferred to other equity		-458 843	-367 946
<b>-478 633</b>	<b>-428 591</b>	<b>Net</b>		<b>-536 256</b>	<b>-436 413</b>

# Balance Sheet - Assets

Parent company (NOK '000)

Group (NOK '000)

31.12.2011	31.12.2012	Fixed assets	Notes	31.12.2012	31.12.2011
		<b>Intangible assets</b>			
1 481	202	Deferred tax assets	13	30 455	43 861
<b>1 481</b>	<b>202</b>	<b>Total intangible assets</b>		<b>30 455</b>	<b>43 861</b>
		<b>Property, plant &amp; equipment</b>			
363	346	Fixtures, fittings, machinery etc.	4	34 972	51 533
		<b>Financial fixed assets</b>			
429 022	431 798	Shares in subsidiaries	5	0	0
15 875	13 963	Shares in associated companies	5	13 963	15 875
286 494	241 940	Other securities	6	242 050	286 604
275	256	Other non-current receivables	7	1 541	1 923
18	255	Premium fund	8	2 640	4 562
0	0	Pension funds	8	2 605	3 013
<b>731 684</b>	<b>688 212</b>	<b>Total financial fixed assets</b>		<b>262 799</b>	<b>311 977</b>
<b>733 528</b>	<b>688 760</b>	<b>Total fixed assets</b>		<b>328 226</b>	<b>407 371</b>
		<b>Current assets</b>			
		<b>Receivables</b>			
0	0	Trade receivables		532 022	1 137 379
45 799	41 971	Other receivables	9	680 385	2 876
<b>45 799</b>	<b>41 971</b>	<b>Total receivables</b>		<b>1 212 407</b>	<b>1 140 255</b>
		<b>Investments</b>			
2 240 496	2 809 027	Securities	10	3 518 145	3 169 187
<b>2 240 496</b>	<b>2 809 027</b>	<b>Total investments</b>		<b>3 518 145</b>	<b>3 169 187</b>
144 870	46 972	Bank deposits	11	1 235 582	1 148 305
<b>2 431 165</b>	<b>2 897 970</b>	<b>Total current assets</b>		<b>5 966 134</b>	<b>5 457 747</b>
<b>3 164 693</b>	<b>3 586 730</b>	<b>TOTAL ASSETS</b>		<b>6 294 360</b>	<b>5 865 118</b>

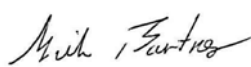
# Balance Sheet – Equity and Liabilities

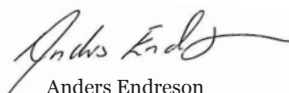
Parent company (NOK '000)

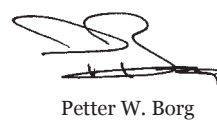
Group (NOK '000)

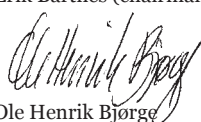
31.12.2011	31.12.2012	Equity	Notes	31.12.2012	31.12.2011
		<b>Paid-in capital</b>			
22 000	22 000	Share capital		22 000	22 000
50 138	50 138	Share premium reserve		0	0
<b>72 138</b>	<b>72 138</b>	<b>Total paid-in capital</b>		<b>22 000</b>	<b>22 000</b>
		<b>Retained earnings</b>			
3 082 060	3 510 651	Other equity		4 023 104	3 566 325
<b>3 082 060</b>	<b>3 510 651</b>	<b>Total retained earnings</b>		<b>4 023 104</b>	<b>3 566 325</b>
		<b>Minority interests</b>		<b>102 031</b>	<b>118 563</b>
<b>3 154 198</b>	<b>3 582 789</b>	<b>Total equity</b>	<b>12</b>	<b>4 147 135</b>	<b>3 706 888</b>
		<b>Liabilities</b>			
		<b>Provision for commitments</b>			
0	0	Pension commitments	8	4 884	5 323
0	0	Other long-term commitments	4	9 048	12 064
0	0	Deferred tax	13	960	702
<b>0</b>	<b>0</b>	<b>Total provision for commitments</b>		<b>14 892</b>	<b>18 089</b>
		<b>Non-current liabilities</b>			
0	0	Capital contributed by silent partners		75 071	77 907
<b>0</b>	<b>0</b>	<b>Total non-current liabilities</b>		<b>75 071</b>	<b>77 907</b>
		<b>Current liabilities</b>			
10 288	3 620	Other current liabilities	9	1 778 406	1 560 351
0	0	Financial instruments	10	40 202	292 668
0	0	Tax payable	13	141 443	131 227
0	0	Dividends		72 920	34 437
207	321	Government charges and special taxes payable		24 291	43 551
<b>10 495</b>	<b>3 941</b>	<b>Total current liabilities</b>		<b>2 057 262</b>	<b>2 062 234</b>
<b>10 495</b>	<b>3 941</b>	<b>Total liabilities</b>		<b>2 147 225</b>	<b>2 158 230</b>
<b>3 164 693</b>	<b>3 586 730</b>	<b>Total liabilities and equity</b>		<b>6 294 360</b>	<b>5 865 118</b>


Oslo, 21 March 2013

  
Erik Bartnes (chairman)

  
Anders Endreson

  
Petter W. Borg

  
Ole Henrik Bjørge

  
Svein Støle (director/CEO)

  
Mette Andersen

# Cash Flow Statement

Parent company (NOK '000)

Group (NOK '000)

2011	2012		2012	2011
		<b>Cash flow from operational activities</b>		
485 636	438 270	Ordinary profit before income tax	688 669	569 967
-2	0	Tax paid in period	-128 533	-177 796
-7 560	-8 400	Group contributions in Income Statement, no cash effect	0	0
482	17	Ordinary depreciation and amortisation	18 674	21 255
43 204	2 572	Securities adjustments	-2 084	47 989
12	-237	Net change in pensions without cash effect	1 891	2 538
-8 439	-2 098	Share of profits of associated companies	-2 098	-8 439
-35 683	3 828	Change in receivables	-72 152	-409 337
6 594	-6 554	Change in other debt items	-53 671	580 963
<b>484 244</b>	<b>427 398</b>	<b>Net cash flow from operational activities</b>	<b>450 696</b>	<b>627 140</b>
		<b>Cash flow from investment activities</b>		
-70	0	Payments for purchases of tangible assets	-5 129	-37 078
-350 542	-528 320	Net cash flow, short-term investments	-304 091	-577 125
-11 159	-2 776	Payments for purchases of financial fixed assets	0	-3 878
4 888	5 800	Received from sales of financial fixed assets	6 163	11 816
<b>-356 883</b>	<b>-525 296</b>	<b>Net cash flow from investment activities</b>	<b>-303 057</b>	<b>-606 265</b>
		<b>Cash flow from financing activities</b>		
-13 601	0	Dividends paid	-33 460	-133 369
0	0	Capital reduction paid out	0	0
0	0	Change non-current commitments and liabilities	-2 836	-35 520
0	0	Payments of equity to/from minority interests	-24 066	-4 689
<b>-13 601</b>	<b>0</b>	<b>Net cash flow from financing activities</b>	<b>-60 362</b>	<b>-173 578</b>
113 760	-97 898	Net change in bank deposits	87 277	-152 703
31 110	144 870	Bank deposits in hand at 1 Jan.	1 148 305	1 301 008
<b>144 870</b>	<b>46 972</b>	<b>Bank deposits in hand at 31 Dec.</b>	<b>1 235 582</b>	<b>1 148 305</b>

# Notes to the Accounts

## Note 1 Group structure

- **Pareto AS** owns 75.0 per cent of Pareto Securities AS, 85.7 per cent of Pareto Project Finance AS, 82.3 per cent of Pareto Forvaltning AS, 100.0 per cent of Pareto Bassøe Shipbrokers AS, 100.0 per cent of Pareto Commodity AS, 100.0 per cent of Pareto JGO Shipbrokers AS, 100.0 per cent of Pareto Forsikringsmegling AS, 100.0 per cent of Pareto Wealth Management AS, 100.0 per cent of Gazza Eiendom AS, 100 per cent of Pareto Online AS, 100.0 per cent of Pareto Nordic Investments AS, and 100.0 per cent of Vilfredo Kapitalforvaltning AS.
- **Pareto Securities AS** owns 100.0 per cent of Pareto Öhman AB, 100.0 per cent of Pareto Securities Inc., 100.0 per cent of Pareto Shipping AS, 100.0 per cent of Pareto Securities Asia Pte Ltd, 100.0 per cent of Pareto Securities Representação Ltda, 87.0 per cent of Pareto Offshore AS, 70.0 per cent of Pareto Securities Oy and 60.0 per cent of North Atlantic Seafood Forum AS.
- **Pareto Project Finance AS** owns 100.0 per cent of Pareto Business Management AS, Pareto Eiendom AS, Pareto Maritime Services AS and Pareto Project (Asia) Pte. Ltd.
- **Pareto Bassøe Shipbrokers AS** owns 100.0 per cent of P.F.Bassøe AS and Pareto Dry Cargo AS.
- **Pareto Commodity AS** owns 100.0 per cent of Pareto Commodity Consulting AS.
- **Pareto Forsikringsmegling AS** owns 100.0 per cent of Pareto Forsikringsrådgivning AS.

### Consolidation principles

Investments in subsidiaries are valued at procurement cost. In the consolidated accounts, the cost price of shares in the subsidiaries is eliminated against the share capital in the subsidiaries at the time of purchase. Inter-company transactions, receivables and debts as of 31 December are eliminated in the consolidated accounts.

### Accounting principles

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

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

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

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

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

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

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

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

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

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

Pensions are recorded according to the projected unit credit method with the estimated retirement salary as the contribution base. Estimate variances are amortised over the anticipated remaining earnings period in so far as they exceed 10 per cent of the higher of pension commitments and pension assets. The group companies introduced a defined contribution pension scheme in 2006. Contribution plans are accrued according to the matching principle.

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

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

# Notes to the Accounts

## Note 2 Operating revenues, consolidated

(NOK '000)

	2012	2011
Brokerage/Corporate finance	1 450 373	1 322 313
Management/Business management	418 263	357 619
<b>Total operating revenues</b>	<b>1 868 636</b>	<b>1 679 932</b>

## Note 3 Salaries, number of employees, remuneration etc.

(NOK '000)

	<i>Parent company</i>		<i>Consolidated</i>	
	2012	2011	2012	2011
Wages and salaries, holiday pay, nat. insurance	2 643	2 478	387 708	341 976
Profit-related remuneration	2 967	2 282	321 528	256 563
Pensions and other personnel costs	543	155	47 222	34 935
<b>Total</b>	<b>6 153</b>	<b>4 915</b>	<b>756 458</b>	<b>633 474</b>
Number of man-years	4	3	552	489

The CEO was paid NOK 500,000 in remuneration. No provision has been made for fees for the directors of the parent company. A provision of NOK 1,160,000 has been made for fees for directors of subsidiaries.

Deloitte AS received fees of NOK 142,000 for auditing the parent company and NOK 2,777,000 for the group. Payment for other assurance engagements totalled NOK 16,000 for the parent company and NOK 1,335,000 for the group. Payments to other auditors for services provided to the group totalled NOK 543,000.

The law firm Deloitte Advokatfirma DA was paid NOK 42,000 for services provided to the parent company and NOK 1,068,000 for services for the group. All figures are exclusive of VAT.

## Note 4 Tangible fixed assets

	<i>Parent company</i>		<i>Group</i>	
	<b>Fixtures &amp; fittings, IT</b>		<b>Fixtures &amp; fittings, IT</b>	<b>Badwill</b>
Procurement cost 01.01	388		240 755	-15 080
Additions in year	0		6 301	0
Disposals/sale	0		1 171	0
Procurement cost 31.12.	388		245 885	-15 080
Acc. depreciation 01.01.	25		189 223	-3 016
Disposals/sale	0		0	0
Depreciation this year	17		21 690	-3 016
Acc. depreciation 31.12.	42		210 913	-6 032
Book value 31.12.	346		34 972	-9 048
Economic life	3-6 år		2-7 år	5 år
Depreciation plan	Straight-line		Straight-line	Straight-line

The parent company has concluded a 10-year lease on the premises Dronning Maudsgate 1-3, which expires on 13 July 2020. The annual rent excluding common expenses is approximately NOK 19.8 million.

# Notes to the Accounts

## Note 5 Shares in subsidiaries

(NOK '000)

Company	Office	% stake and votes	Book value 31.12.
Pareto Securities AS	Oslo	75,0 %	50 728
Pareto Project Finance AS	Oslo	85,7 %	31 245
Pareto Forvaltning AS	Oslo	82,3 %	15 266
Pareto Bassøe Shipbrokers AS	Oslo	100,0 %	40 600
Pareto JGO Shipbrokers AS	Kristiansand	100,0 %	48 500
Gazza Eiendom AS	Oslo	100,0 %	23 906
Pareto Commodity AS	Oslo	100,0 %	52 206
Pareto Wealth Management AS	Oslo	100,0 %	74 739
Pareto Nordic Investments AS	Oslo	100,0 %	16 193
Pareto Online AS	Oslo	100,0 %	35 220
Pareto Forsikringsmegling AS	Oslo	100,0 %	20 423
Vilfredo Kapitalforvaltning AS	Oslo	100,0 %	22 772
			<b>431 798</b>

## Shares in associated companies

(NOK '000)

Company Office in Pareto's stake	Fondsforvaltning Oslo 35,0 %	Odin Marine New York 35,0 %	Total associated company
Procurement cost	40 001	30 906	
Equity at time of purchase	23 939	10 540	
Goodwill at time of purchase	16 062	20 366	
Opening balance 1 Jan.	6 788	9 087	15 875
Share of year's profit	2 029	69	2 098
Dividends received	-420	-3 590	-4 010
			0
Closing balance 31 Dec.	8 397	5 566	13 963

## Note 6 Other shares/bonds

Other securities, parent company	Number	Cost price	Book value
Imarex ASA	108 662	8 825	485
Pareto Bank ASA	127 500	53 700	53 700
Oslo Børs VPS Holding ASA	3 662 230	213 892	179 449
Norsk Tillitsmann ASA	7 415	8 306	8 306
<b>Total other securities, parent company</b>		<b>284 723</b>	<b>241 940</b>
Other securities, subsidiaries		110	110
<b>Total other securities, group</b>		<b>284 833</b>	<b>242 050</b>

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

# Notes to the Accounts

## Note 7

The parent company has granted employees/partners of the subsidiaries interest-bearing loans on which the outstanding balance as of 31 December 2012 is NOK 256,042.

## Note 8 Pensions

The group has a defined contribution pension scheme as required under the Act concerning Mandatory Occupational Pensions. Premium paid in 2012 totalled NOK 48,000 for the parent company and NOK 4,207,000 for the group. The premium fund assets recorded in the balance sheet as at 31 December 2012 stood at NOK 255,000 for the parent company and NOK 2,640,000 for the group.

One of the subsidiaries of the group has a group pension scheme encompassing 15 people. The actuarial assumptions about demographic factors and exits are based on those normally employed in the insurance industry.

	<b>2012</b>	<i>(NOK '000)</i> <b>2011</b>
Present value of year's pension earnings	703	655
Interest cost on pension commitments	376	443
Estimate adjustment recognised in income statement	182	217
Administration expenses	79	57
Accrued employer's nat. ins. contribution	111	100
Return on pension funds	-369	-448
<b>Net pension costs</b>	<b>1 082</b>	<b>1 024</b>
Estimated pension commitments	-10 049	-10 070
Pension funds (at market value)	8 741	8 916
Accrued employer's Nat. Ins. contribution	-184	-163
Effect of estimate variances, not recognised in income statement	4 097	4 330
<b>Pension funds in balance sheet</b>	<b>2 605</b>	<b>3 013</b>
<b>Unsecured pension commitments</b>	<b>-4 884</b>	<b>-5 323</b>

## Note 9

The parent company has claims in the amount of NOK 37,493,000 on group companies. The parent company has debts of NOK 134,000 to group companies.



# Notes to the Accounts

## Note 10 Securities

(NOK '000)

<b>Mutual funds, parent company</b>	<b>Cost</b>	<b>Book value</b>	
Fixed income funds	188 626	187 835	
Direct investment funds	141 373	108 651	
Equities funds	1 013 641	1 010 050	
	1 343 640	1 306 536	
<b>Other securities, parent company</b>			
Shares (NOK)	335 336	317 300	
Shares (SEK)	214 156	213 666	
Shares (EURO)	29 131	28 912	
Shares (GBP)	96 846	95 746	
Shares (CHF)	29 847	29 847	
Shares (USD)	139 844	139 803	
Bonds	647 516	647 516	
Other securities	30 445	29 701	
	1 523 121	1 502 491	
<b>Total securities, parent company</b>			<b>2 809 027</b>
<b>Mutual funds and other securities, subsidiaries</b>			
		<b>Market value</b>	
Shares		217 243	
Derivatives		2 971	
Norwegian government bonds		218 280	
Bonds and certificates		97 920	
Mutual funds		147 617	
Equities funds		25 087	
<b>Total securities, subsidiaries</b>			<b>709 118</b>
<b>Total securities, group</b>			<b>3 518 145</b>
<b>Financial liabilities, subsidiaries</b>			
Derivatives		40 202	
<b>Total financial liabilities</b>			<b>40 202</b>

## Note 11 Bank deposits

The parent company has a non-distributable deposit of NOK 83,000 lodged in an account for tax withholdings. The group's bank deposits include NOK 209,045,000 in non-distributable accounts, of which NOK 11,340,000 in accounts for tax withholdings. Sums lodged in client accounts belonging to clients (client funds) are not recorded in the balance sheets of the companies.

# Notes to the Accounts

## Note 12 Equity

(NOK '000)

<b>Parent company</b>	<b>Share capital</b>	<b>Share premium account</b>	<b>Other equity</b>	<b>Total</b>
Equity as of 1 Jan.	22 000	50 138	3 082 060	3 154 198
Year's profit			428 591	428 591
<b>Total equity as of 31 Dec.</b>	<b>22 000</b>	<b>50 138</b>	<b>3 510 651</b>	<b>3 582 789</b>

<b>Group</b>	<b>Share capital</b>	<b>Other reserves</b>	<b>Sum</b>
Equity as of 1 Jan.	22 000	3 684 888	3 706 888
Provision for dividends		-71 943	-71 943
Net payment to minority interest		-24 066	-24 066
Year's profit after tax		536 256	536 256
<b>Total equity as of 31 Dec.</b>	<b>22 000</b>	<b>4 125 135</b>	<b>4 147 135</b>

The share capital as of 31 Dec. is NOK 22,000,000, divided into 44,000 shares with a nominal value of NOK 500 each.

	<b>Number of shares</b>	<b>Stake and voting %</b>
Svein Støle	35 000	79,5 %
Skoghøy Invest AS / Anders Endreson	6 000	13,6 %
Svele AS / Svein Støle	3 000	6,8 %
	44 000	100,0 %

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

# Notes to the Accounts

## Note 13 Taxes

(NOK '000)

Parent company

Group

2011	2012		2012	2011
485 636	438 271	Profit before income tax	688 669	569 967
-458 692	-399 854	Permanent differences	-111 513	-59 631
1 991	-4 569	Change in temporary differences	-75 439	-23 123
<b>28 935</b>	<b>33 848</b>	<b>Year's tax base</b>	<b>501 717</b>	<b>487 213</b>
8 102	9 478	Tax payable	142 521	131 768
-541	-1 078	Tax payable, withholding	-1 078	-541
<b>7 561</b>	<b>8 400</b>	<b>Total tax payable</b>	<b>141 443</b>	<b>131 227</b>
<b>Specification of temporary differences</b>				
-5 129	-830	Current assets	-4 069	-6 042
-7	234	Tangible fixed assets	-31 278	-37 317
-154	-124	Intangible assets	-9 685	-12 203
0	0	Remaining loss for carrying forward	-56 701	-98 335
<b>-5 290</b>	<b>-720</b>	<b>Basis for calculating deferred tax benefit/tax</b>	<b>-101 733</b>	<b>-153 897</b>
-1 481	-202	28% deferred tax benefit/tax	-29 495	-43 159
<b>Year's tax cost</b>				
7 561	8 400	Tax payable	141 443	131 228
0	0	Tax correction for earlier years	-1 302	-235
-558	1 279	Change in deferred tax benefit/tax	12 272	2 561
<b>7 003</b>	<b>9 679</b>	<b>Tax cost</b>	<b>152 413</b>	<b>133 554</b>
1,4 %	2,2 %	Effective rate of taxation	22,1 %	23,4 %
<b>Reconciliation from nominal to true tax cost</b>				
135 978	122 716	Anticipated tax cost at nominal rate	186 637	158 302
-128 434	-111 959	Permanent differences	-20 202	-12 878
-541	-1 078	Other items	-14 022	-11 870
<b>7 003</b>	<b>9 679</b>	<b>Tax cost</b>	<b>152 413</b>	<b>133 554</b>

# Notes to the Accounts

## Note 14

DNB has furnished guarantees for Pareto Securities AS and the company's participation in securities settlements with Norges Bank in the amount of NOK 150 million and with VPS Clearing ASA in the amount of NOK 12 million. These guarantees are secured by a first priority factoring lien on trade receivables and a lien on short-term securities.

Pareto Securities AS has given the Monetary Authority of Singapore an undertaking that it will cover any commitments its subsidiary Pareto Securities Asia Pte Ltd may have, to a maximum limit of NOK 55 million.

## Note 15

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

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

## Note 16 Related-party transactions

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

Sales of services to other group companies	45 784
Purchases of services from other group companies	2 848

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

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



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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Pareto AS

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Pareto AS, which comprise the financial statements of the parent company, showing a profit of NOK 428.591.000, and the financial statements of the group, showing a profit of NOK 536.256.000. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at December 31, 2012, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Pareto AS and of the group as at December 31, 2012, and

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of its financial performance and its cash flows for the year then ended in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway.

**Report on Other Legal and Regulatory Requirements***Opinion on the Board of Directors' report and the the allocation of the profit*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and that the proposal for the the allocation of the profit complies with the law and regulations and that the information is consistent with the financial statements.

*Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, March 21, 2013  
Deloitte AS

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

[Translation has been made for information purposes only]



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