

Pareto Annual Report 2016

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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 capital losses, reductions in value and/or losses. Returns on shipping projects are stated in the currency of the project and returns in NOK will accordingly vary in line with fluctuations in the foreign exchange market. All information on, and assessments of, external conditions in this report are based on our own best estimates and on sources that we regard as credible and reliable. Nevertheless, Pareto cannot guarantee that the information is correct.

This is the Pareto group

Pareto is a leading, independent operator in the Nordic market for financial services. The company has offices in Oslo, Stavanger, Bergen, Trondheim, Kristiansand, Stockholm, Malmö, Helsinki, Copenhagen, London, Aberdeen, Singapore, Perth, New York and Houston. Pareto was founded in late 1985 and since that time has grown into a corporate group offering a wide array of products. The group has 583 employees and shareholders' equity of some NOK 6.4 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 project funding, business management services, valuations, refinancing, financial advisory services, commercial property and insurance brokerage, investment advisory services, investment management and asset management. 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. In certain areas, the group works closely with Pareto Bank, in which Pareto is the largest shareholder.

Diversity and a strong local presence

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

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

Pareto's aims and strategies

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

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

The Pareto Group – what we do

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

The Pareto group in 2016

2016 was a year of contrasts and surprises. Following a major downturn in stock markets at the start of the year, the mood changed and the Oslo Børs Benchmark Index ended the year up an impressive 12.1 per cent, hitting all-time highs seven times during the course of December. Unexpected political developments in the form of Brexit and the electoral victory of Donald Trump were followed by periods of intense – albeit short-lived – unrest in the markets.

In the wake of the Trump election victory, the Dow Jones index soared to new heights – a surprising development. The MSCI World Index measured in local currency rose by 9.0 per cent over the course of the year. The oil price bottomed out in January, but subsequently doubled, due in large part to agreement on production cuts. The Norwegian krone, which fell substantially in value during 2015, strengthened in 2016 by 2.2 per cent against the US dollar and 5.5 per cent against the euro.

Despite the challenging start, 2016 turned out to be a prosperous year for Pareto. The year can be summarised as follows:

- Revenues for the Pareto group amounted to NOK 1.9 billion (2015: 2 billion). The operating profit totalled NOK 505 million (588 million), and the pre-tax operating profit was NOK 882 million (1 191 million). The profit for the year amounted to NOK 742 million (NOK 1 032 million). The decrease in the post-tax profit can primarily be ascribed to lower realised returns on investments. Pareto offers a broad range of products, and this year recorded high levels of activity and earnings in amongst other sectors shipping, seafood and real estate. Pareto's asset management business also recorded excellent results, with Norwegian equities in particular generating high returns in 2016. The group's losses on accounts receivable remain negligible. At year-end, book equity amounted to NOK 6.4 billion and the personnel count stood at 583 employees.

- Pareto Securities took part in 55 equity capital placements in 2016 with a combined value of some NOK 21 billion. Activity levels were high in many sectors, including telecoms, seafood, offshore, real estate and banking/finance. The biggest transaction in 2016 was the NOK 2.2 billion private placement for Lerøy Seafood Group ASA, in which Pareto Securities assisted the issuer as sole adviser. The company also advised on a total of eight IPOs in 2016, including offerings in Norway, Sweden, Finland and France. Not for the first time, the high-yield bond market had a challenging year, especially in Norway, and particularly within the energy and offshore sectors. Even so, the company was involved in arranging placements of high-yield bonds issues for an amount in excess of NOK 20 billion, including for Ocean Yield, Pioneer Property Group and Klaveness Ship Holding. Pareto Securities' Swedish business recorded high levels of activity and participated in arranging high-yield bond issues for amongst other companies Icelandair, Scan Global Logistics and Tobin Properties. Pareto Securities also acted as adviser to a number of issuers in connection with bondholder meetings and debt restructurings. In addition, the company advised on several large-scale M&A transactions (sales, acquisitions and mergers) in 2016, including Lerøy Seafood Group ASA's acquisition of Havfisk ASA and Norway Seafoods ASA, Kongsberg Group ASA in the acquisition of Patria, the Norwegian Ministry of Trade, Industry and Fisheries in the sale of shares in SAS, the sale of HydraWell Intervention to Norvestor and the purchase of NLI Eiendomsinvest by Round Hill Capital.

- Project Finance had a very strong year, with high levels of activity

within both real estate and shipping/offshore. The company participated in real estate-related transactions with a total value of over NOK 15 billion, and in shipping/offshore-related transactions with a value of over NOK 16 billion.

- Uneasy stock markets made for a demanding start to the year for Pareto Asset Management and the debt problems of the oil service sector also posed challenges in the fixed-income funds. As 2016 moved forward, however, both areas picked up substantially. The firm's traditional Norwegian equities mandates had an especially good year, recording high returns, both absolute and relative to Oslo Børs. Net subscriptions followed a similar pattern, with a weak first half and a marked improvement in the second half of the year. At year-end, total assets under management stood at just over NOK 42 billion.

- Notwithstanding the continuing gloom in the offshore market, Pareto Shipbrokers AS and its subsidiary Pareto Shipbrokers Ltd reported satisfactory results from their offshore supply and broking business.

- The dry cargo freight market bottomed out in February 2016 and then gradually climbed upwards through the year. Although the month of December brought new challenges, Pareto Dry Cargo posted satisfactory figures for 2016. Even though activity levels were high in the tanker market, rates initially came under pressure, but rose substantially in the fourth quarter. P. F. Bassøe improved on the performance reported in 2015.

- Pareto Wealth Management reported further growth in assets under management in the form of listed securities, and total client funds now amount to over NOK 10 billion. The first half of 2016 posed some challenges, with a relatively sharp fall across markets. In contrast, the second half of the year saw both higher company revenues and higher returns for clients. The diversified Norwegian and international mutual fund portfolios offered by the company continue to be attractive to the market, as do the individual products and projects aimed at a smaller and more independent circle of investors.

- Pareto acquired 72.66 per cent of Swedish fund managers Enter Fonder in 2016. The assets under management of the company at year-end 2016 stood at NOK 9.2 billion. The company reported a pre-tax profit of NOK 18.7 million.

- Pareto Bank's total assets at year-end amounted to NOK 12.9 billion. Profits after taxes increased from NOK 175 million to NOK 247 million. The bank's performance in 2016 is the best in its history. The bank's share was accepted for listing on Oslo Axess on 27 May 2016 and on Oslo Børs on 12 December 2016.

- Pareto Forsikringsmegling reported improved profits in a challenging market characterised by stiff competition. The company purchased insurance cover on behalf of its clients for a value of NOK 1.7 billion.

The market and the economy in 2016

What will 2016 be remembered for? Here are three suggestions: the oil crisis reached a turning point, interest rate levels reached a turning point, the stock market did not.

In a previous analysis, Pareto estimated that the full effects of the oil price slide would hit the mainland economy after approximately six quarters. By the start of 2016, precisely six quarters had passed since the oil price began its downward spiral. In the oil service sector, problems had long been mounting and the unease received plenty of fuel from outside the country. At the global level, markets staggered from concern to panic.

That was how 2016 started – but that was not how the year continued. After just a few weeks, the unrest abated, without any noticeable calming news of an economic nature. The market initially harboured deep concern about declining Chinese growth. Then, just a short time later, it seemed the market was not that concerned after all.

And so, yet again, we saw that the mood of the world's asset markets can change quite markedly in a very short space of time.

The challenge is identifying the underlying patterns.

First, one step back



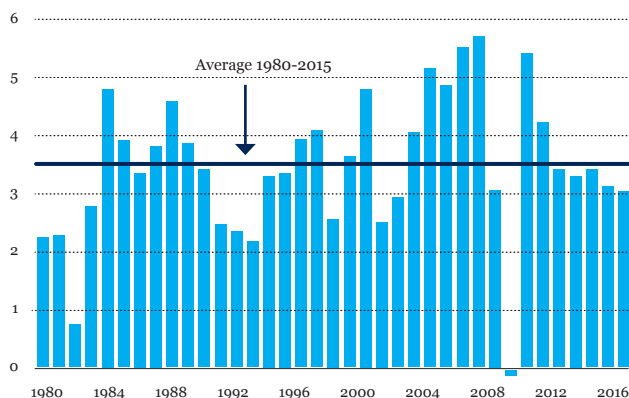
Oslo Børs Benchmark Index had a difficult start to the year, but then climbed steadily upwards.
Source: Oslo Børs

The oil price – a barometer

China's significance for international growth is difficult to assess and easy to misunderstand. National statistics are viewed as unreliable and partly controlled markets behave unpredictably, not least when it comes to mortgaged real estate. Furthermore, we find that interaction with the rest of the world is easily confused with domestic effects within China, typically when estimates are made of the impact of Chinese growth on global growth – a lot of which takes place in – yes – China.

Often the only course of action available is to look at indirect effects, such as energy consumption or commodity imports. For example: China's imports and oil consumption provide a useful indicator of the pace of the economy.

Global growth marginally weaker

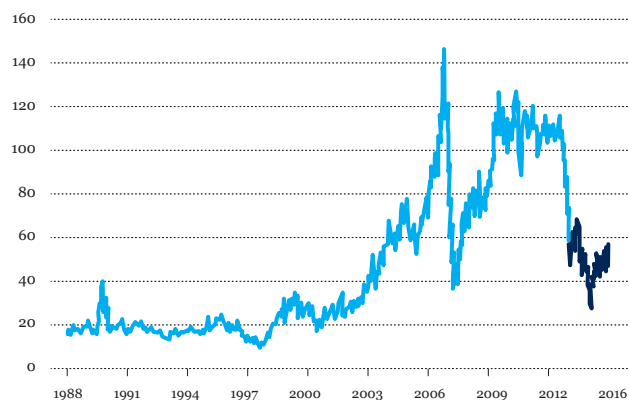


Percentage growth in global GDP.
Source: IMF

When in January 2016 the oil price fell as low as USD 26-28 a barrel, depending on the series of oil prices quotes, this reflected concern about Chinese growth, global growth and the knock-on effects for oil-related industries – which are well represented on Wall Street. In hindsight, the sharp shifts in mood may seem random, but at the time there are always key figures to support the current view. In January of this particular year, the oil price was one such key figure.

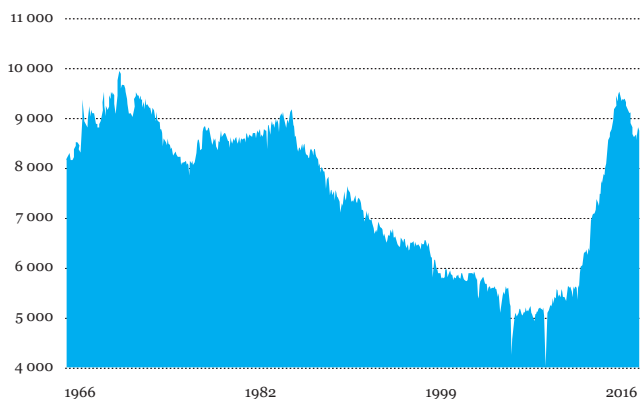
And then the situation took a turn for the better. When the market is no longer able to find confirmation in weak key figures, the field is clear for risk-seeking opportunists looking for cut-price securities. During the first half of February, the S&P 500 fell by over 10 per cent and Oslo Børs by almost 16 per cent. From there onwards there was an excellent upside in both oil price and stocks.

Climbing up from the bottom



Oil (Brent blend) in US dollars, spot price
Source: Bloomberg

Back to the glory days of yore ...



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

Higher oil pressure

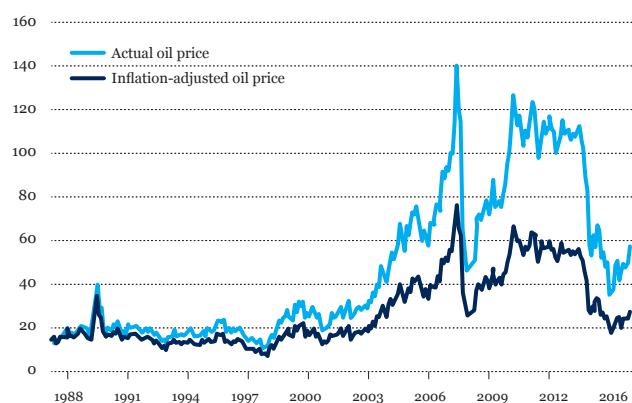
By the winter of 2016, US rig counts had long been exhibiting a marked downward trend: lower oil prices undoubtedly had the effect of reining in shale oil production. This helped to boost faith in the view that the oil price had bottomed out, since more and more capacity was being taken off the market.

As 2016 progressed, increasing attention was focused on OPEC, which in September agreed on production cuts of 1 million barrels a day. In November, the organization was able to hammer out the associated quotas.

One factor which received less attention, but which was of fundamentally greater importance, was the strong surge in the demand for oil. In December 2015, the International Energy Agency estimated that average worldwide consumption in 2016 would be 95.8 million barrels a day. This was an increase of 0.8 million barrels on what turned out to be the figure for the preceding year, of itself a not insignificant increase.

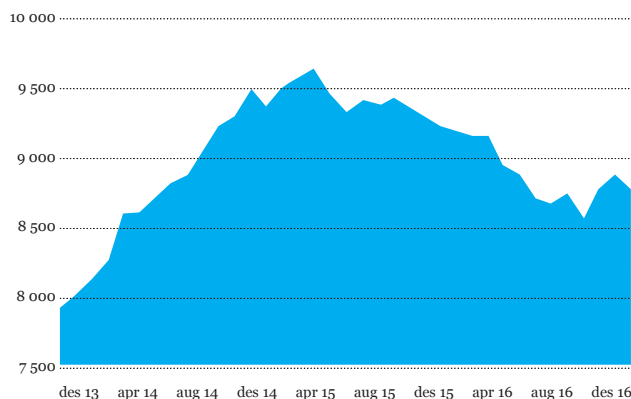
Before the year was over, the agency had adjusted its estimates upwards several times. These upward adjustments continued into the following year, and it now looks as though the historical record

The true price of oil remains moderate



Price of oil (Brent Blend) in US dollars, spot price adjusted for US inflation
Sources: Bloomberg, US Bureau of Labor Statistics

At least for now ...



US oil output in thousands of barrels a day
Source: US Energy Information Administration

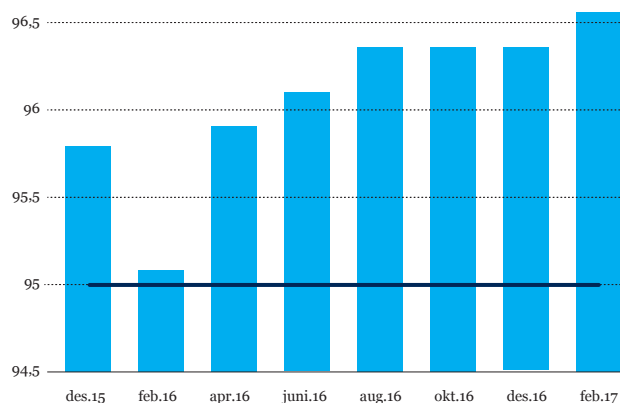
will show consumption in 2016 to have been 96.6 million barrels a day. In other words, growth was almost precisely 100 per cent higher than indicated by the original estimates – even higher if we apply the downwardly adjusted estimate in February 2016. In the last quarter alone, demand is now estimated to have been no less than 2 million barrels higher than in the same quarter in 2015.

The oil price followed more or less the same trajectory, not surprisingly aided by the OPEC quotas adopted in November. By yearend, the oil price was twice the level it had bottomed out at during the winter months.

But to what extent are the oil market reports published by the IEA based on fundamental figures? They are typically published in the second week of each month. By that time, the organization has had time to observe developments in the preceding month, not least on the stock markets. And lo and behold:

It turns out that during this 15-month period there is a correlation between the monthly oil price estimates and the closing price for the preceding months on US stock index S&P 500 of no less than 93 per cent. This is exceptionally high. A coincidence? Or could it be that the

Much thirstier than was first assumed



Global demand for oil in millions of barrels per day, estimates for 2016 at various times. The dark blue line shows demand for oil in 2015.
Source: IEA

IEA is also affected by the mood of the market, by the sentiment?

One conclusion must surely be permitted: this is how difficult it can be to separate fundamental causes from mood swings in the market.

Cost cuts? More like price cuts

In Norway, the weakened krone had cushioned the damaging effects of the drop in the oil price. Because the fall in the value of the krone really was substantial: at the outset of 2016, the Norwegian krone, measured on the currency basket in the Trade Weighted Index, was close to its lowest level ever.

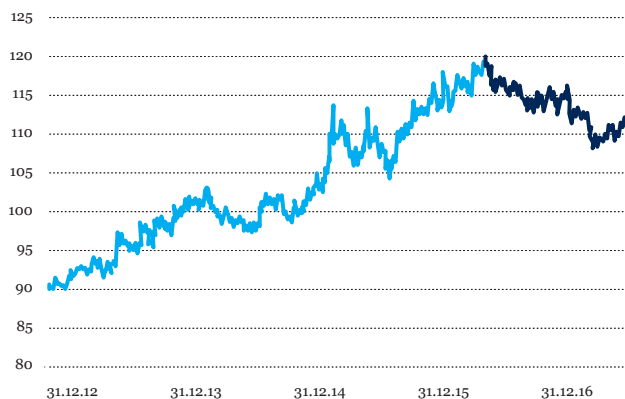
True, the immunisation of the oil revenues, by salting them away in the Government Pension Fund Global, was decreasing. For many years, large chunks of the oil income had been transferred directly into the fund, without being converted into Norwegian kroner, and in addition, Norges Bank had purchased currency for additional transfers of substantial amounts. Now we were no longer salting away as much in the fund, and, in fact, Norges Bank moved from buying currency to selling currency (buying Norwegian kroner). That did not suggest further assistance for the Norwegian economy from a depreciating krone.

For the oil companies, with the fairly well-padded Statoil taking the lead, the price drop triggered cost cuts on a major scale. The effect was formidable. From their peak in 2013, Statoil's exploration and operational costs dropped from USD 12.10 a barrel to USD 6.20 a barrel – a reduction of almost 49 per cent. Since the oil price is quoted in the same currency, the dollar is the logical yardstick, but even measured in Norwegian kroner this represents a substantial reduction – close to 27 per cent.

Cost cutting may not be the appropriate phrase. Much of this reduction was shouldered by subcontractors in the form of drastic price cuts. And now we could finally see these price cuts reflected in the national accounts. According to Statistics Norway, value added (gross product) in "Extraction and related services industries" recorded a growth in prices in 2016 of minus 23.7 per cent. One year earlier, that figure had still been positive, at 1.9 per cent.

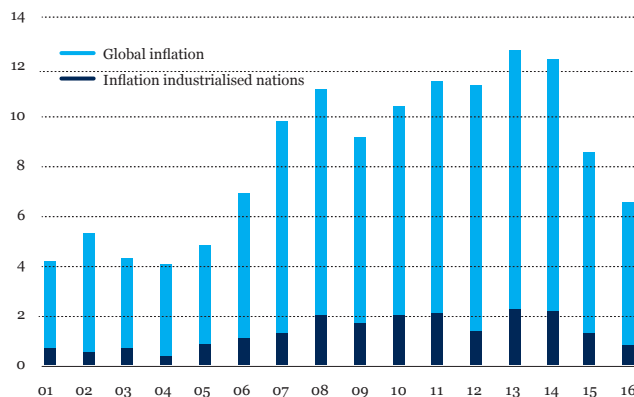
Put in a slightly different way: when you examine the national accounts to find the growth in gross product, you don't see the drama. Here, after all, developments are adjusted upwards by a factor

Weakening in reverse



The Trade Weighted Index. Higher figures signify a weaker krone
Source: Norges Bank

Deflation on the Continental Shelf



Statoil's operating costs (incl. selling, general & administrative expenses) and exploration costs in USD per barrel.
Source: Pareto Securities

corresponding to the fall in price in the preceding year. Deliveries (volumes) have had a far gentler development than invoices.

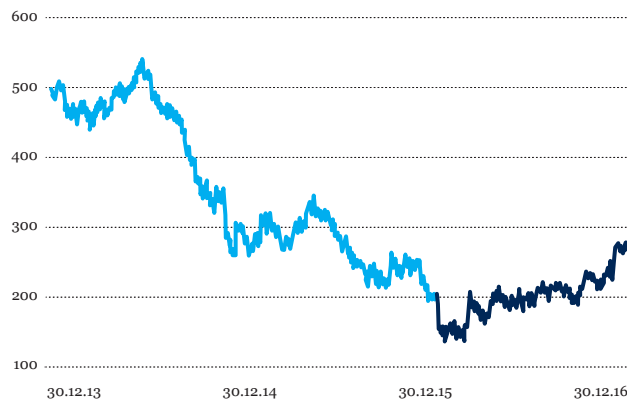
The bond clear-out

Subcontractors to Statoil and other petroleum companies are well represented on the Norwegian securities market, both stocks and bonds. On the stock market, problems were clearly visible at an early stage on the oil service index, which, following a drop of some 60 per cent over an 18-month period, fell by a further 32 per cent during the course of a few weeks in January. That being said, the index recovered from this reversal, ending the year at almost double its previous level.

The bond market, too, had given numerous clear signals, but 2016 was the year in which the problems truly surfaced in the form of defaults, debt negotiations and restructurings. In the case of petroleum-related companies (which dominate here), Stamdata registered defaults on 47 loans with total amounts outstanding of NOK 42 billion, as compared with 15 loans and NOK 9.6 billion in the preceding year. Defaults can be more of a technical issue and need not mean heavy losses, but in the case of some of these loans it gradually became clear that the bondholders would have to shoulder substantial losses.

In this market, the uncertainty lasted somewhat longer, with high

Well survived ...



The Oslo Børs Oil Service Index turned the corner in 2016
Source: Oslobors.no

credit premiums also being seen at the international level. Nerves were not calmed until the European Central Bank announced a raft of measures on 10 March, including the extension of support purchases to take in non-financial investment grade bonds. Credit premiums then started to come down, in both Europe and the US; the prices of corporate bonds moved upwards again.

This improvement rapidly spread to bonds with lower ratings (high yield) and, not least, oil-related companies, although here the Norwegian market lagged slightly behind. By the end of the year, credit premiums on oil services remained higher in Norway than in the United States. Even so, the autumn saw a powerful rebound after what had been a substantially more difficult first six months.

Alarm bells

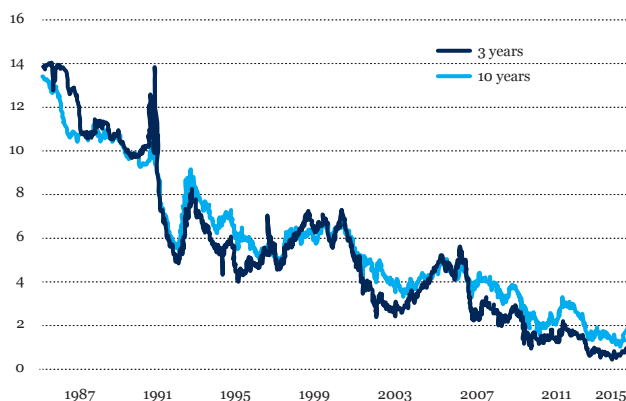
When, in March, the ECB announced a modest reduction in its already low key interest rates, Norges Bank followed suit with a reduction of a quarter percentage point. These rates remained unchanged for the rest of 2016. The Federal Reserve, for its part, increased the key interest rate by a quarter percentage point before the year was over.

In the meantime, the market had also had time to adjust its views on interest rates. With the slightly near-sighted assessment that comes so readily to those who follow the market day-to-day, hour-by-hour, it almost appeared as if Donald Trump was the catalyst. This was what many people concluded at the tail end of 2016. But it didn't look that way on first examination.

When it became clear that Trump would be the new President of the United States, futures on the US stock market augured a drop of a swingeing five per cent. However, after a short burst of trading the market did a volte face. The relief, combined with renewed attention to the detail of Trump's more business-friendly rhetoric, triggered an unusually rapid change in mood. The sentiment shifted in record time. This also impacted on the fixed-income market.

Perhaps the most compelling argument in favour of believing in Trump was his promise of massive investments in infrastructure. Many investors locked on to the idea that he might be capable of stimulating growth, even though the blatantly protectionist stance was an obvious danger signal.

Did interest rates bottom out in 2016?



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

In the short term, the renewed confidence in the stock market attracted the most attention. From a longer term perspective, a more interesting point is that long-term interest rates began to rise.

Solid ground underfoot

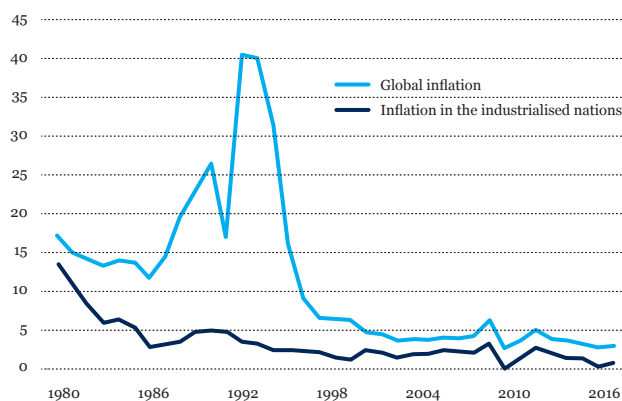
At the start of the year we saw a modest increase in long-term interest rates and a somewhat steeper interest rate curve in both the US and Norway. German 10-year rates ended the year somewhat lower than they started it, but in the interim they had fallen below zero for some months. Swedish 10-year rates also nudged upwards again after a period of very low rates. Admittedly, they stayed above zero, which is more than can be said for Swedish money market rates – which fell even further and ended at almost -0.6 per cent.

As it turns out, we have not had a substantial increase in interest rates. We have seen a modest lift from extremely low rates to unusually low rates. The key point is that a downward trend that persisted over many years has been broken. Perhaps this was only to be expected, given the low level to which interest rates had dropped. Even so, this break was significant. Beyond the end of the year there are also several additional signs pointing in the same direction.

Support for the upward adjustment of interest rate expectations can be found in key figures in the real economy. The IMF, which in the two preceding years cut estimates in its January updates, now maintains that global growth can be expected to rise to 3.4 per cent in 2017 from 3.1 per cent the year before. For the industrialised economies, the estimates have picked up since the last report. There are also a number of current key figures that point in the same direction, not least for Europe.

In the United States, there is less scope for lifting growth, given that solid growth over a period of several years has brought unemployment down to a level that provides very little in the way of spare production capacity. Nor does tax relief for smaller groups with already high levels of consumption provide any real growth impulses to consumption. However, the nature of the overall growth, with an emphasis on infrastructure, does suggest higher demand for investment capital. Moreover, the Federal Reserve has, after all, already signaled that further interest-rate hikes must be expected in the coming year.

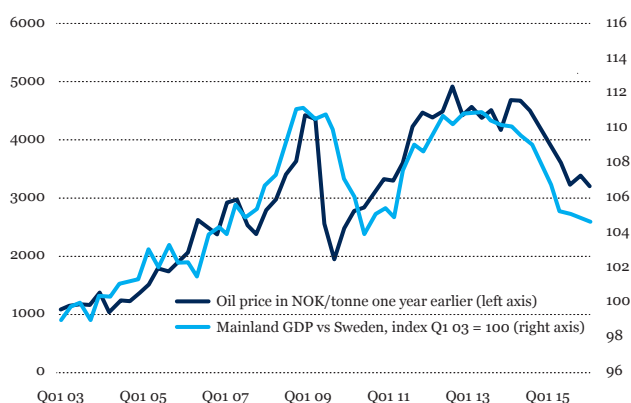
Inflation? In the recovery position



Source: IMF

In Norway's case, it is probably true to say that the oil-related economy hit bottom faster than suggested in our previous analysis, due in no small part to the sharp drop in the value of the Norwegian krone. Growth picked up again somewhat in the fourth quarter and all estimates indicate increased growth on the mainland too – which has nevertheless demonstrated the extent of its dependence on oil.

Oil-fired heating on the mainland



Sources: Pareto, SCB, Statistics Norway

The interest-rate gap

One of the primary reasons for the record low and, in some places negative, rates of interest, has been the handling of the crisis and the management of expectations, although the rationale can also be found in demographics and other fundamental factors. Now that it seems clear on an increasing number of fronts that the danger of the crisis flaring up again has receded, it is only logical to expect that there will be a further normalisation of interest-rate levels.

In some cases, only ever-smaller traces of the crisis remain for use by way of justification. Sweden is a case in point. The Swedish real economy is not in any way in crisis, with an estimated growth rate of no less than 3.3 per cent in 2016. Nor does anyone expect a new crisis on the scale suggested by the key interest rate (repo rate less 0.5 per cent). We therefore venture to suggest that Swedish long-term interest rates are showing the way forward: they have increased markedly since hitting bottom during 2016.

One final point: low interest rates can also be ascribed in part to unarticulated wishes to keep rates of exchange in check. In many countries, Norway not excluded, this has contributed to lower rates of interest and/or interest-rate expectations than would otherwise be the case. But this is a relative game. When a leading economy like the United States is in the process of introducing such a marked increase in interest rates it is easier for other central banks to follow suit without having to fear exchange rate effects.

In terms of game theory, the currency consideration gives the interest rate reduction something of the character of the "Prisoner's dilemma", a game that illustrates how what is logical individually may be collectively illogical. A familiar illustration is provided by a crowd at a football game, where no one gains when everyone stands up to get a better view. We are now witnessing the US, seated on the foremost bench, readying itself to sit down.

So yes: That really was the interest rate bottoming out. There are very few indications that high interest rates lie ahead, but very many suggesting that interest rates will be slightly higher than we have seen for some time. This could have interesting effects on government bonds, which in the major markets have been almost synonymous with risk free. After 35 years of falling interest rates it could be that our understanding of risk free needs to be slightly more nuanced. After all, in the case of long-term government bonds in particular there is a significant interest-rate risk.

But what of the stock market? Or the housing market?

Waves and ripples

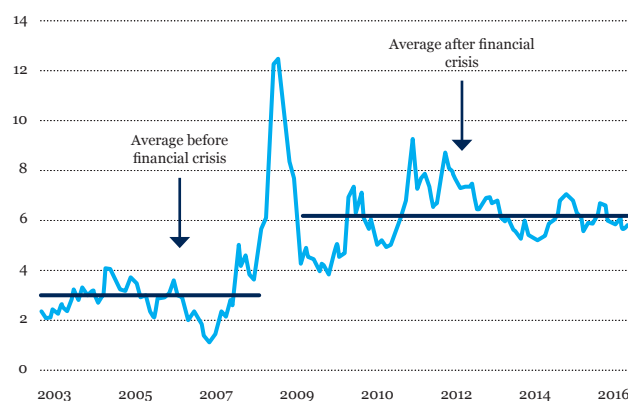
The stock market and the housing market have both derived obvious benefits from low interest rates. Furthermore, both markets have recorded an impressive upturn since the financial crisis. However, their reactions to the low rates of interest have been very different.

Pre-financial crisis, Oslo Børs recorded an earnings yield in the region of four percentage points above the effective rate of interest on 10-year government bonds. The all-time low levels of interest rates post crisis have resulted in a drop in earnings yield, but this reduction has not been as significant as that of the interest rates. The upshot has been that the premium over the 10-year rate of interest has hovered around six percentage points in the years since the financial crisis. By the end of 2016, the premium had – admittedly – crept slightly below this average, but it was still far above the level recorded before the financial crisis. Put in a slightly different way: the margin of safety has increased.

The same could hardly be said of the property market, where both credit statistics and house prices indicate that households have largely "maxed out their cards": they have expended most of the freedom of action afforded by low interest rates. Put in more popular terms: they have bought the most expensive houses they can afford.

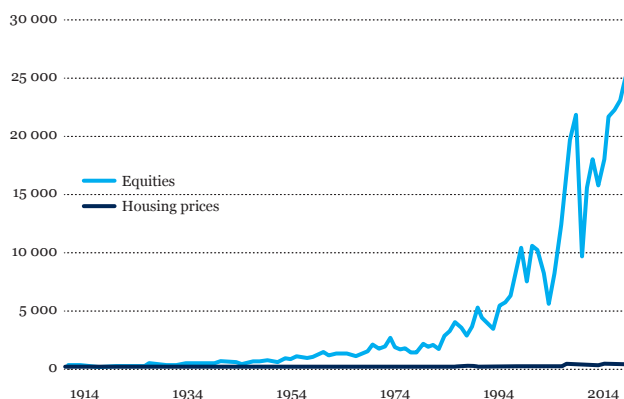
In this light, it is interesting to note that ever-rising house prices is not a law of nature. A buyer of an average Norwegian dwelling in 1914 would have been through several decades of negative real prices. Not until 1996 rolled around would the line marking the passage from negative to positive finally have been crossed. In the housing market,

The stock market safety margin



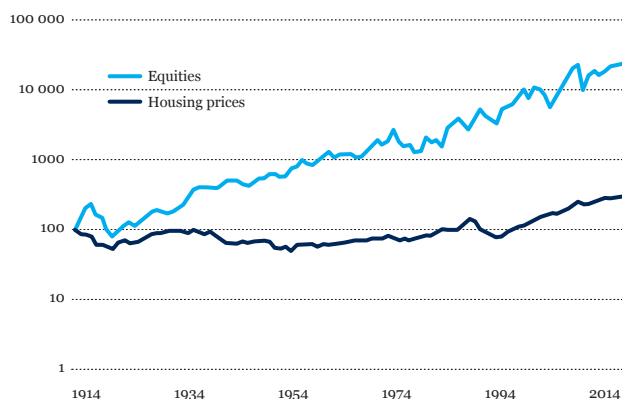
Difference in percentage points between forward earnings yield and yield on 10-year government bonds.
Source: FactSet, Norges Bank

Values don't always soar



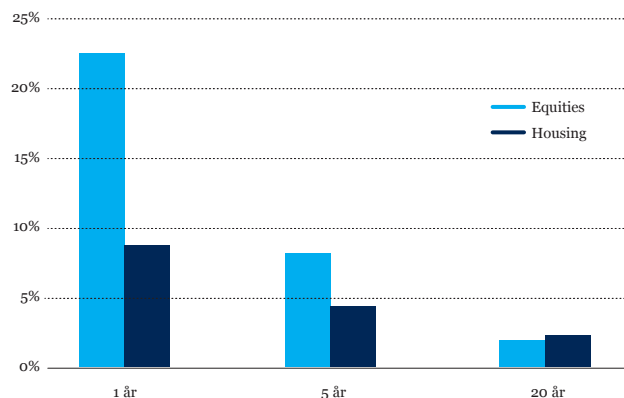
Index, 1914=100, real prices (deflated by Consumer Price Index).
Source: Norges Bank, Statistics Norway, Pareto

A more correct scale



Index, 1914=100, real prices (deflated by Consumer Price Index).
Source: Norges Bank, Statistics Norway, Pareto

If you wait long enough, equities fluctuate less than housing



Standard deviation by investment horizon in the period 1914-2016
Sources: Pareto Asset Management, Statistics Norway, Norges Bank

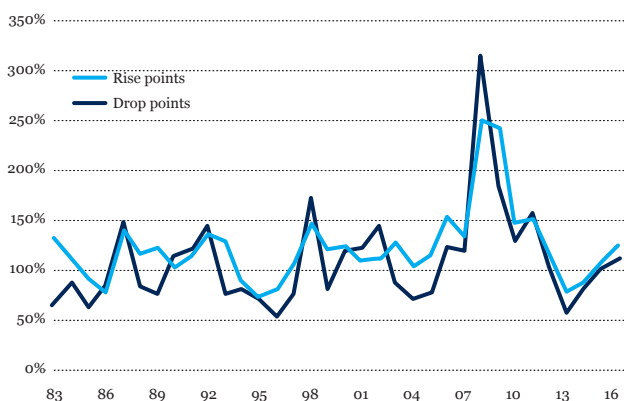
the foundations are eroded by inflation, a problem which the stock market handles more effectively.

This illustrates how much risk in the housing market differs from risk in the stock market. House prices fluctuate in long waves; the stock market has choppier waves with lower risk in a longer perspective. If we take a suitably long-term view, this in fact entails that the stock market has shorter fluctuations than the housing market – notwithstanding the safety that many people clearly ascribe to the housing market.

Noise insulation

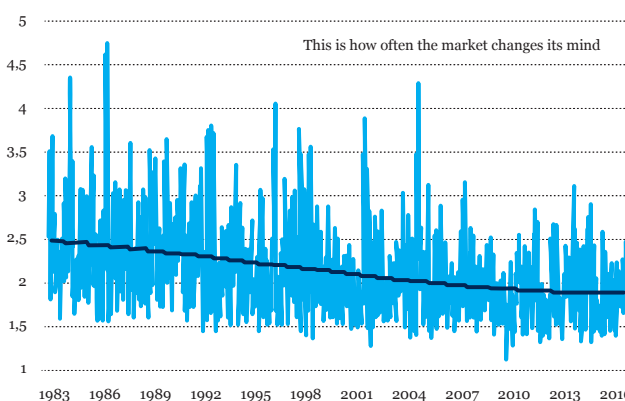
Neither financial theory nor investors have done an especially good job of separating noise from risk in the stock market. This point can be illustrated by adding up the daily price changes on Oslo Børs. In a normal year, the result is 121 rise points (total daily increases as a percentage) and 108 drop points. By way of comparison, the average rate of return in the same period, from and including 1983, was 11.7 per cent. In other words: an investor is left with roughly 10 kroner for every hundred kroner in gains on the stock market in gross increases.

Spot the difference?



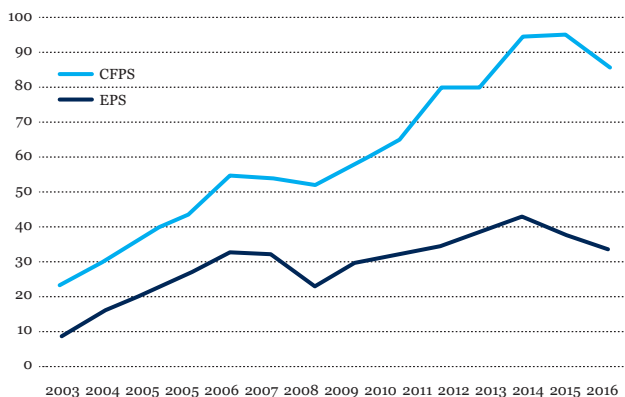
Oslo Børs benchmark Index interlinked with the Total Index from and including 1998.
Sources: Oslo Børs, Pareto Asset Management

360° turnaround



Number of days in which the market points in the same direction, average over 25 trading days.
Sources: Oslo Børs, Pareto Asset Management

Higher cash flows



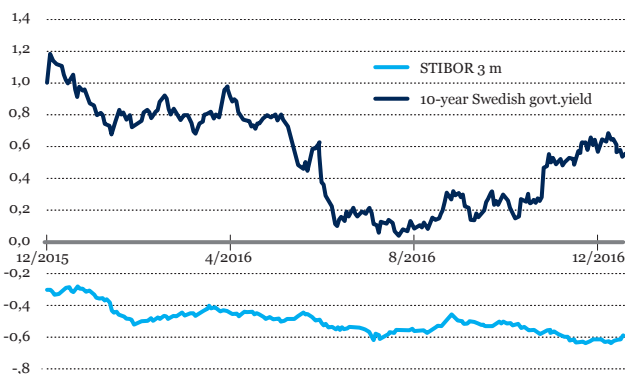
Cash flow (CFPS) and earnings (EPS) per share for OSEBX
Source: FactSet

Is this true risk or is it largely noise? The answer to this question is: it depends on how long you remain invested. If the perspective is long enough it is logical to regard these leaps as noise, although you will not necessarily find this word in the textbook.

Of course, there is no shortage of real risk, especially if we look at individual stocks. Moreover, the fact that the stock market has not priced in the entire fall in interest rates does not mean that it has not priced in a great deal of this reduction. This can also be seen in the day-to-day pricing, for example in the price/earnings ratio (P/E), with, however, more real cash flow in earnings than was the case 10 years ago.

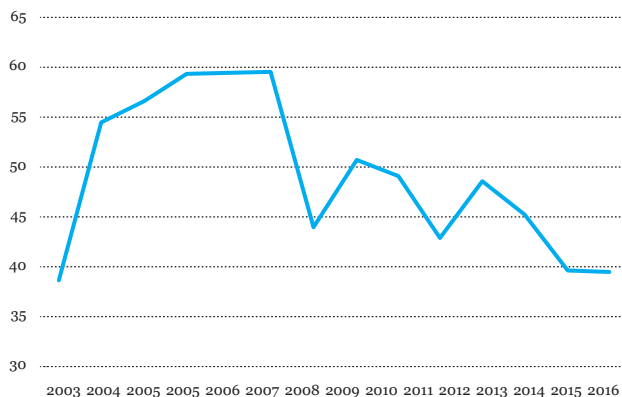
A modest rise in interest rates should be well within what the market is both able to withstand and expects. This does not mean, however,

Cheap money in Sweden



Effective interest rates as a percentage.
Source: Riksbanken

Less lofty earnings?



Earnings per share (EPS) as a percentage of cash flow per share (CFPS) for OSEBX.
Sources: FactSet, Pareto Asset Management

that everyone will agree in the short-term. Corrections do come at regular intervals.

If this is the case, it is important to remember what drives returns in the longer term: the ability of companies to generate profits for their owners. As long as business and industry function more or less normally, the stock market will be a series of recurring all-time highs, interrupted only by shorter or longer reversals. In the United States, where statistics have been calculated back to 1871, the 500 largest listed companies, on aggregate, have never operated at a loss!

If we are right in our thinking that forthcoming interest rate hikes will be relatively limited, it might be useful to take a slightly longer term view: investing money has never been cheaper.

2016 in a nutshell

OSEBX	+12.1%
S&P 500 return	+12.0%
MSCI World net (USD)	+7.5%
3-month NIBOR	from 1.13% to 1.17%
3-month STIBOR	from -0.29 to -0.59
10-year Norwegian Treasury	from 1.54% to 1.70%
10-year Swedish Treasury	from 0.99 to 0.55%
10-year US Treasury	from 2.27 to 2.44%
Brent Blend	from USD 37.28 to USD 56.87
USD/NOK	from 8.81 to 8.62
EUR/NOK	from 9.62 to 9.09
GDP growth, global	3.1%
GDP growth, Norway	1.0%
GDP growth Sweden	3.3%
GDP growth, Mainland Norway	0.8%

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

A history of success and profitability

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

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

The table below summarises a rich history of innovation, growth and changing framework conditions, through market rises punctuated by intermittent financial crises. The 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.

At the same time, the parent company has succeeded in building a securities portfolio with a book value of over NOK 5 billion, giving the company strategically valuable freedom of action and the ability to seize new opportunities as they arise.

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

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

Consolidated figures expressed in millions of Norwegian kroner. The parent company now holds a substantial portfolio of investments, as a result of which fluctuations in share prices may cause major variations in the performance recorded by the company. Oslo Børs stock market returns are based on the Benchmark Index linked backwards to the former All Shares Index.

Pareto Securities AS

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

With 13 offices in nine countries, Pareto Securities raises equity and loan capital for Nordic business and industry and for international issuers in the shipping, seafood, energy and oil service industries, in which areas the company has become a global player.

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

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

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

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

An international presence

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

The combination of a local presence and a network of international investor contacts form the foundation for Pareto Securities' placement power in the stock and bond markets.

Share and bond brokerage

We provide stock and bond broking services from offices in Oslo, Stavanger,

Trondheim, Stockholm, Malmö, Helsinki, Copenhagen, London, Singapore and New York. More than 110 people are now employed in the provision of brokerage services from these offices.

We offer investors a combination of:

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

We also operate an efficient online trading system.

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

Case-based research products

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

Our equities research team consists of 14 researchers in Norway, 12 in Sweden and three in the UK. Our ability to service our clients efficiently is contingent upon the research team having a thorough understanding of the industries in which they specialise. All of Pareto Securities' departments are able to draw on the findings produced by our research team.

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

Our credit research team is made up of

two researchers in Norway and three in Sweden. This team monitors the Norwegian and Swedish credit markets and the international credit market for oil services and energy and compiles credit analyses on issuers.

Accurate credit analyses 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. 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.

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

Conferences and road shows

An important aspect of interaction with investors is arranging seminars and company visits. Every autumn, Pareto Securities hosts an oil and offshore conference in Oslo. This event is one of Europe's leading investment forums for oil and energy-related companies. The 2016 seminar attracted 1,500 attendees – primarily international investors and representatives of the 100 companies making presentations. Other events organised by the company included an energy seminar in Oslo that attracted 400 attendees, the North Atlantic Seafood Forum in Bergen that attracted 710 attendees, an E&P seminar in London that attracted 230 attendees and a bond seminar in Stockholm that attracted 450 attendees. We regularly take company representatives to meet our clients in North America, Asia and Europe. In addition, our researchers travel to clients to discuss new investment opportunities. In total, Pareto Securities arranged 264 roadshows in 2016.

A comprehensive range of corporate advisory services

Pareto Securities advises clients on raising equity and loan capital, stock exchange listings, diffusion sales, mergers/demergers, valuations and acquisitions/disposals of businesses or companies from our offices in Oslo, Stockholm, Helsinki, Copenhagen, London, Paris, New York, Houston, Perth and Singapore. The advisory services department employs over 100 people.

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

In the area of mergers, acquisitions and sales of businesses (M&A) our experienced advisors are able to provide valuation, advisory and negotiating services to buyers and vendors alike. These services were much in demand in 2016, and a number of sales and acquisitions were consummated. In addition, we work closely with Pareto Offshore and Pareto Shipbrokers to take the fullest advantage of the group's expertise and networks.

Shipping and Offshore

The project finance department has long experience and extensive expertise in syndicating and managing shipping and offshore investment projects. At the present time, we manage a maritime portfolio with a value of approximately NOK 12 billion. Our main focus is projects involving long-term charters and charterers of high repute, although we also arrange asset play projects where the market risk for the investor is greater.

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

Real estate

With over 20 years of experience, we are a leading financial operator in the Nordic real estate market. The company has extensive experience of providing corporate finance services and acts as advisor on major real estate transactions, including IPOs and purchases and syndications of real estate both in Norway and internationally. The department has become a leading operator in the Swedish market as well. In 2016, the department has also completed several successful transactions in Denmark. The real estate portfolio has a total value of approximately NOK 32 billion.

Investment companies

The wholly-owned subsidiary Pareto Alternative Investments AS (PAI) holds an AIFM licence. PAI manages diversified investment companies in the real estate, credit, shipping and offshore sectors. The combined equity capital of these investment companies at yearend totals approximately NOK 8 billion. PAI offers capital structures that are both leveraged and unleveraged.

Pareto Business Management

The wholly-owned subsidiary Pareto Business Management AS (PBM) is Norway's leading financial service and support partner in the real estate and shipping/offshore sectors. A Swedish subsidiary provides corresponding services to Swedish project companies. PBM in Norway and Sweden has management responsibility for some 160 investment companies with a combined value of approximately NOK 44 billion. PBM's team is made up of 37 experienced professionals with expertise in the areas of accountancy, financing, taxation, corporate law and technical management.

Pareto Offshore AS

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

Currency and freight and commodity derivatives

Currency operations make up an integral part of our investment services. A staff of two provides these services. The unit is also a broker of freight and commodity derivatives.

Trading for own account

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

Staff development

Personnel numbers decreased during 2016 from 400 at the outset of the year to 365 by the end of the year. Of these, 39 per cent work outside Norway – down from 42 per cent last year.

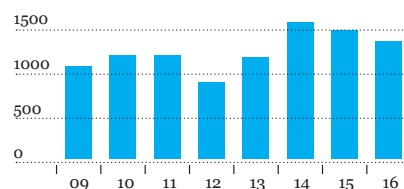
Pareto Securities recruits young talent, mainly with the aid of a graduate recruitment programme which focuses on students from the best schools. The company offers them a flat organisational structure, attractive incentive schemes and early responsibility.

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Pareto Securities AS

Dronning Mauds gate 3
P.O. Box 1411 Vika
0115 Oslo, Norway
Telephone: +47 22 87 87 00
Turnover 2016: NOK 1.4 billion
Equity 2016: NOK 501 million
Number of employees: 365
CEO: Ole Henrik Bjørge
ole.henrik.bjorge@paretosec.com
Chairman: Morten Goller
www.paretosec.com
www.paretosec.no

Operating revenues NOK million



Pareto Asset Management AS

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

Following the merger, relocation, fund launch and streamlining of the fund structure the year before, 2016 was a year of consolidation for Pareto Asset Management, with attention being focused on areas such as the combining and development of systems. It was also a year of dramatic changes, the heavy challenges of the first six months being replaced by six months of substantial progress – both in the markets and in the performance of the firm itself.

Pareto Asset Management has a staff of 52, including two employees at the branch office in Stockholm. The asset management department, which now numbers 19 people with an average of 20 years of relevant experience, is, by Norwegian standards, a sizeable centre of asset management expertise.

Pareto AS owns 86 per cent of the company and the remaining 14 per cent are owned by the company's partners.

The in-house asset manager

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

At yearend 2016, Pareto Asset Management had assets under management of NOK 42.2 billion. Of this, NOK 17.8 billion was invested in Norwegian-registered securities funds, NOK 7.2 billion under active management invested in equities and fixed-income instruments, NOK 6.8 billion in other funds/investment companies, as well as NOK 10.4 in debt management on behalf of Norwegian local authorities. In total, approximately NOK 5 billion was owned by foreign clients.

Taken as a whole, companies and personnel in the Pareto group constitute our biggest "client", accounting for just over NOK 3.6 billion of the assets under management. Our willingness to invest extensively in our own products underscores our faith in our ability to invest wisely, our approach and our asset management philosophy.

A fundamental approach to management, independent of indices

All our equities management is index-independent; all our equity funds feature a high active share. As a consequence, the portfolios deviate widely from the compositions of the respective benchmark indices of the funds. Over the long term this has secured sound returns for our clients on all our equity products.

Our approach to the management of equities is long-term, fundamental and research-based. Analysing a wide range of key metrics and qualitative factors, such as strategy, business model, market position and outlook, gives us an insight into the true value of a company. On the other hand, we devote little time to the many leaps and bounds of the market or to new and creative financial products.

Similarly, our approach to the management of fixed-income instruments is based primarily on a thorough analysis of the individual issuer and loan covenants. For most of the fixed-income funds, the risk premium of the individual borrower is the main source of returns, while interest-rate risk is limited.

Sound long-term excess returns

In the area of equities, we offer Norwegian, Nordic and global mandates. The Norwegian portfolios in the fund Pareto Aksje Norge and under discretionary management had an especially good year, recording excess returns in the region of 14 to 20 per cent above both the mutual fund index and the benchmark index at Oslo Børs. As the year progressed, this performance had a tangible and positive effect on net subscription levels, which had been clearly negative in the early months of the year.

Our other Norwegian equities fund, Pareto Investment Fund, also recorded a good year, with excess returns of between three and almost five percentage points above the 11.5 per cent recorded by the mutual fund index.

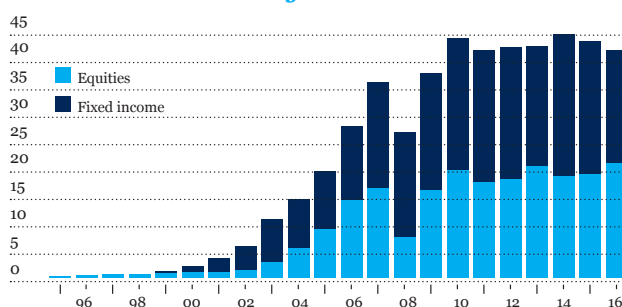
The stronger Norwegian krone created something of a headwind, both for the equities fund Pareto Global and for our Nordic mandates, which comprise a hybrid fund and funds with more flexible mandates. These portfolios ended the year with returns of between zero and six per cent. The MSCI World Index, which enjoyed higher exposure than Pareto Global to the very fruitful year recorded by US stock market, delivered five per cent.

The first six months of 2016 proved to be unusually challenging for fixed-income funds. Following difficulties for the oil service sector that had been escalating since the summer of 2014, when the oil price started its decline, it finally became necessary for a number of companies to put in place restructuring measures. This was by no means unexpected: Even before these restructurings a number of corporate bonds were priced as low as 20+ per cent of their face value.

That being said, in the case of several of the restructurings values were higher after the process had been completed, ably assisted by the reduced level of uncertainty. Internationally, the fortunes of the bond market turned upwards again, having bottomed out during the first half of the year. After the half-way mark of the year had been passed, our corporate bond funds rallied substantially.

Even so, by the end of the year net subscriptions were clearly negative, especially in the case of Pareto Høyrente. We have, however, staffed up the fixed income management and are optimistic about the prospects of this market, as we are about equities. The next few years will offer ample opportunities to create returns for our clients.

Total Assets under management NOK billion



Pareto Asset Management AS

Dronning Mauds gate 3
 P.O. Box 1810 Vika
 0123 Oslo, Norway
 Telephone: +47 22 87 87 00
 Turnover 2016: NOK 278 million
 Turnover 2016: NOK 31 million
 Number of employees: 53
 CEO: Lasse Ruud
 Lasse.Ruud@paretoam.com
 Chairman: Cathrine Lofterød Fegth
www.paretoam.com

Pareto Shipbrokers AS

Pareto Shipbrokers AS (PSAS) offers shipping and offshore brokerage services and the firm's team represents a substantial fund of knowledge and experience of the company's market segments. In September 2016 Pareto JGO Shipbrokers AS changed its company name to Pareto Shipbrokers AS.

Southern Norway's preferred shipbroker

PSAS' history dates back to 1912, when the firm started out in the lumber and ship broking business. The company played a central role in establishing and building up many of Southern Norway's shipping companies in the late 1920s and 1930s. Until as recently as 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. The company joined the Pareto group in 2006.

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

The offshore department

The offshore department is ranked among the leaders in its field in Norway. It was formed in the mid-1970s, when the supply vessel companies started to appear. Since then, the department has developed and 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 the right to use the vessels for extended periods of time, ranging from a few months to several years.

In the spot market, the brokers arrange shorter-term contracts for supply vessels to carry cargoes and supplies to drilling and production platforms and other offshore installations. They also arrange contracts for anchor-handling vessels and tugs, for example for the movement and towing of rigs. Furthermore, PSAS arranges the chartering, buying and selling of oil rigs.

Over the years, the offshore department has developed in-depth 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.

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 ranging in size from 80,000 to 150,000 dwt, what are known as Aframax and Suezmax tankers. PSAS 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 on the strength of their efficient professional services and follow up.

Collaboration

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

UK shipbrokers Derrick Offshore Ltd., headquartered in Guildford outside London and with an office in Aberdeen, is a wholly-owned subsidiary of PSAS. In September 2016 Derrick Offshore Ltd. changed its company name to Pareto Shipbrokers Ltd (PSLTD).

PSLTD specialises in the broking of offshore units for the oil and gas, renewable energy and subsea cable industries.

Together, these two companies make up one of the biggest shipbroking operations in the global offshore industry.

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Pareto Shipbrokers AS

Dronningens gate 3
4610 Kristiansand, Norway
Telephone: +47 38 12 31 11
Turnover 2016: NOK 81 million
Equity 2016: NOK 44 million
Number of employees: 33
CEO: Karsten Christensen
karsten@paretoship.no
Chairman: John Gordon Bernander
www.paretoship.com

Pareto Bassøe Shipbrokers AS

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

P.F. Bassøe AS

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

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 of 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 individual clients.

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

Pareto Dry Cargo AS

Pareto Dry Cargo 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 Ultramax, Supramax and Handysize tonnage. In addition to working actively in the spot market, our brokers focus on long-term freight contracts and periodic transactions. The company also works closely with industrial clients in the aluminium, cement and grain industries. Project and advisory services are also available.

P.F. Bassøe AS

Dronning Mauds gate 3
P.O. Box 1723 Vika
0121 Oslo, Norway
Telephone: +47 24 02 81 80
Turnover 2016: NOK 4.3 million
Equity 2016: NOK 7.9 million
Number of employees: 2
CEO: Bjørn Erik Løkken
crude@pfbassoe.no
Chairman: Åsmund Skår
www.pareto.no

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Pareto Dry Cargo AS

Dronning Mauds gate 3
P.O. Box 1411 Vika
0115 Oslo, Norway
Telephone: +47 24 02 81 90
Turnover 2016: NOK 14.4 million
Equity 2016: NOK 2.9 million
Number of employees: 6
CEO: Morten Lie
dry@pareto.no
Chairman: Åsmund Skår
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.

Steering a steady course

Over a period of several years, Pareto Wealth Management AS has matured into a bigger, more clearly defined firm with even greater expertise in its area of business. Having completed a restructuring process, the firm is concentrating its attention on developing its investment advisory services and product menu, not least by building appropriate long-term portfolios.

2016 continued where 2015 left off – uncertainty in the market in general and about the development of the oil price in particular. Negative returns during the first and second quarter weighed on our portfolios. Those clients who held firm reaped their rewards in the second half of the year. The year ended on a high note and, taken as a whole, the company's core strategies and portfolios proved themselves in difficult terrain throughout the year.

The clients' portfolios of funds and listed securities grew, while the portfolio of unlisted products shrank in line with repayments and the winding up of projects. Taking the year as a whole, the total portfolio of client funds remained stable.

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

Strategy

Pareto Wealth Management remains true to its strategy of building a sound and long-term portfolio of securities for its clients. In addition, the firm offers individual products and projects to a smaller selection of clients who to a great extent handle the management of their own portfolios. The company's current portfolio generates more than 80 per cent of its overall income and covers all current fixed expenses. The proportion of revenues from client portfolios is steadily increasing. This approach also means that the long-term interests of clients and the company are closely aligned.

A substantial proportion of client's investments are placed in Norwegian and international mutual funds through various private banking accounts or as independent fund solutions. Of these, an increasing number take the form of specially-built or carefully hand-picked portfolios. The company also offers a higher degree of bespoke tailoring of products to suit the needs of larger investors.

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

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

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

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Pareto Wealth Management AS

Dronning Mauds gate 1
P.O. Box 1418 Vika
0115 Oslo, Norway
Telephone: +47 23 23 99 00
Turnover 2016: NOK 68 million
Equity 2016: NOK 23 million
Number of employees: 47
CEO: Rune Wassum
rune.wassum@pareto.no
Chairman: Åsmund Skår
www.pareto.no

Pareto Forsikringsmegling AS

Pareto Forsikringsmegling AS is an independent advisor and insurance broker offering bespoke non-life, life and pension insurance solutions and general insurance advice. Annually, we purchase insurance cover for more than NOK 1.7 billion kroner on behalf of our clients.

Insurance brokerage and advisory services

Pareto Forsikringsmegling offers brokerage and advisory services within non-marine insurance. Our clients are large and medium-sized enterprises in the private and public sectors. In addition, we offer group cover products (affinity) for the club, association and society market, as well as product cover for suppliers of products and services.

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

The company has 33 employees: 27 in Oslo and six in Kristiansand. All our personnel have extensive experience and a high level of expertise within their professional fields. Pareto Forsikringsmegling is a member of the GBN Worldwide network of independent brokers.

Non-life insurance

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

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

Pension and life insurance

The life and pension department arranges group pension and personnel cover in collaboration with our clients and their employees. The market is characterised by stiff competition between suppliers, enabling favourable terms to be achieved for our clients. As regards the new hybrid pension plan, only two of our suppliers offer this product at present. Other insurers are adopting a wait-and-see stance on the question of whether they will be offering this product in the future. Although some semipublic organisations still have the old type defined benefit pension schemes in place, demand for advisory work on transitioning to defined contribution is falling.

A revision of disability pensions provided under the Norwegian National Insurance Scheme meant that all of our customers had to make changes to their company-paid disability pensions within 1.1.2017. 2016 saw increased demand for advice on adapting to new rules and rates for defined contribution pension schemes.

We have continued our strategy of offering both traditional all-inclusive insurance brokerage as well as module-based specific services.

Our modules include

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

Damage prevention

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

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Pareto Forsikringsmegling AS

Dronning Mauds gate 3
P.O. Box 1527 Vika,
0117 Oslo, Norway
Telephone: +47 22 87 87 00
Turnover 2016: NOK 69.3 million
Equity 2016: NOK 27.2 million
Number of employees: 33
CEO: Vegard M. Finsæther
vmf@pareto.no
Chairman: Petter W. Borg
www.pareto.no

Enter Fonder AB

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

Distinct active management

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

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

Compared to the year before, 2016 proved to be a more challenging year for our equities funds. In 2015, we delivered both a higher absolute return and outperformed the benchmark index by a wide margin. In 2016, however, we underperformed the index by a small margin. In the case of our fixed-income investments, the decisions of the Swedish Riksbank contributed to low returns in 2016, as had also been the case in previous years.

Clients and sales

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

Ever since the start, Enter has opted to focus its resources on managing and developing products rather than handling and advising private investors. Our strategy is based on making Enter's products known and attractive to advisers in banks, insurance brokers and private banking businesses and reaching the private market via these intermediaries. Competition for the funds of savers is increasing and our strategy is focused intently on wooing advisers and brokers throughout Sweden through our distribution collaboration.

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

Sustainable development

Enter's clients expect not only a satisfactory return on their investments but also social responsibility and sustainability. We work in accordance with an integrated SRI model and our investments are screened in accordance with the UN Principles for Responsible Investment.

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Enter Fonder AB

Sveavägen 17
 PO Box 7006
 103 86 Stockholm, Sweden
 Telephone: +46 08-790 57 00
 Turnover 2016: NOK 79.7 million
 Equity capital 2016: NOK 24.8 million
 Number of employees: 11
 CEO: Henrik Lindquist
 Henrik.Lindquist@enterfonder.se
 Chairman: Fredrik Vinge
www.enterfonder.se

Pareto Bank ASA

Norway's leading project bank

In 2016, Pareto Bank further strengthened its position as Norway's leading project bank. In addition, the bank consolidated its firm foothold in the market for financing property projects. The business of the bank is concentrated in three areas: property financing, corporate and securities financing, and shipping and offshore financing.

The bank's property commitments are concentrated in the Oslo region and our in-depth knowledge of this market enables us to make speedy and well-considered assessments of development projects involving residential as well as commercial properties.

Our corporate financing business primarily involves providing financing for small and medium-sized enterprises with special and specific capital requirements for a transaction, project or acquisition.

In the area of securities financing we offer a wide range of products ranging from standardised solutions for borrowing against shares and bonds to bespoke solutions suited to the needs of the individual client.

In the field of shipping and offshore financing, the bank has stepped up its efforts to take the fullest advantage of the opportunities afforded by its links to the Pareto group.

The ninth year of operations

In its ninth year of operations, Pareto Bank's profits developed well. Post-tax profits in 2016 amounted to NOK 247.3 million (NOK 174.6 million in 2015). This was equivalent to a return on equity after taxes of 15.9 per cent (14.8 per cent).

At year-end 2016, the bank held total assets of NOK 12.9 billion (NOK 11.1 billion). Loans to customers grew well throughout 2016 and by the end of the year amounted to NOK 8.8 billion (NOK 7.9 billion).

During 2016, the bank increased its equity through share issuance raising a total of NOK 403.2 million. The purpose of these equity issues was to enhance the financial strength of the bank and to create a platform for further and profitable growth in lending. The common equity Tier 1 capital ratio at year-end 2016 was 17.21 per cent (13.22 per cent), while the primary capital ratio stood at 21.46 per cent (16.74 per cent).

The bank's share was accepted for listing on Oslo Axess on 27 May 2016 and on Oslo Børs on 12 December 2016. The objective of these listings is to increase the liquidity of the share and to open the way for institutional investors with management mandates that make listing a prerequisite for investment in the share.

The largest shareholders of Pareto Bank

Name	Stake
Pareto AS	15.22 %
Pecunia Forvaltning AS	10.00 %
Saga Tankers ASA	8.51 %
Arne Helge Fredly	7.72 %
Indigo Invest AS	7.48 %

Senior staff of Pareto Bank ASA own a total of 1.83 per cent of the shares.

Pareto Bank ASA

Dronning Mauds gate 3
P.O. Box 1823 Vika
0123 Oslo, Norway
Telephone: +47 24 02 81 20
Total assets 2016: NOK 12 941 million
Equity 2016: NOK 1 985 million
Number of employees: 35
CEO: Tiril Haug Villum
tiril.villum@paretobank.no
Chairman: Åsmund Skår
www.paretobank.no

Annual Financial Statements 2016

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The Directors' report

Our business objectives

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

Operations

The company's business is to provide financial advisory services, brokerage in the field of securities, ships, real estate and insurance, project financing and project development, and asset and investment management. Most of the group's business activities are conducted through operating companies Pareto Securities AS and subsidiaries, Pareto Asset Management AS, Pareto Shipbrokers AS, Pareto Bassøe Shipbrokers AS, Pareto Wealth Management AS, Pareto Forsikringsmegling AS and Enter Fonder AB. Pareto AS is the parent company of the group. Pareto's head office is located in Oslo and, in addition, the subsidiaries have offices in Stavanger, Bergen, Trondheim, Kristiansand, Stockholm, Malmö, Helsinki, Copenhagen, London, Aberdeen, Paris, Singapore, Perth, New York and Houston.

The market

The start of 2016 was characterised by the downturn in share prices and the falling oil price. From its lowest level in January, the oil price doubled during the course of the year. Nevertheless, oil is substantially cheaper than before the decline started in 2014. Since its peak in 2014, the reduction in demand by the petroleum sector has resulted in substantially lower levels of activity and reduced profitability in the industries that supply goods and services to this sector. Developments during 2016 and Statistics Norway's estimates for 2017 now indicate that the decline is approaching the end. Thus far, the knock-on effects on the rest of the Norwegian economy have been limited. Growth in the mainland economy is down and unemployment levels have increased somewhat, but in many industries activity levels are high.

After a difficult start to the year, stock markets gradually picked up. A higher oil price, a substantial upturn in the demand for oil, and cost-reduction measures resulted in increases in the Oslo Stock Exchange Energy Index and the Oil Service Index of 31.8 and 34.3 per cent, respectively, in 2016. Shortages of salmon resulted in high salmon prices, which in turn boosted the Seafood Index by no less than 56.4 per cent over the year. The financial services sector, too, prospered in 2016. The value of Norwegian savings banks, as measured by the Equity Certificate Index, increased by 34.3 per cent. Overall, the Oslo Børs benchmark index rose by 12.1 per cent in 2016, reaching a new all-time high during the month of December.

The higher oil price also led to some strengthening of the Norwegian krone during the course of 2016. Even so, the value of the krone is at a historically low level, one effect of which has been the stimulation of competitive trade and industry. The future development of the exchange rate of the krone will be sensitive

to the interest-rate decisions adopted by Norges Bank. Norway is now in a situation where a weak currency must be viewed as advantageous: as the central bank will not face the inflation management dilemma it has confronted in the past years, there are good reasons to believe that Norges Bank will pursue a low interest rate path for the foreseeable future.

It has to be acknowledged that low interest rates and the weak Norwegian krone reflect weaknesses in the real economy, both in the West in general and for the Norwegian economy in and outside the petroleum industry in particular. However, these two factors are not necessarily wholly negative for Pareto. During 2016, the money market rate (3-month NIBOR) rose from 1.13 per cent to 1.7 per cent, while the rate on 10-year Norwegian government bonds increased from 1.54 per cent to 1.70 per cent. We have seen a small step up from extremely low interest rates to unusually low interest rates. The opportunity cost and discount rate for the investment products that the Pareto group buys/sells or manages remain very low. The weak krone has beneficial effects on the earnings of exporters. In addition, a weak Norwegian krone has the effect of dampening imports, thereby stimulating domestic production.

Global economic growth was moderate in 2016. Although measures put in place by the authorities helped to bolster growth levels in China, growth was down on the preceding year. The temperature of the European economy remained cool and, as was the case for the US economy, growth declined somewhat. The stock market, which in purely statistical terms represents one of the best indicators of future growth, put up a stronger performance than in the year before. While US share indices reached repeated all-time highs, European share indices were somewhat weaker. The MSCI World Index measured in local currency rose nine per cent in 2016.

For Pareto, economic conditions must, all things being considered, be said to have been positive in 2016, although the market conditions for some of the subsidiaries of the group were clearly challenging.

Earnings

Developments in the securities markets have a significant impact, directly and indirectly, on Pareto's income statement. The sharp downturn in the markets at the start of the year gave way to a pronounced upturn. The market swings gave very mixed impulses to the operations of the group. In light of this, the income statement must be described as very satisfactory, both taken as a whole and for the majority of the business activities of the group. In the assessment of the Directors, Pareto's operating model once again played its part in fostering engagement and commitment on the part of our personnel and in ensuring that attention was focused on maintaining sensible cost levels and low risk.

For many years, the parent company of the group has been investing excess capital in the capital markets and has built up a relatively substantial portfolio of investments, much of which is

in the form of investments in the group's own investment funds. This portfolio performed well in 2016. Parts of the portfolio were also sold off during the year. Realised returns and dividend received by the parent company accounted for approximately one third of the pre-tax profits of the group.

Group operating revenues in 2016 amounted to NOK 1 940 million, compared with NOK 2,038 million in 2015. Operating profit was NOK 505 million, as against NOK 588 million in 2015. Pre-tax profits totalled NOK 882 million, compared with NOK 1 191 million in 2015. The reduction on the preceding year can primarily be ascribed to lower realised returns on investments. Levels of activity in the companies were high, especially within real estate and shipping. Pareto's asset and wealth management operations also reported very satisfactory results.

The financial strength and liquidity of the group are good. Book equity at year-end stood at NOK 6 387 million. Bank deposits totalled NOK 2 118 million. Of the group's portfolio investments, over 90 per cent are in equity instruments. The group has very little interest-bearing debt.

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

Pareto Securities

With the merger with sister company Pareto Project Finance in 2015, Pareto Securities has become Norway's premier operator within project financing and the syndication of real assets. The company is an efficient entity with a broad international contact surface.

The operating revenues of the company amounted to NOK 1.37 billion, down on the previous year's figure of NOK 1.51 billion. Lower revenues on petroleum-related business activities were compensated for by the fact that a substantial proportion of the revenues of the company now derive from business conducted outside Norway's borders, with less exposure to the energy sector. The company is diversified in terms of both geography and product range. The pre-tax profit was NOK 377 million, compared with NOK 405 million in 2015. The continued conservative stance on risk has ensured that losses on accounts receivable and own positions have been limited.

The company maintained its leading position in the Nordic capital market. This year, the company took part in 55 equity capital placements to a total value of some NOK 21 billion. Activity levels were high in the telecoms, seafood, offshore, real estate and banking/finance sectors. Moreover, the company advised on IPOs in Norway Sweden, Finland and France in 2016.

As in previous years, 2016 proved to be a challenging year for

high-yield bonds, particularly within the energy and offshore sectors. Even so, the company was involved in arranging placements of high-yield bonds issues for an amount in excess of NOK 20 billion, including for Ocean Yield, Pioneer Property Group and Klaveness Ship Holding. Pareto Securities' Swedish business recorded high levels of activity and participated in arranging high-yield bond issues for amongst other companies Icelandair, Scan Global Logistics and Tobin Properties. Pareto Securities also acted as adviser to a number of issuers in connection with bondholder meetings and debt restructurings in 2016.

Pareto Securities also advised on several large-scale M&A transactions (sales, acquisitions and mergers) in 2016, including Lerøy Seafood Group ASA's acquisition of Havfisk ASA and Norway Seafoods ASA, Kongsberg Group ASA in the acquisition of Patria, the Ministry of Trade, Industry and Fisheries in the sale of shares in SAS, the sale of HydraWell Intervention to Norvestor and the purchase of NLI Eiendomsinvest by Round Hill Capital.

Project Finance had a very strong year, with high levels of activity within both real estate and shipping/offshore. The company participated in real estate-related transactions with a total value of over NOK 15 billion, and in shipping/offshore related transactions with a value of over NOK 16 billion.

Subsidiary Pareto Offshore's operating revenues and profits were down in 2016, but in light of conditions in the market in which the company operates, profits must be said to be satisfactory.

At year-end 2016, subsidiary Pareto Business Management had some 160 investment companies with a gross value of NOK 44 billion under administration on behalf of Norwegian and international investors.

Pareto Alternative Investments is a wholly-owned subsidiary of Pareto Securities and manages diversified investment companies in the real estate, credit, shipping and offshore sectors. The combined equity capital of these investment companies at year-end totals approximately NOK 8 billion.

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

Pareto Asset Management

Market fluctuations and some fund redemptions led to the reduction of operating revenues from NOK 288 million to NOK 278 million. The operating profit came to NOK 121 million, compared with NOK 125 million in the preceding year. Assets under management amounted to just over NOK 42.2 billion. Assets under management also include NOK 10.4 billion in debt managed on behalf of Norwegian municipalities.

The firm's traditional Norwegian equities mandates had an exceptionally good year, with high returns, both absolute and relative

to Oslo Børs. The equity fund Pareto Aksje Norge performed especially well, posting returns of 28.4 per cent relative to the 11.5 per cent recorded by Oslo Børs Mutual Fund Index. As the year progressed, this had a pronounced positive effect on net subscriptions, which during the early part of the year had been wholly negative.

The firm's global equities funds and Nordic mandates had to battle against the headwind of a stronger Norwegian krone. The returns in these funds ranged from zero to six per cent.

The debt problems of the oil service sector also posed challenges for the management of fixed-income funds. A number of necessary debt restructurings in Norwegian companies were implemented in such a way that values were higher after the process had been completed, well aided by reduced levels of uncertainty. Internationally, the bond market took a turn for the better, having bottomed out in the first half of the year. As a consequence, the second half of the year saw the fixed-income funds comprising corporate bonds pick up remarkably. This was not sufficient, however, to prevent the fixed-income funds from ending the year with negative net subscriptions.

Pareto Shipbrokers and Pareto Bassøe Shipbrokers

In 2016, Pareto JGO Shipbrokers and the UK subsidiary Derrick Offshore were renamed Pareto Shipbrokers.

The combined brokerage business of Pareto Shipbrokers is one of the biggest in the segment of the global oil and offshore industry in which the firm operates. Consolidated operating revenues reached NOK 81 million (NOK 105 million in 2015). The operating profit was down from NOK 20.6 million to NOK 1.8 million after goodwill amortisations of NOK 22 million.

In view of the challenging markets that prevailed in 2016, the results recorded by Pareto Bassøe Shipbrokers' brokers in 2016 were satisfactory. In a fluctuating market for dry cargo charters, the operating revenues of Pareto Dry Cargo fell from NOK 16.9 million to NOK 14.4 million. Operating profits ended at NOK 3.3 million, down from the NOK 9.6 million reported the year before. This downturn in operating profits was due in part to the restructuring of the system of performance-based remuneration, with a larger portion of the remuneration now reported as operating costs. Notwithstanding healthy levels of activity in the tanker market, there was pressure on rates, business nevertheless picked up substantially in the fourth quarter. The operating revenues of P.F. Bassøe were down from NOK 4.9 million to NOK 4.3 million. The operating profit improved from NOK 313 470 in 2015 to NOK 586 751 in 2016.

Pareto Wealth Management

Pareto Wealth Management's operating revenues fell from NOK 91 million to NOK 68 million, while the operating result was down from NOK 18.5 million to -NOK 0.5 million. In addition to lower revenues, this poor performance was the result of one-off personnel costs during the year.

The firm is continuing to pursue its overarching long-term strategy of building sound relations with its clients by providing transparent products of high quality which will secure lasting client relations. The revenue-generating portfolio of client assets held steady at NOK 10 billion.

Enter Fonder

Pareto acquired 72.66 per cent of Swedish fund managers Enter Fonder in 2016. The assets under management of the company at yearend 2016 amounted to NOK 8.85 billion. The company reported an operating profit of NOK 17.7 million.

Pareto Forsikringsmegling

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

Despite a challenging market characterised by stiff competition, the company succeeded in growing its operating revenues from NOK 66 million in 2015 to NOK 69 million in 2016 and reported an operating profit of NOK 20 million (NOK 18 million in 2015).

Pareto Bank

At year-end, Pareto AS owned 15.22 per cent of the shares, while senior staff of the bank owned 1.83 per cent.

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.

In its ninth year of operations the bank recorded an operating profit of NOK 328 million, compared with NOK 242 million in the preceding year.

Total assets stood at NOK 12.9 billion at year-end, as compared with NOK 11.1 billion at the end of the preceding year.

Pareto's strategy

Pareto's strategy is to be a leading, independent Nordic 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-house expertise, acquisitions and mergers will also be considered if they serve to develop and complement the company and extend the product range. Pareto will cooperate with other players wherever appropriate and whenever doing so will offer our clients the optimum product.

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

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

Outlook

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

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

Following constantly-recurring uncertainty in the wake of the financial crisis, optimism and a willingness to invest seem to have revived somewhat throughout the world. Although factors such as high sovereign debt, the need for long-term austerity measures and political unrest have by no means been eliminated, examples nevertheless abound of well-run companies producing satisfactory results.

Whereas in recent years the Norwegian economy has stood out as healthier and sounder than most other developed economies, the high level of petroleum activity has probably been a more important driver of growth in the Norwegian mainland economy than many observers have perhaps appreciated. The Norwegian economy is characterised by lower levels of activity in the petroleum sector and in related industries. True, the oil price has increased since it bottomed out in January, but it remains lower than before the decline started in 2014 and although oil futures indicate a moderate upturn in price, we cannot rule out the possibility of further price reductions.

Historically, the Pareto group has focused on petroleum and offshore related industries and the group's exposure to these industries remains substantial. Accordingly, even though Pareto has been concerned about and prepared itself for a situation of this nature by building more stable sources of income and expanding internationally, the group nevertheless remains very vulnerable to major, long-term fluctuations in the oil price and to an oil price that remains low over a long period of time.

Notwithstanding developments over the past two years, Pareto has a fundamental belief in oil and offshore related industries. This belief remains unshaken, even in the face of cyclical fluctuations. While fully aware of these challenges, the Directors have a fundamentally optimistic outlook and take a positive view of Pareto's prospects, not only in the coming year but also in the longer term.

Distribution of profits and other matters

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

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

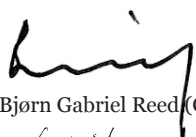
The company is not involved in research and development activities. The company's operations do not pollute the external environment.

The group's profit after tax for 2016 was NOK 742 million. The parent company's after-tax profit was NOK 666 million. The Directors propose that the profit after taxes be transferred in its entirety to Other Equity.

At year-end, shareholder equity in the parent company had increased to NOK 5,569 million. Consolidated book equity stands at NOK 6,387 million.

The Annual Report and Accounts are rendered on the going-concern assumption, which 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.

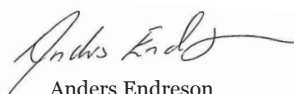
Oslo, 10 May 2017



Bjørn Gabriel Reed (Chairman)



Ole Henrik Bjørge



Anders Endreson



Svein Støle (Director/CEO)



Lasse Ruud



Karsten Christensen

Income Statement

Parent company (NOK '000)

Group (NOK '000)

2015	2016		Notes	2016	2015
		Operating revenues			
0	0	Operating revenues	2	1 940 005	2 037 674
0	0	Total operating revenues		1 940 005	2 037 674
		Operating expenses			
-6 217	-9 565	Personnel costs	3	-987 477	-1 039 080
-2 768	-3 786	Sundry other operating costs		-393 865	-369 595
-155	-281	Ordinary depreciation & amortisation	4	-53 297	-41 214
-9 140	-13 632	Total operating expenses		-1 434 640	-1 449 889
-9 140	-13 632	Operating profit/loss		505 365	587 785
		Financial income/expenses			
518 717	313 296	Financial income		342 354	558 131
531 484	495 724	Share dividends		137 309	161 180
3 136	-5 881	Adjustments, securities	9	83 629	7 356
7 844	4 992	Share of associated companies	5	4 992	7 844
-98	-51	Interest paid		-4 375	-7 731
-26 445	-118 509	Other financial expenses		-187 739	-123 514
1 034 638	689 571	Total financial income/expenses		376 170	603 266
1 025 498	675 939	Income before tax		881 535	1 191 051
-19 177	-9 891	Tax expense	11	-139 690	-159 433
1 006 321	666 048	Profit for year		741 845	1 031 618
		Allocations:			
0	0	- Minority's share of profit		-9 242	22 986
0	0	- Provision for dividend		-74 349	-108 957
-1 006 321	-666 048	- Transferred to other equity		-658 254	-945 647
-1 006 321	-666 048	Net		-741 845	-1 031 618

Balance Sheet - Assets

Parent company (NOK '000)

Group (NOK '000)

31.12.2015	31.12.2016	Fixed assets	Notes	31.12.2016	31.12.2015
		Intangible assets			
0	0	Goodwill acquired	4	55 235	35 998
0	0	Deferred tax assets	11	20 537	33 216
0	0	Total intangible assets		75 772	69 214
		Property, plant & equipment			
1 586	1 354	Fixtures, fittings, machinery etc.	4	45 595	57 785
		Financial fixed assets			
435 818	1 095 284	Shares in subsidiaries	5	0	0
31 541	28 288	Shares in associated companies	5	28 288	31 541
53 700	117 255	Other securities	6	117 255	53 700
0	0	Other non-current receivables	7	44	10
207	187	Premium fund	8	521	567
521 266	1 241 013	Total financial fixed assets		146 107	85 818
522 852	1 242 368	Total fixed assets		267 475	212 817
		Current assets			
		Receivables			
0	0	Trade receivables		667 712	607 905
48 385	21 388	Other receivables	16	311 182	404 620
48 385	21 388	Total receivables		978 893	1 012 525
		Investments			
4 348 641	4 237 570	Securities	9	5 549 161	5 009 354
4 348 641	4 237 570	Total investments		5 549 161	5 009 354
108 245	82 842	Bank deposits	17	2 117 787	2 043 141
4 505 271	4 341 800	Total current assets		8 645 841	8 065 020
5 028 123	5 584 168	Total assets		8 913 316	8 277 837


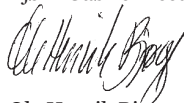
Balance Sheet – Equity and Liabilities

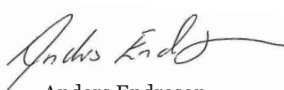

Parent company (NOK '000)

Group (NOK '000)

31.12.2015	31.12.2016	Equity	Notes	31.12.2016	31.12.2015
		Paid-in capital			
19 000	19 000	Share capital		19 000	19 000
24 301	24 301	Share premium reserve		0	0
43 301	43 301	Total paid-in capital		19 000	19 000
		Retained earnings			
4 960 305	5 525 653	Other equity		6 229 537	5 698 289
4 960 305	5 525 653	Total retained earnings		6 229 537	5 698 289
		Minority interests		138 126	127 219
5 003 606	5 568 954	Total equity	10	6 386 663	5 844 508
		Liabilities			
		Provision for commitments			
0	0	Pension commitments	8	3 182	3 616
37	36	Deferred tax	11	1 898	100
37	36	Total provision for commitments		5 080	3 716
		Non-current liabilities			
0	0	Other non-current liabilities	15	194 392	0
0	0	Capital contributed by silent partners		13 488	17 455
0	0	Total non-current liabilities		207 880	17 455
		Current liabilities			
4 410	3 479	Other current liabilities	16	2 090 897	2 123 465
19 945	9 810	Tax payable	11	101 502	141 274
0	0	Dividends		77 544	108 957
125	1 888	Government charges and special taxes payable		43 750	38 462
24 480	15 177	Total current liabilities		2 313 693	2 412 158
24 517	15 214	Total liabilities		2 526 653	2 433 329
5 028 123	5 584 168	Total liabilities and equity		8 913 316	8 277 837

Oslo, 10 May 2017


Bjørn Gabriel Reed (Chairman)

Ole Henrik Bjørge


Anders Endreson

Svein Støle (Director/CEO)


Lasse Ruud

Karsten Christensen

Cash Flow Statement

Parent company (NOK '000)

Group (NOK '000)

2015	2016		2016	2015
		Cash flow from operating activities		
1 025 498	675 939	Ordinary profit before tax expense	881 535	1 191 051
-44 428	-20 027	Tax paid in period	-164 985	-264 246
155	281	Ordinary depreciation and amortisation	21 515	41 214
-3 136	5 881	Securities adjustments	-83 629	-7 356
26	20	Net change in pensions without cash effect	-388	-378
0	0	Other items without cash effect	-29 981	20 074
-7 844	-4 992	Share of profits of associated company	-4 992	-7 844
-8 324	26 997	Change in receivables	33 632	-34 263
-3 264	833	Change in other liability items	-27 280	59 167
958 683	684 931	Net cash flow from operating activities	625 428	997 419
		Cash flow from investment activities		
-1 429	-49	Payments for purchases of tangible assets	-9 325	-43 348
1 741	105 190	Net cash flow, short-term investments	-456 178	67 551
0	-723 020	Payments for purchases of financial fixed assets	-63 589	0
59 169	8 246	Received from sales of financial fixed assets	8 246	27 298
59 481	-609 633	Net cash flow from investment activities	-520 846	51 501
		Cash flow from financing activities		
-300 200	-100 700	Dividend paid	-228 896	-351 460
-678 515	0	Payment purchase of treasury shares	0	-678 515
0	0	Change non-current commitments and liabilities	190 425	-8 287
0	0	Payments of equity to/from minority interests	8 536	-27 084
-978 715	-100 700	Net cash flow from financing activities	-29 935	-1 065 346
39 449	-25 403	Net change in bank deposits	74 646	-16 426
68 796	108 245	Bank deposits in hand at 1 Jan.	2 043 141	2 059 567
108 245	82 842	Bank deposits in hand at 31 Dec.	2 117 787	2 043 141

Notes to the Accounts

Note 1 Group structure

Pareto AS owns 75 per cent of Pareto Securities AS, 86.2 per cent of Pareto Asset management AS, 100 per cent of Pareto Bassøe Shipbrokers AS, 100 per cent of Pareto Shipbrokers AS, 100 per cent of Pareto Wealth Management AS, 100 per cent of Pareto Forsikringsmegling AS, 100 per cent of Pareto Fondsinvest AS, 100 per cent of Pareto Invest AB, 100 per cent of Pareto Pensions AS, 100 per cent of Pareto Commodity AS, 100 per cent of Gazza Eiendom AS and 100 per cent of Vilfredo Kapitalforvaltning AS.

Pareto Securities AS owns 100 per cent of Pareto Securities Pte Ltd, 100 per cent of Pareto Securities Inc., 100 per cent of Pareto Securities AB, 100 per cent of Pareto Securities Oy, 100 per cent of Pareto Securities Ltd, 100 per cent of Pareto Securities Pty Ltd, 87 per cent of Pareto Offshore AS, 60 per cent of North Atlantic Seafood Forum AS, 100 per cent of Pareto Business Management AS, 100 per cent of Pareto Business Management AB, 100 per cent of Pareto Alternative Investments AS, 100 per cent of Pareto Maritime Services AS, 100 per cent of Pareto Eiendom AS and 100 per cent of Pareto Investorservice AS.

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

Pareto Forsikringsmegling AS owns 100 per cent of Pareto Forsikringsrådgivning AS.

Pareto Shipbrokers AS owns 100 per cent of Pareto Shipbrokers Ltd.

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

Consolidation principles

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

Accounting policies

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

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

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

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

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

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

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

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

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

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

The companies in the group put in place a defined contribution pension scheme in 2006. Contribution plans are accrued according to the matching principle.

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

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

Notes to the Accounts

Note 2 Operating revenues, consolidated

(NOK '000)

	2016	2015
Brokerage/Corporate finance	1 433 132	1 629 122
Management/Business management	506 873	408 552
Total operating revenues	1 940 005	2 037 674

Note 3 Salaries, number of employees, remuneration etc.

(NOK '000)

	<i>Parent company</i>		<i>Group</i>	
	2016	2015	2016	2015
Wages and salaries, holiday pay, nat. insurance	9 427	6 029	924 473	978 013
Pensions and other personnel costs	138	188	63 004	61 067
Total	9 565	6 217	987 477	1 039 080
Number of man-years	3	4	557	588

The CEO was paid NOK 3,500,000 in wages and remuneration in 2016. A provision of NOK 250,000 has been made for fees for the directors of the parent company. A provision of NOK 1,243,000 has been made for fees for the directors of the subsidiaries.

Deloitte AS received fees of NOK 195,000 for auditing the parent company and NOK 2,473,000 for the group. Payment for other assurance engagements totalled NOK 17,000 for the parent company and NOK 1,384,000 for the group. Payments to other auditors to the group amount to NOK 345,000.

Payments to Deloitte Advokatfirma DA for legal services amount to NOK 0 for the parent company and NOK 222,000 for the group. These figures are exclusive of VAT.

Note 4 Tangible fixed assets

(NOK '000)

	<i>Parent company</i>		<i>Group</i>
	Fixtures & fittings, IT	Fixtures & fittings, IT	Goodwill
Procurement cost 01.01	1 726	185 483	66 457
Additions in year	49	10 854	51 738
Disposals/sale	0	4 875	0
Procurement cost 31.12.	1 774	191 461	118 195
Acc. depreciation 01.01.	139	127 370	30 459
Disposals/sale	0	3 019	0
Depreciation this year	281	21 515	32 500
Acc. depreciation 31.12.	420	145 866	62 960
Book value 31.12.	1 354	45 595	55 235
Economic life	3-6 years	2-7 years	3-5 years
Depreciation plan	Straight-line	Straight-line	Straight-line

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

Notes to the Accounts

Note 5 Shares in subsidiaries

(NOK '000)

Company	Office	% stake and votes	Book value 31.12.
Pareto Securities AS	Oslo	75,0 %	69 317
Pareto Asset Management AS	Oslo	86,2 %	23 891
Pareto Bassøe Shipbrokers AS	Oslo	100,0 %	40 600
Pareto Shipbrokers AS	Kristiansand	100,0 %	108 500
Gazza Eiendom AS	Oslo	100,0 %	23 906
Pareto Commodity AS	Oslo	100,0 %	52 205
Pareto Wealth Management AS	Oslo	100,0 %	64 739
Pareto Pensions AS	Oslo	100,0 %	10 220
Pareto Forsikringsmegling AS	Oslo	100,0 %	20 423
Pareto Invest AB	Stockholm	100,0 %	76 724
Pareto Fondsinvest	Oslo	100,0 %	581 986
Vilfredo Kapitalforvaltning AS	Oslo	100,0 %	22 772
			1 095 284

Shares in associated companies

Company Office in	Fondsforvaltning Oslo	Odin Marine New York	Total associated comps.
Pareto's stake	35,0 %	25-50 %	
Procurement cost	40 001	30 906	
Equity at time of purchase	23 939	10 540	
Goodwill at time of purchase	16 062	20 366	
Opening balance 1 Jan.	7 477	24 064	31 541
Share of year's profit	995	3 997	4 992
Dividends received	-1 109	-2 962	-4 071
Sale of shares	0	-4 175	-4 175
Closing balance 31 Dec.	7 364	20 924	28 288

Note 6 Other shares/bonds

(NOK '000)

Other securities, parent company	Number	Cost price	Book value
Pareto Bank ASA	8 921 873	117 255	117 255
Total other securities, parent company		117 255	117 255

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

Note 7

The parent company has not granted interest-bearing loans to employees of subsidiaries as of 31 December 2016.

Note 8 Pensions

The group has a defined contribution pension scheme as required under the Act concerning Mandatory Occupational Pensions. Premium paid in 2016 totalled NOK 20,000 for the parent company and NOK 7,073,000 for the group.

One subsidiary has two unsecured pension agreements, and a provision in the amount of NOK 3,182,000 has been made in the balance sheet for this commitment as of 31.12.2016. The provision has been calculated on the basis of the assumptions normally employed in the insurance industry.

Notes to the Accounts

Note 9 Securities

(NOK '000)

Mutual funds, parent company	Cost	Book value	
Direct investment funds	44 926	44 926	
Equity funds	910 091	910 091	
	955 017	955 017	
Other securities, parent company:			
Shares (NOK)	1 552 255	1 552 255	
Shares (SEK)	194 100	194 100	
Shares (EURO)	698 899	698 899	
Shares (GBP)	187 103	187 103	
Shares (CHF)	13 838	13 838	
Shares (USD)	624 698	624 698	
Bonds	2 143	2 143	
Other securities	9 518	9 518	
	3 282 553	3 282 553	
Total securities, parent company			4 237 570
Shares and partnership interests		132 840	
Direct investment funds		14 169	
Bonds and certificates		17 515	
Fixed income funds		103 241	
Equity funds		1 043 826	
Total securities, subsidiaries			1 311 591
Total securities, group			5 549 161

Note 10 Equity

(NOK '000)

Parent company	Share capital	Share premium account	Other equity	Total
Equity at 1 Jan.	19 000	24 301	4 960 306	5 003 607
Extraordinary dividend			-100 700	-100 700
Year's profit			666 048	666 048
Total equity as of 31 Dec.	19 000	24 301	5 525 653	5 568 954
Group	Share capital		Other equity	Total
Equity at 1 Jan.	19 000		5 825 508	5 844 508
Extraordinary dividend			-100 700	-100 700
Provision for dividends			-77 544	-77 544
Translation differences, subsidiaries			-29 981	-29 981
Net minority interests			8 536	8 536
Year's profit after tax			741 845	741 845
Total equity as of 31 Dec.	19 000		6 367 663	6 386 663

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

	Number of shares	Stake and voting %
Svein Støle	35 000	92,1%
Svele AS / Svein Støle	3 000	7,9%
	38 000	100,0%

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

Notes to the Accounts

Note 11 Taxes

(NOK '000)

Parent company

Group

2015	2016		2016	2015
1 025 498	675 939	Profit before income tax	881 535	1 191 051
0	0	Group contribution	-3 693	0
-940 283	-623 416	Permanent differences	-306 210	-565 162
-401	-3	Change in temporary differences	-50 723	-56 642
0	0	Change in deficits carried forward	20 516	-21 345
84 814	52 520	Year's tax base	541 425	547 902
22 900	13 130	Tax payable	138 597	155 376
-2 955	-3 320	Tax payable, withholding	-37 095	-14 102
19 945	9 810	Total tax payable	101 502	141 274
Specification of temporary differences				
0	0	Current assets	-23 535	-2 328
211	202	Tangible fixed assets	-12 803	-12 157
-63	-51	Intangible assets	-4 154	-4 979
0	0	Other items	-10 679	-89 995
0	0	Remaining loss for carrying forward	-60 084	-37 777
148	151	Basis for calculating deferred tax benefit/tax	-111 255	-147 236
37	36	25% / 24% deferred tax benefit/tax	-18 639	-33 116
Year's tax expense				
19 945	9 810	Tax payable	135 135	152 154
-873	82	Tax correction for earlier years	-9 922	-14 930
105	-1	Change in deferred tax benefit/tax	14 477	22 209
19 177	9 891	Tax expense	139 690	159 433
1,9 %	1,5 %	Effective rate of taxation	15,8 %	13,4 %
Reconciliation from nominal to true tax expense				
276 884	168 985	Anticipated tax expense at nominal rate	219 895	321 584
-253 876	-155 854	Permanent differences	-76 590	-152 593
0	-2	Change in tax rates	-2 202	1 230
0	82	Correction previous year(s)	-2 737	-5 572
-3 831	-3 320	Other items	1 323	-5 216
19 177	9 891	Tax expense	139 690	159 433

Notes to the Accounts

Note 12

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

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

Note 13

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 14 Related-party transactions

(NOK '000)

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

Sales of services to other group companies	3 030
Purchases of services from other group companies	2 729

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.

Note 15 Liabilities to credit institutions

(NOK '000)

Lender	Original procurement cost euro loan	Interest added to loan	Procurement cost 31.12	Fair value 31.12.2016	Unrealized agio/(disagio)
Jyske Bank	-198 785	-295	-199 080	-194 392	4 688

The euro loan matures in its entirety on 1.7.2021 and is collateralised with investments in mutual funds. The lender will notify if the value of the mutual funds falls below a certain threshold. As at 31 December, the value of the fund investments, which is stated as collateral, was approximately 3.3 times the loan value. The loan rate corresponds to 3 months interbank interest rate + 0.5%. The loan interest is due monthly and is accrued to the loan cost basis.

Note 16

The parent company has claims in the amount of NOK 21,377,519 on group companies.

The parent company has debts of NOK 117,912 to group companies.

Note 17 Bank deposits

The parent company has a non-distributable deposit of NOK 1,367,395 lodged in an account for tax withholdings. The group's bank deposits include NOK 163,211,000 in non-distributable accounts, of which NOK 19,780,000 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.



Deloitte AS
Dronning Eufemias gate 14
Postboks 221 Sentrum
NO-0103 Oslo
Norway

Tel.: +47 23 27 90 00
Fax: +47 23 27 90 01
www.deloitte.no

Translation from the original Norwegian version

To the General Meeting of Pareto AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pareto AS showing a profit of NOK 666 048 000 in the financial statements of the parent company and profit of NOK 741 845 000 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

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

Other information

Management is responsible for the other information. Other information consists of the annual report, but does not include the financial statements and the audit report.

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

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

Deloitte.

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

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

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

Opinion on Registration and Documentation

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

Oslo, 10 May 2017
Deloitte AS

Jørn Borchgrevink
State Authorised Public Accountant (Norway)

Translation has been made for information purposes only

Pareto

Dronning Mauds gate 3
Postboks 1396 Vika, 0114 Oslo, Norway
Telefon +47 22 87 87 00
www.pareto.no