

# Pareto Annual Report 2015



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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, Paris, Singapore, Perth, New York and Houston. Pareto was founded in late 1985 and since that time has grown into a corporate group offering a wide array of products. The group has 613 employees and shareholders' equity of some NOK 5.8 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 in-house 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 long-term client relationships.

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

## The Pareto Group – what we do

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

# The Pareto group in 2015

*A great deal went wrong in 2015: the year was characterised by limited economic growth, very low interest rates, a falling oil price, the downward slide in the value of the Norwegian krone, the refugee crisis in Europe and weak economic activity in China. Even so, stock markets – which reflect the future earnings of companies – performed reasonably well. Oslo Børs rose 5.9 per cent and the MSCI World Index measured in local currency increased by 2.1 per cent. While stock markets recorded moderate growth, the weakening of the Norwegian krone was more pronounced. During the course of 2015, the Norwegian krone fell by 18.5 per cent against the US dollar and 6.5 per cent against the euro. The MSCI World Index rose by no less than 17.2 per cent measured in Norwegian kroner.*

For Pareto, heavily invested in energy as the group is, gains and dividends on investments played their part in compensating for the somewhat weaker results recorded on oil-derived business. Other factors, too, played their part in ensuring that 2015 was a profitable year for Pareto. The year can be summarised as follows:

- Revenues for the Pareto group amounted to NOK 2 billion (2014: 2.5 billion). The operating profit totalled NOK 588 million (985 million), and the pre-tax operating profit was NOK 1,191 million (1,165 million). The profit for the year was NOK 1 032 million (895 million). The downturn in operating revenues can primarily be ascribed to lower levels of activity on the part of customers in oil related businesses. Nevertheless, Pareto's profits improved – thanks in large part to high levels of activity in real estate, solid contributions from foreign subsidiaries, especially in Sweden and Finland, and – as has already been noted – very satisfactory returns on investments in Pareto's mutual funds and shares. The group's losses on accounts receivable remain negligible. Pareto ended the year with a book equity of NOK 5.8 billion and a total personnel count of 613.

- Pareto Securities merged with sister company Pareto Project Finance, as planned. The company took part in 36 equity capital placements to a combined value of more than NOK 16 billion in 2015. Activity levels were high in the shipping, oil and offshore, banking and insurance sectors. Moreover, the company advised on a total of nine IPOs in 2015, including offerings in Sweden, France and the United States. 2015 proved to be a challenging year for high-yield bonds, especially in the energy and offshore sectors. Even so, the company was involved in arranging placements of high-yield bond issues to a value of over NOK 20 billion for, amongst other clients, Aker, Stolt Nielsen, Ocean Yield and DNO. Pareto Securities' Swedish business recorded a high level of activity and was involved in the placement of high-yield bonds for issuers that included ÅR Packaging, Scan Global Logistics and Roplan. During 2015, Pareto Securities also assisted a number of issuers in connection with bondholder meetings and debt restructurings. Pareto Securities also advised on a number M&A transactions in 2015, including the merger of Frontline 2012 into Frontline, the sale of listed company Rocksource to HitecVision, the sale of OTC-listed yA Bank to Resurs Bank, the sale of Goodtech's Swedish business, General Electric's acquisition of Advantec, and Blue Ocean Drilling's acquisition of Northern Offshore.

- Project Finance had a very strong year, with high levels of activity in both real estate and shipping. The business was involved in real estate transactions with a total value of more than NOK 13 billion, and the syndication of shipping and offshore projects to a value of NOK 2.8 billion.

- Former sister companies Pareto Forvaltning and Pareto Nordic Investments were merged to form a new company called Pareto Asset Management. The falling oil price and rising credit premiums on corporate bonds contributed to net redemptions of Norwegian equities and fixed income funds. The firm's Nordic hybrid fund and global equities funds produced the fastest growth, following very satisfactory absolute and relative returns. In addition, a new bond fund was launched, which is being managed from the company's Stockholm office. At yearend, the total assets under management of the company stood at just over NOK 44 billion.

- Notwithstanding the fall in the oil price, the offshore supply and broking business of Pareto JGO Shipbrokers and subsidiary Derrick Offshore posted very satisfactory results.

- The dry bulk freight market was challenging in 2015, but, despite this, Pareto Dry Cargo posted satisfactory results. For Pareto Bassøe Shipbrokers, a strong market for tankers contributed to higher levels of activity as well as results that were an improvement on the performance reported in 2014.

- Pareto Wealth Management was able to report improved profits and a further increase in assets under management to a total of NOK 10 billion. The company is registering an increase in demand for diversified international mutual fund portfolios, which, together with direct investments in selected investment products, account for the growth in earnings.

- Pareto Bank's total assets stood at NOK 11.1 billion at yearend. Profits after taxes increased from NOK 154 million to NOK 166 million. The directors of the bank have passed a resolution to apply for the bank's share to be listed on Oslo Axxess/Oslo Børs by 30 June 2016.

- Pareto Forsikringsmegling reported results that matched the performance recorded in 2014.

# The market and the economy in 2015

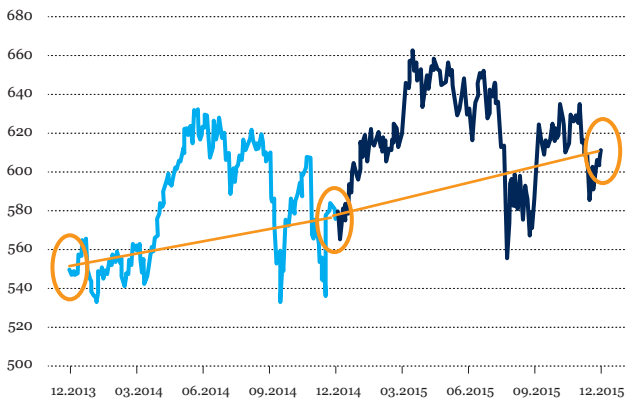
*The oil price continued to fall. Oil investments fell. GDP growth fell. Global GDP growth fell. Forecasts were adjusted downwards. And stock market returns? From fair to outstanding.*

It is fascinatingly easy to be overwhelmed by noise. The financial markets are dominated by a cacophony of signals, and selecting indicators in support of the view that you happen to hold at any given time is remarkably straightforward. Cherry-picking key figures is a popular and effective way of rationalising gut feeling.

Not infrequently, the outcome is very different from what many observers predicted it would be. For the average Norwegian investor, 2015 produced a reasonably satisfactory return on Norwegian shares, a very good return on international shares and disappointing returns on most corporate bonds – presumably a safer asset class than shares.

This is how we got there.

## Much ado about... a few percentage points?



*Oslo Børs Benchmark Index fluctuated dramatically throughout both 2014 and 2015, but ended up generating returns of 5.0 and 5.9 per cent, respectively. Source: Oslo Børs*

## The oil shock, part II

For the Norwegian economy, the oil price is a key value. The drop in the spot price (Brent Blend) during 2014 from USD 111 to USD 57 a barrel was dramatic enough. But when in the following year the price continued to spiral downwards to USD 37, many companies had to abandon all their previous assumptions about the future. And – no less importantly – at this point many of the ripple effects were still in their infancy.

## But the oil price had still not bottomed out



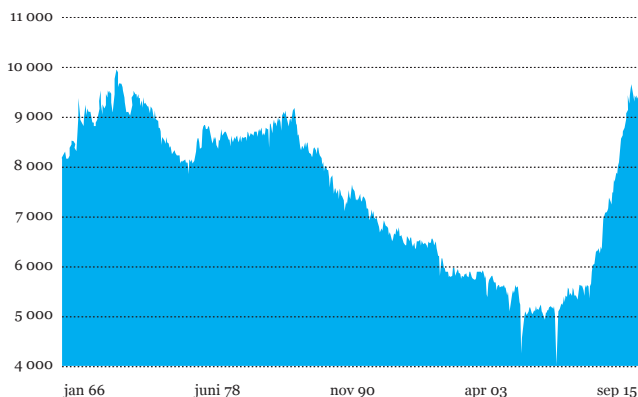
*Oil (Brent Blend) spot price Source: Bloomberg*

There is nothing wrong with the demand for oil, but the supply side has few limitations. Politically, the chief problem is that Saudi Arabia is continuing to churn out oil, without regard for the short-term oil price or potential OPEC discipline. Moreover, the prospect of large export volumes issuing from arch-rival Iran is not exactly bolstering Saudi Arabia's enthusiasm for production cuts.

At the same time, US shale oil is proving to be remarkably adaptable. Production volumes are being maintained at prices far below earlier break-even estimates, although this typically applies to fields with short production lifespans. Developments in technology have been rapid, and decisive. As a consequence, US oil production has more or less maintained the maximum output level achieved last year, a level that, it should be noted, is on a par with the last production peak in the early 1970s. A closer inspection may indicate that the peak has been passed, but the reduction has not been sufficient to influence the market. In nominal terms, the oil price is back at the levels recorded in the early 2000s. After adjustment for US inflation – the price is quoted in US dollars, after all – output is back at the level recorded at the outset of the 1990s.

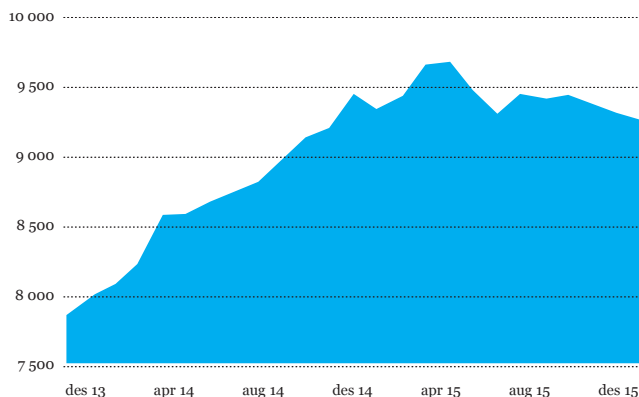
This is not the whole story, however.

*Back to the dizzying peaks of years gone by ...*



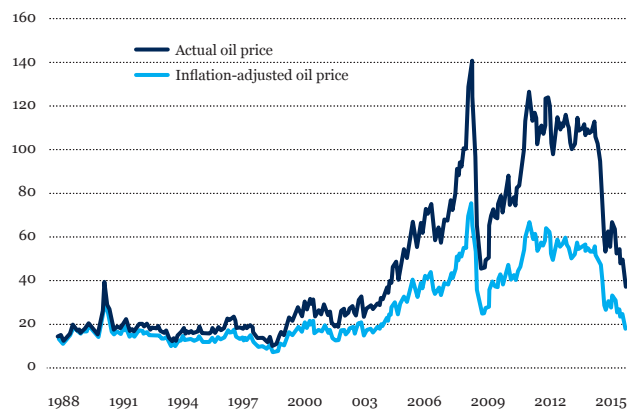
US oil output in thousands of barrels per day  
Source: US Energy Information Administration

*... but only for a short while?*



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

*The price of oil – just like the old days*



Spot prices for oil (Brent Blend) adjusted for US inflation  
Sources: Bloomberg, US Bureau of Labor Statistics, Pareto

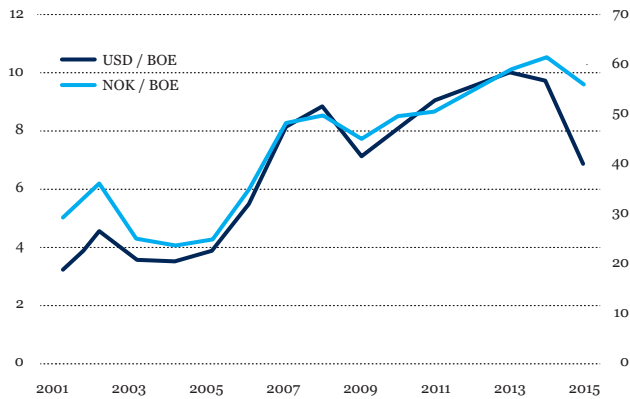
*Price drop leads to shutdown for suppliers*

Throughout the period of falling oil prices, estimates of Norwegian oil investments have been regularly adjusted downwards. In June of 2014, when the oil price had yet to drop from USD 110, Statistics Norway forecast that oil investments in Norway would increase (albeit very modestly) in 2015. Provisional estimates now indicate that they were down by almost 15 per cent – and that further cuts of almost the same order are expected in 2016.

For many suppliers, a reduction of this order means more or less total shutdown. Statoil and other oil companies are able – without difficulty – to put their exploration activities on hold. Anything that cannot be put on hold is open to haggling. The outcome for seismic survey companies, supply vessel owners, rig owners and engineering companies, among many other operators, is missed sales opportunities, contracts that have been adjusted downwards and pressure on margins.

There was of course plenty of flesh on the bone. Measured in dollars per barrel, Statoil’s operating costs almost tripled between 2004 and 2013, and measured in Norwegian kroner the increase was well over 150 per cent. Some of this was in all likelihood due to the move into deeper water and costlier fields, but the effect is fairly typical of an industry experiencing a substantial upturn in the end price, as the case was in the period leading up to the start of the price decline in mid-2014. In this situation, time is more important than price. The order books of the suppliers are full and they have no need to win that last contract at any price. The oil companies have no need to cut costs. And perhaps cost awareness is less acute when earnings are high?

**Inflation on the Norwegian Continental Shelf**



Statoil's operating costs (incl. selling, general & administrative expenses) per barrel of oil equivalent (BOE). Source: Pareto Securities

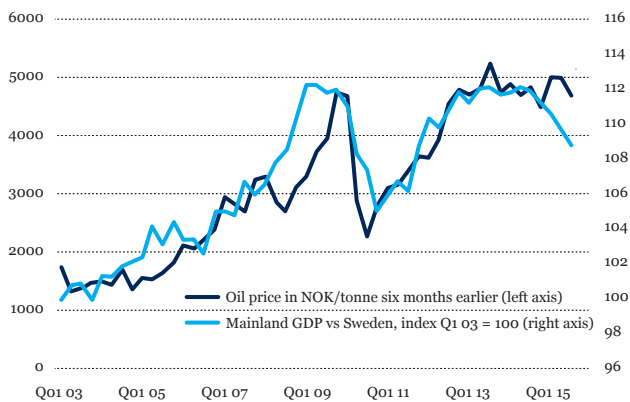
**The exchange rate to the rescue**

The substantial increase in costs means that the oil companies – not to mention the Government – have harvested a lower economic rent. It also means that more of each oil-generated krone has flowed to the mainland economy. We pointed out three years ago that the mainland economy was by far the biggest export market for the North Sea sector and that the oil sector probably had a greater impact on the mainland economy than was generally realised. According to our estimates, a drop in the price of oil would lead to a downturn in the mainland economy after a lag of some 18 months. If so, we have yet to feel the full impact of this cut in the oil price.

Thus the tumbling oil price has delivered the Norwegian economy a powerful negative shock. Fortunately, the market economy is so cleverly arranged that a shock will generally trigger compensatory effects. In Norway's case, help arrived in the form of the foreign exchange rate. Over the course of just two years we have had to pay 15 per cent more for a euro and a whopping 45 per cent more for a US dollar. The trade-weighted exchange rate also increased by 15 per cent.

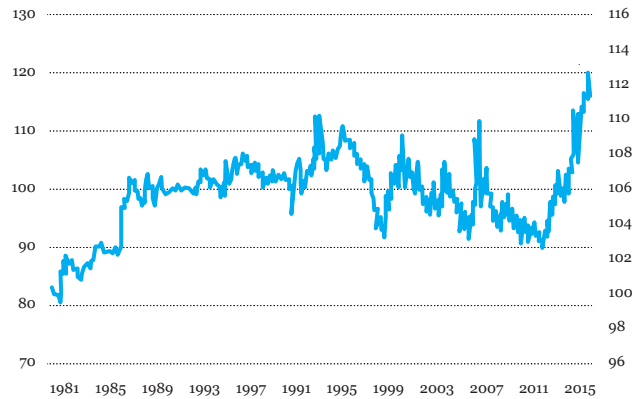
By comparison, the average EBITDA margin of Norwegian industry, i.e. operating profit before depreciation, amortisation and impairments as a percentage of total revenues, was in the region of eight/nine per cent in the years preceding the oil price reduction, according to figures compiled by Statistics Norway. In

**Oil-fired heating on the mainland**



Sources: Pareto, SCB, Statistics Norway

**Krone hits record low**



The trade-weighted exchange rate. Higher figures mean a weaker krone. Source: Norges Bank

other words, for exporters and import-competing industries, the weakening of the Norwegian krone provided an invaluable boost to the bottom line, although long-term hedging contracts could mean that it might take some time before the effects materialise in full.

For the Norwegian stock market, this situation has pushed a sufficient number of share prices upwards to compensate for the drop in the price of oil and oil services – and then some. So, yet again, Oslo Børs managed to stay on the right side of break-even.

**What's stopping the Norwegian krone from falling even deeper?**

Many people have wondered whether the Norwegian krone will drop even further, given the outlook for the Norwegian economy. The question should really be why the Norwegian krone didn't rise even higher while everything appeared to be running so smoothly, well lubricated with oil. Between 2000 and 2014, Norway recorded a current account surplus that on average corresponded to almost 13 per cent of GDP. No country of relevance has come anywhere near achieving this result.

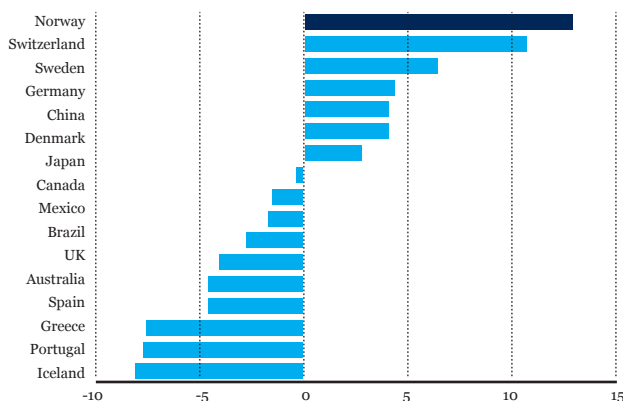
In the same period, however, we experienced a fairly modest increase in the real exchange rate, i.e. the effective rate of exchange adjusted for relative changes in inflation. Would the obvious assumption not be that the roaring external economy would trigger a powerful increase in the value of the krone?

The chief cause of this situation was almost certainly the Government Pension Fund Global, or the Petroleum Fund, as it is also known. In reality, this structure immunised much of the country's strong current account balance. A high proportion of the oil revenues went directly into the Fund, without being converted into Norwegian kroner, and the remaining injection of capital into the Fund involved purchases of currency. The Fund is invested in its entirety in foreign securities.

Now, at the outset of 2016, the picture looks different. The low oil price and a higher level of expenditure of oil revenues have meant that the Fund is receiving such small top-ups of monies that Norges Bank has had to purchase Norwegian kroner. The very mechanism that in the past few years has served to keep the rate of exchange low, is now in reality helping to buttress the krone.

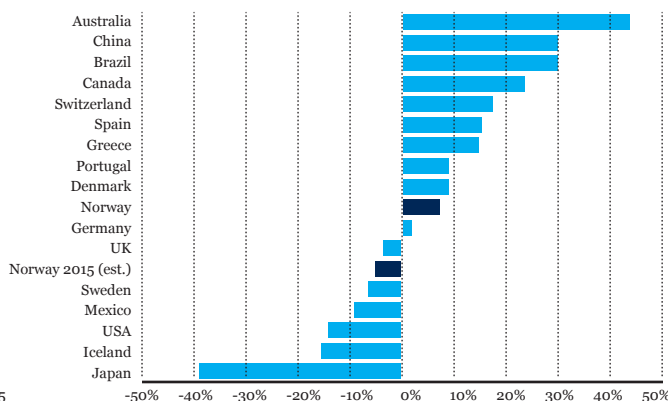


**The World External Economy Championships: Gold medal winners**



Current account surplus as a percentage of GDP, average 2000-2014  
Source: IMF/Pareto

**The World Appreciation Championships: Runners up**



Changes in the effective exchange rate 2000-2014. An increase means a stronger real effective exchange rate. Source: IMF/Pareto/Norges Bank

We don't wish to overstate this effect, but it could undoubtedly be argued that the structure of the Petroleum Fund has helped to stabilise Norway's external economy – and the Norwegian economy as a whole.

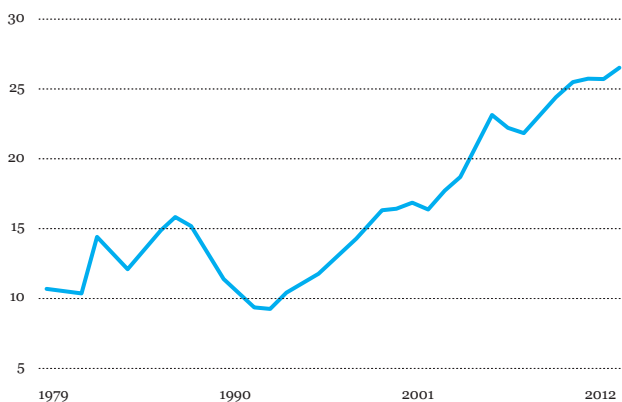
**Interest rate-driven housing market**

At the same time, the weaker Norwegian economy has contributed to a downward adjustment of the estimated interest rate differential between Norway and other countries. Norges Bank has not yet followed the example of Riksbanken in Sweden of setting negative interest rates, but the direction seems clear. With a key interest rate that has been reduced by half since mid-December 2014, from 1.50 to 0.75 per cent, further cuts are expected in 2016.

Rates of interest on housing loans have followed this downward path some of the way. Thus, for Norwegian homeowners, the drop in the interest rate has been beneficial, ignoring, that is, the fact that most homeowners wish to buy a more expensive house the next time around – and as such do not benefit from higher house prices. In any event, it appears to be the case that most homebuyers maximise their house purchases on the basis of what their own finances and their own cash budgets permit. When interest rates go down, house prices go up.

We have updated a graph produced by Norges Bank showing the relationship between house prices and the rental rate. The as-

**The housing P/E continues to climb**



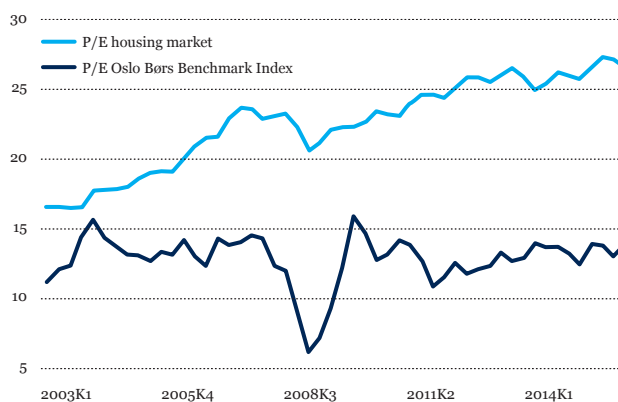
Sources: Pareto, Norges Bank, Statistics Norway

sumptions and adjustments that underpin a graph of this nature are such that the figures must be taken with a healthy dose of scepticism. Nevertheless, there can be no doubt about the story told by the shape of the graph. It shows quite clearly that dwellings have become increasingly more expensive when house prices are measured against the value of earnings from letting property. This is the same type of evaluation that the stock market performs using the classic P/E ratio, the relationship between share price and earnings per share. If we compare the housing and stock markets we see that the housing market has – to a greater extent than the stock market – priced in the effect of lower interest rates. Given that the interest rate is a key factor in absolutely all models of housing markets, this is by no means surprising.

What is interesting, however, is that the stock market has not priced this in to the same degree. There was for many years a close relationship between the level of long-term interest rates and the earnings yield, i.e. the inverse of the P/E fraction. When long-term interest rates fell, the earnings yield also fell. This relationship has been broken in the low interest rate regime that has prevailed since the financial crisis. Presumably, this is one of the main justifications for continuing to expect a satisfactory return on the stock market.

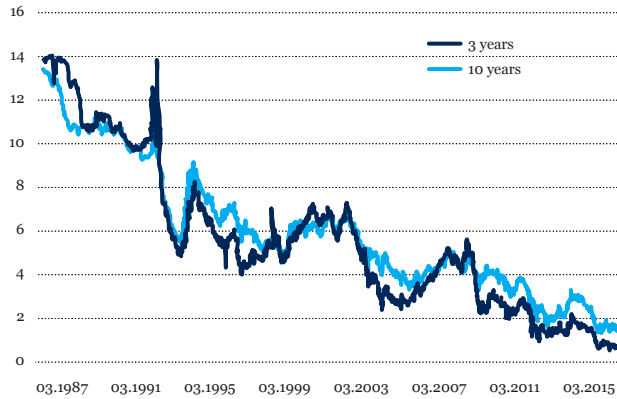
From a purely economic perspective, however, we would not choose housing as an investment option at the present time.

**House prices up, shares stable**



Sources: Pareto, Norges bank, Statistics Norway, FactSet

**This surely cannot continue**



Yield to redemption for different maturities of government bonds. Source: Norges Bank

**A very bad year for bonds**

For the bond market, reduced base rates of interest have not in any way been a source of joy. In 2015, risk premiums rose more or less in unison (prices fell) and the market for bond issues dried up almost completely. That the yield to redemption of highly-leveraged supply ship owners reached double digits should not have surprised anyone, at least with the benefit of hindsight. Now, at the outset of 2016, it is clear that several of these companies will probably have to submit to restructuring all or parts of their debt.

That risk premiums would also rise in most other sectors is perhaps more surprising. Even the spreads on covered bonds, backed by solid Norwegian mortgages, widened.

What's more, the increase in risk premiums was by no means an exclusively Norwegian phenomenon. The United States, for example, saw a combination of a drop in the price of high-yield bonds and unusually high redemptions in corresponding mutual funds. For corporations in a number of countries, the bond market quite simply became a more costly source of funding.

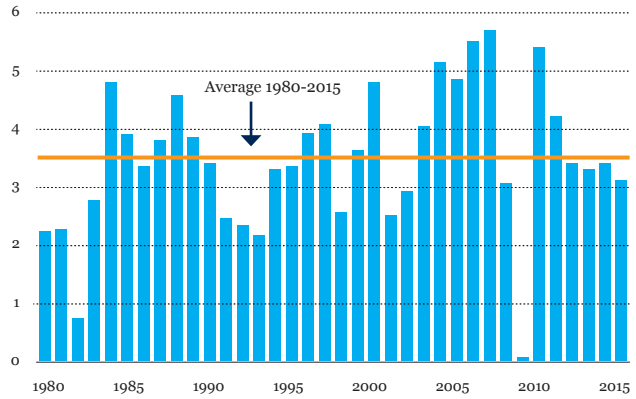
The market for corporate bonds can be less liquid than the stock market, so that it remains to be seen how much of this slump in prices is transitory. What is certain, however, is that many investors harvested a poor return on their bond investments in 2015.

Insofar as the bond market tells us anything about the future, which is a moot point, developments in this past year also augured worse times to come globally.

**Misjudging China**

Much of the fear is focused on the danger that the Chinese economy will come to a shuddering halt. Over the past five years, China has accounted for in excess of 35 per cent of the growth in global GDP and 40 per cent of the growth in worldwide oil consumption. Were there to be a substantial slowing in Chinese growth, it is widely believed that this would hit global growth.

**Global growth slightly lower than trend rate**



Percentage growth in global GDP. Source: IMF

This argument is not without flaws. In fact, the Chinese economy is to a large extent closed, notwithstanding the broad perception that the opposite applies. Imports now correspond to 15 per cent of GDP, having dropped slightly in recent years as a consequence of higher GDP and lower import prices, not least in the case of commodities. This is lower than in the United States, which is traditionally regarded as a fairly closed economy, and half of the figure in the small, open Norwegian economy.

It is true that China's GDP now constitutes approximately 17 per cent – over one sixth – of world GDP. At the same time, however, the large and relatively closed economy of China means that much of the country's contribution to growth in global GDP quite simply consists of growth in China. A small thought experiment might make this clearer: imagine that global growth is one per cent, while China is growing at a rate of six per cent. What contribution does China make?

Clearly, the contribution to the rest of the world takes the form of the flow of capital, goods and services. The figures for this are as follows: the country's imports of goods and services now make up 2.5 per cent of global GDP and, given the significant downturn in recent years, there has hardly been any overwhelming growth impulses from this. Exports are higher: 21 per cent of China's GDP and 3.5 of world GDP, but that does not do much for growth in other countries. Even when measured against China's growing GDP, the current account surplus has almost doubled in two years.

**Overlooked effect of Chinese growth?**

For Norway, China's influence on commodity prices has been the most important factor. Norway for some years having been blessed with good luck can be ascribed to China having rigged the wheel of fortune. For the world economy, however, oil has acted like tar. In the past, the rule of thumb was said to be that five dollars on the oil price would – all other things being equal – reduce global growth by 0.1 percentage points. Given the consistently

high oil price in the years since the financial crisis, global growth must have been burdened with a heavy drogue.

The effects of changes in the price of oil are undoubtedly less pronounced today, both because the price is already fairly low and because a low or non-existent economic rent will have greater negative ripple effects in oil-related industries. Even so, the price reduction over the last 18 months must have given global growth a substantial boost. Seen from this perspective, China has been responsible for an impulse that has been quite the reverse of what analysts and the media normally focus on. In the past, hikes in the price of oil and other commodities put a damper on the growth impulse, while this time round falling prices are making a positive contribution.

Is anyone still puzzled by the fact that the substantial monetary stimuli put in place in the West in recent years have had such modest effects? And, in contrast, could it be that the indirect effect of the oil price is now being underestimated?

### Secular stagnation

Underlying all this is a more general concern for the world economy, which has only partially recovered from the financial crisis of 2008. Are we facing secular stagnation, a longer period of structurally weak growth? Will we derive lower productivity gains from new technological advances? Will growth be reduced by demographic shifts? Does debt pose a threat to further growth?

What may perhaps be the simplest explanation is conspicuous by its absence. Let us raise our gaze slightly. The late Professor Angus Maddison, who made a valuable contribution with his work on charting historical economic data, described the period between 1950 and 1973 as a golden age of growth. And what followed? Country after country attempted to stimulate growth using expansionary fiscal policy. Deficits and borrowing.

Perhaps we could label this “Keynes-abuse”? The expansionary fiscal policy was not used to level off the pace, but rather to apply a steady foot to the accelerator. Between 1974 and 2007, the federal debt of the US – the undisputed economic engine of the world during this period – more than doubled: from less than 32 to 64 per cent of GDP, according to Professor Carmen Reinhart. In Germany, public sector debt rose from 18 to 65 per cent of GDP, and in Sweden from just below 27 per cent to just over 73 per cent in 1996, when Sweden shifted her foot from accelerator to brake. As far as this policy is concerned, they were early adopters.

Not all countries have followed the same pattern. Great Britain, for example, has succeeded in keeping debt in check. However, they have had something that we have had even more of: oil revenues.

For decades, economists have debated the question of whether fiscal stimuli have lasting effects. The point of departure in

the discussion has generally been temporary stimuli, either assuming future repayment of the debt or simply assessing each fiscal impulse individually. Even so, it is difficult to see that a systematic injection into an economy over a period of 40 years would not leave lasting traces.

Logically, it is hard to maintain the same speed without the same fuel, irrespective of the burden of debt servicing – which, after all, at the current rate of interest cannot really be described as insurmountable.

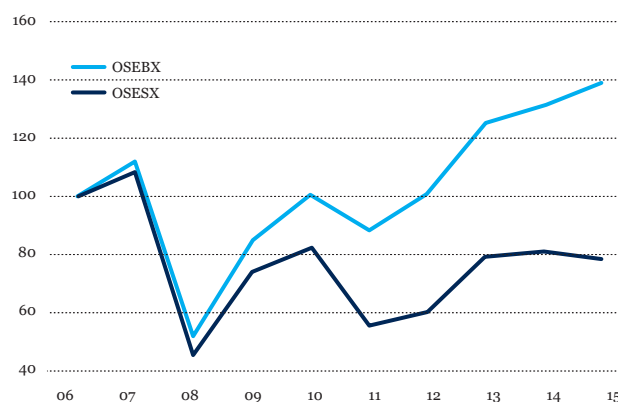
This means on the one hand that we must expect a moderate trend rate of growth over the coming years. At the same time it means that moderate growth does not necessarily represent a danger sign. There has been no fundamental change in the underlying economy. The market is not working so badly after all, and people are still going to work in the morning, creating value for themselves and their employers, after a quick cup of coffee or two.

### 2015 in a nutshell

• OSEBX	+5.9 %
• S&P 500 return	+1.4 %
• MSCI World net (USD)	-0.9 %
• 3-month NIBOR	from 1.48 to 1.13 %
• 10 year Norwegian Treasury	from 1.61 to 1.54 %
• Share turnover Oslo Børs (value)	5.3 %
• Brent Blend	from USD 57.33 to USD 37.28
• USD/NOK	from 7.43 to 8.81
• EUR/NOK	from 9.04 to 9.62
• BNP growth, global	3.1 %
• BNP growth, Norway	1.6 %
• BNP growth, Mainland Norway	1.0 %

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

### A tale of two markets



In 2015 too, small caps continued to underperform the Oslo Børs Benchmark Index. Source: Oslo Børs / Pareto

# Pareto Securities AS

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

With 15 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.

In April of 2015, Pareto Securities merged with its sister company Pareto Project Finance. This merger makes Pareto Securities 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 a broad international presence, which ensures proximity both to the major capital centres of the world and to issuers within our core areas of expertise. International growth continued in 2014. At yearend we had offices in Norway, Sweden, Finland, Denmark, the UK, France, the United States, Australia and Singapore.

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 highly by an extensive international community of investors, on both the equity and debt sides.

Our equities research team consists of 18 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 five 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 reports on issuers.

Accurate credit reports ensure that corporate bonds are correctly priced and enable investors to base their investment decisions on sound information. Because credit analysis forms an integral part of the research product, our credit analysts work closely with 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 in Norway or abroad. Our philosophy is that a solid grounding in research enhances the likelihood of success in the other areas of our business, and over the years we have seen a number of very successful transitions from research to brokerage and corporate finance.

## Conferences and road shows

An important aspect of our research work is arranging seminars and field trips for our investors. Every autumn, Pareto Securities hosts an oil and offshore seminar in Oslo. This event has developed into one of Europe's leading investment forums for oil and energy-related companies. The 2015 seminar attracted 1,600 attendees – primarily international investors and representatives of the 120 companies making presentations. Other events organised by the company included an energy seminar in Oslo that attracted over 380 attendees, an E&P seminar in London that attracted 230 attendees and a bond seminar in Stockholm that attracted 400 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.

### 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, Stavanger, Stockholm, Helsinki, Copenhagen, London, Aberdeen, Paris, New York, Houston, Los Angeles, Perth and Singapore. The advisory services department employs over 120 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 2015, and a number of sales and acquisitions were consummated. In addition, we work closely with Pareto Offshore and Pareto JGO Shipbrokers in assisting companies at an early stage in their development and to take the fullest advantage of the group's expertise and networks.

### Shipping and Offshore Project Finance

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

Over the last five 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 60-70 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. In 2015, the Department also became a leading operator in the Swedish market. The real estate portfolio is one of Norway's largest, with a total value of approximately NOK 25 billion.

### Investment companies

Pareto Alternative Investments AS (PAI) holds an AIFM licence granted by the Financial Supervisory Authority of Norway and is a wholly-owned subsidiary of Pareto Securities. PAI manages diversified investment companies in the real estate, shipping and offshore sectors. The combined equity capital of these investment companies at yearend totals approximately NOK 7 billion. PAI offers capital structures that are both leveraged and unleveraged.

### Pareto Business Management

Pareto Business Management AS (PBM), which is a wholly-owned subsidiary of Pareto Securities, is Norway's leading financial service and support partner in the real estate and shipping/offshore sectors. PBM has management responsibility for some 180 investment companies with a combined value of approximately NOK 46 billion. PBM's team is made up of 28 experienced professionals with expertise in the areas of accountancy, financing, taxation, corporate law and technical management. A Swedish subsidiary provides corresponding services to Swedish project companies.

### 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 five.

### Other services

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.

### Credit and trading for own account

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

### Growth in personnel numbers

As a consequence of the merger with Pareto Project Finance, personnel numbers increased during 2015 from 353 at the outset of the year to 400 by the end of the year. Of these, 42 per cent work outside Norway – down from 51 per cent last year.

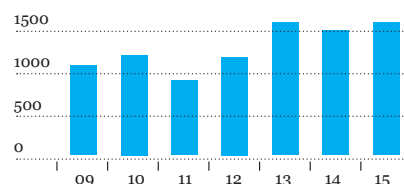
Pareto Securities recruits young talent, mainly with the aid of a graduate recruitment programme which focuses on students from the best schools. The company offers them a flat organisational structure, attractive incentive schemes and early responsibility.

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### Pareto Securities AS

Dronning Mauds gate 3  
P.O. Box 1411 Vika  
OSLO, Norway  
Telephone: 22 87 87 00  
Turnover 2015: NOK 1.5 billion  
Equity 2015: NOK 502 million  
Number of employees 400  
CEO: Ole Henrik Bjørge  
ole.henrik.bjorge@pareto.no  
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.*

In June of 2015, Pareto Forvaltning changed its name to Pareto Asset Management in preparation for a merger with sister company Pareto Nordic Investments. The merger went ahead as planned some weeks later and the combined teams moved into new premises at the old address.

Post-merger, Pareto Asset Management has 53 personnel, 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 84 per cent of the company, the remaining 16 per cent being 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 2015, Pareto Asset Management had assets under management totalling NOK 43.8 billion. Of this, NOK 19.4 billion was invested in Norwegian-registered securities funds, NOK 7.7 billion under discretionary management invested in equities and fixed-income instruments, NOK 5.5 billion in other funds/investment companies in Norway, Ireland and Luxembourg, as well as NOK 11.2 in debt management for Norwegian municipalities.

Taken as a whole, companies and personnel in the Pareto group constitute our biggest "client", accounting for NOK 3.6 billion of 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.

## Simplification and expansion of the menu

During the course of 2015, the structure of our funds was simplified, with the merger of several former mirror funds into primary funds with multiple asset classes. This simplifies not only the

management of the funds, but also our work on advising clients, as well as our compliance procedures. Some fee rates were also reduced as part of this streamlining process.

The previously-announced launch of a global corporate bond fund went ahead as planned. The new fund, called Pareto Global Corporate Bond, is managed from our Stockholm office, but registered in Luxembourg. At year-end, the fund's assets under management exceeded NOK 600 million.

Our venture in Sweden has also generated investments of client funds in several existing Norwegian funds. Foreign investors now account for approximately NOK 5 billion of assets under management.

With effect from 4 January 2016, Omega Likviditet, previously managed by Pareto Nordic Investments, was merged into Pareto Likviditet.

## Asset management philosophy

Our management of equities is long-term, fundamental, research-based and in a broad sense value-oriented. This approach involves forming an impression of the true value of a company by analysing a series of key metrics, as well as considering a number of more qualitative factors such as strategy and business model as well as survival prospects and outlook. On the other hand, we devote little time or attention to the many whims and fluctuations of the market or to new and creative financial products.

We limit the number of shares in the portfolio, because in our judgement a high degree of risk diversification can be achieved with as few as 25-30 stocks. A concentrated portfolio allows us to monitor our investments closely and continuously.

The result is that all of our equities funds have high active share. This entails that the portfolio deviates widely from the composition of the respective share indices of the funds. Over the long-term, this has given our clients a very satisfactory return on all of our equities products.

Similarly, our approach to the management of fixed-income instruments is based primarily on a fundamental analysis of the individual issuer and a thorough analysis of the borrowing conditions. In many instances we also advise issuers on the terms governing new bonds before they are issued to the market.

### High long-term excess returns

In the area of equities we offer Norwegian, Nordic and global mandates. The Norwegian equities portfolio, which was originally established by Pareto Forvaltning and which overall is also the largest in the merged company, was held back in 2015 by its exposure to the oil service sector (25 per cent of the portfolio at yearend). The result has been underperformance and the continued flight of client funds. Nevertheless, over the long-term, excess return has been substantial. In contrast to this, Pareto Investment Fund, the Norwegian equities fund previously managed by Pareto Nordic Investments, recorded an excess return in 2015 of 14-15 percentage points, depending on share class. Here, net subscription levels were very satisfactory, no doubt aided by the substantial excess returns recorded in previous years: in the last five years the fund (Class A) has recorded an average return of 11.6 per cent, compared with the 5.1 per cent recorded by the mutual fund index.

Likewise, the Nordic portfolio, which consists of hybrid funds and funds with more flexible mandates, recorded a very satisfactory return. The same applies to our global equities fund, which achieved excess return in what was a buoyant market. In both cases, the weakened Norwegian krone had a favourable impact on the return received by Norwegian investors.

In the case of fixed income funds, 2015 was a rather more unusual year. The fears surrounding the oil industry cast dark shadows in the form of higher required rates of return and lower prices on a number of high-yield corporate bonds, of which oil service companies make up a substantial portion of the Norwegian and Nordic market. At year-end, several of these were priced in the region of 50-70 per cent of their face value.

The greatest impact of this effect was felt by Pareto Kreditt, where values fell by some six per cent. Pareto Høyrente, which is in a lower risk class, also crept below zero before the year was over. This reflects the fact that the rise in risk premiums was not confined to high-yield bonds. Even covered bonds secured by home mortgages were priced down in 2015.

This was not a uniquely Norwegian development: increased spreads (risk premiums on bonds) were an international phenomenon.

The upside to this picture is that the fixed income funds achieve a far higher yield to maturity. Even if defaults occur in multiple bonds, this provides scope for a satisfactory return from the current low level. Similarly, the team at Pareto Asset Management feel confident that our other funds will also provide very satisfactory returns in the future.

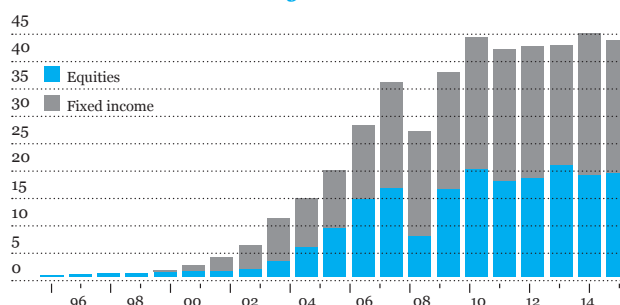
Petter W. Borg stepped down as CEO at the end of 2015 and was replaced by Lasse Ruud.

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### Pareto Asset Management AS

Dronning Mauds gate 3  
 P.O. Box 1810 Vika  
 0123 OSLO, Norway  
 Telephone 22 87 87 00  
 Turnover 2015: NOK 244 million  
 Equity 2015: NOK 29 million  
 Number of employees: 53  
 CEO: Lasse Ruud  
 Lasse.Ruud@paretoam.com  
 Chairman: Cathrine Lofterød Fegth  
**paretoam.com**

Total Assets under management NOK billion



# Pareto JGO Shipbrokers AS

*Pareto JGO Shipbrokers AS (JGO) offers shipping and offshore broking services and the firm's team represents a substantial fund of knowledge and experience of the company's market segments.*

## Southern Norway's preferred shipbroker

JGO's history dates back to 1912, when the firm started out in the lumber and ship broking business. The company played a central role in establishing and building up many of Southern Norway's shipping companies in the late 1920s and 1930s. Until as recently as about 1980, the company remained the exclusive broker for a great many shipping companies in Southern Norway for chartering, contracting newbuildings, buying and selling tonnage.

Since the 1980s, the company has expanded from being mainly a shipbroker for local shipowners into a competitive shipbroker serving shipowners, operators and charterers the world over. The company joined the Pareto group in 2006.

Today, JGO 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, JGO 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. JGO acts as a broker for charterers and oil companies needing tonnage to carry crude, as well as for shipowners seeking cargoes for their ships.

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

## Collaboration

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

UK shipbrokers Derrick Offshore Ltd., headquartered in Guildford outside London and with an office in Aberdeen, is a wholly-owned subsidiary of JGO. Derrick 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 JGO Shipbrokers AS

Dronningens gate 3  
4610 Kristiansand, Norway  
Telephone 38 12 31 11  
Turnover 2015: NOK 105 million  
Equity 2015: NOK 80 million  
Number of employees: 33  
CEO: Karsten Christensen  
karstenc@jgoship.no  
Chairman: John Gordon Bernander  
**[www.jgoship.com](http://www.jgoship.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. The company also works closely with industrial clients in the aluminium, cement and grain industries. Our brokers handle spot and long-term deals and freight contracts. Project and advisory services are also available.

## P.F. Bassøe AS

Dronning Mauds gate 3  
P.O. Box 1723 Vika  
0121 OSLO, Norway  
Telephone 24 02 81 80  
Turnover 2015: NOK 4.9 million  
Equity 2015: NOK 7.5 million  
Number of employees: 4  
CEO: Odd Jacob Fritzner  
crude@pfbassoe.no  
Chairman: Svein Støle  
**[www.pareto.no](http://www.pareto.no)**

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## Pareto Dry Cargo AS

Dronning Mauds gate 3  
P.O. Box 1411 Vika  
0115 Oslo, Norway  
Telephone: 24 02 81 90  
Turnover 2015: NOK 16.9 million  
Equity 2015: NOK 2.9 million  
Number of employees: 5  
CEO: Morten Lie  
dry@pareto.no  
Chairman: Uno Grønlie  
**[www.pareto.no](http://www.pareto.no)**

# Pareto Wealth Management AS

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

## Building strength

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

In terms of investment, 2015 was a challenging year for our clients and for the firm itself. Declining returns on global markets, a weaker Norwegian krone and the falling oil price all impacted on our portfolios. Notwithstanding these factors, the firm succeeded in growing its revenue-generating portfolio, which at yearend stands at just under NOK 9 billion.

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

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

## Strategy

Pareto Wealth Management remains true to its strategy of building a sound, appropriate and long-term client portfolio, rather than chasing after short-term product sales. Portfolio revenues therefore continue to make up an increasingly greater proportion of the company's turnover, at the expense of transaction revenues. This approach also allows the long-term interests of clients and the company to be closely aligned.

A substantial portion of the client portfolio is invested 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 adapted or carefully hand-picked portfolios. The company also offers a higher degree of bespoke tailoring of products to suit the needs of the more capital-rich investor.

The company collaborates 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 seeks to offer a select range of investment products from external suppliers, both in and outside Norway. This enables a fully-rounded investment portfolio to be established for the individual client and ensures that Pareto's own products are exposed to competition. The goal is that the client must 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 able personnel: systems and solutions that facilitate prudent decisions to the benefit of the client must also be in place.

The firm will work consistently to enhance 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 23 23 99 00  
Turnover 2015: NOK 91 million  
Equity 2015: NOK 24 million  
Number of employees: 48  
CEO: Rune Wassum  
rune.wassum@pareto.no  
Chairman: Åsmund Skår  
**pwm.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 1.4 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 34 employees: 29 in Oslo and five 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 continue to capture market share from the large Norwegian companies.

The primary concern of our non-life department is that our clients should have the appropriate level of cover. We use risk and vulnerability analyses to alert our clients to areas of risk to their property, vehicles, liability and consequential loss of which they may not previously have been aware. The insurance cover taken out by our brokers on behalf of clients is 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. A number of semi-public organisations still have the old defined benefit pension

schemes in place and there was a considerable focus on this issue during the second half of 2015 in particular.

The restructuring of disability pensions provided under the Norwegian National Insurance Scheme means that insurance payments to employees paid less than six times the basic National Insurance payment (G) will cease or will be substantially reduced in 2015/2016. During the latter half of 2015, much of our work involved advising on and putting in place disability pensions for clients in whose pension schemes this is implemented. Although a transitional period will apply until 2017 we have largely completed this work.

## Our modules include

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

## Damage prevention

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

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## Pareto Forsikringsmegling AS

Dronning Mauds gate 3  
 P.O. Box 1527 Vika, 0117 Oslo  
 Telephone: 22 87 87 00  
 Turnover 2015: NOK 66 million  
 Equity 2015: NOK 27.6 million  
 Number of employees: 34  
 CEO: Vegard M. Finsæther  
 vmf@pareto.no  
 Chairman: Uno Grønlie  
**[www.pareto.no](http://www.pareto.no)**

# Pareto Bank ASA

*Norway's leading project bank – a niche bank where the emphasis is on expertise, flexibility and efficient decision-making processes in the area of project financing.*

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

Pareto Bank has established a firm foothold in the market for financing residential and commercial property development projects in the Oslo region.

The bank offers a full range of corporate and securities financing products and investment services. In this area, the bank's links to the Pareto group provide a gateway to expertise, clients and efficient system solutions.

In the field of shipping and offshore financing, the bank is stepping up its efforts to take the fullest advantage of the opportunities afforded by the bank's ties to the Pareto group.

## The eighth year of operations

In its eighth year of operations, Pareto Bank's profits developed well. Post-tax profits in 2015 amounted to NOK 166.4 million (NOK 154.2 million in 2014). This was equivalent to a return on equity after taxes of 14.8 per cent (15.6 per cent).

At yearend 2015, the bank held total assets of NOK 11.1 billion (NOK 11.3 billion). Loans to customers grew throughout 2015 and by the end of the year amounted to NOK 7.9 billion (NOK 7.2 billion).

The common equity Tier 1 capital ratio at yearend 2015 was 13.22 per cent (12.13 per cent), while the primary capital ratio stood at 16.74 per cent (15.9 per cent). The recommendation of Finanstilsynet (the Financial Supervisory Authority of Norway) is that the bank should move in the direction of achieving a common equity Tier 1 capital ratio of at least 15.0 per cent by the end of 2016. Meanwhile, the supply of new, profitable business is plentiful. Accordingly, the directors of the bank proceeded with an equity issue of NOK 150 million in February 2016. This strengthening of its equity will allow the bank to achieve a high marginal return on new business, while ensuring that the capital adequacy expectations of Finanstilsynet will be met.

The directors of the bank have adopted a resolution to apply for the bank's shares to be accepted for listing on Oslo Axess/ Oslo Børs by 30 June 2016. Listing will increase the visibility of the share. Moreover, access to a wider circle of investors and an efficient trading platform will help to improve the liquidity of the share.

## The biggest shareholders of Pareto Bank

Name	Stake
Pareto AS	15,00 %
Société Générale SS SA (nom)	8,71 %
Perestroika AS	8,43 %
Indigo Invest AS	7,83 %
Geveran Trading Co Ltd.	4,96 %
Pecunia Forvaltning AS	3,38 %

*Senior staff of Pareto Bank ASA and senior staff of the Pareto group own a total of 1.6 per cent of the shares.*

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## Pareto Bank ASA

Dronning Mauds gate 3  
 P.O. Box 1823 Vika  
 0123 OSLO, Norway  
 Telephone: 24 02 81 20  
 Total assets 2015: NOK 11,140 million  
 Equity 2015: NOK 1,191 million  
 Number of employees: 33  
 CEO: Tiril Haug Villum  
 tiril.villum@paretobank.no  
 Chairman: Åsmund Skår  
**[www.paretobank.no](http://www.paretobank.no)**

# 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 4 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 have 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	<b>2 038</b>	<b>1 032</b>	<b>5 845</b>	<b>5,9 %</b>

*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.*

# *Annual Financial Statements 2015*

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# The Directors' report

## Our business objectives

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

## Operations

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

## The market

The effects of the fall in the oil price continued to be felt by the Norwegian economy in 2015. Low demand from the petroleum industry led to substantially lower levels of activity and reduced profitability in the industries that supply goods and services to this business. Thus far the spin-off effects on the rest of the Norwegian economy have been limited. Growth in the mainland economy is down and unemployment has increased somewhat, but in many industries unrelated to the petroleum sector activity levels remain high.

The energy index fell by 7.5 per cent in 2015. The falling rate of exchange of the Norwegian krone pulled in the opposite direction to the oil price, a situation that amongst its other effects stimulated business and industry exposed to foreign competition – including the seafood industry. The sector indices for both consumer staples (which include seafood shares) and consumer discretionary ended the year's last day of trading on new all-time highs, and, overall, Oslo Børs increased by 5.9 per cent in 2015.

Although the Norwegian securities market grew in 2015, Pareto remains concerned and is prepared for the long-term effects for the Norwegian economy to be more far-reaching.

With a lower oil price, a significant contraction of investments in the oil and gas industry in 2015 and indications of a marked reduction in oil and gas investments in 2016, the mainland economy will also suffer. According to our estimates, there will be a lag of some six quarters, meaning that we have yet to see the full

impact of the drop in the oil price. At the same time, we see that the negative effects on the mainland economy will be mitigated to a significant degree by the positive effects of the fall in the value of the krone on the earnings of exporters.

Future movements in the rate of exchange of the krone will be sensitive to the interest-rate decisions adopted by Norges Bank. Since Norway is now in a situation in which a weak currency must be viewed as advantageous, meaning that the central bank will not face the inflation management dilemma with which it has at times been confronted in the past, there are reasons for believing that Norges Bank will pursue a low interest rate path for the foreseeable future.

It has to be acknowledged that the lower level of interest rates and the weaker Norwegian krone reflect weaknesses in the real economy, both for the West in general and for the Norwegian economy in and outside the oil industry in particular. Nevertheless, for Pareto, the effects of these two factors are not entirely negative. During 2015, the money market rate (3-month NIBOR) fell from 1.48 per cent to 1.3 per cent, while the rate on 10-year Norwegian government bonds was reduced from 1.61 per cent to 1.54 per cent. This has reduced both the opportunity cost and the discount rate on the investment products that the Pareto group buys/sells or manages. For Pareto companies conducting business outside Norway the weak krone has had a beneficial effect on their results and for Pareto's investments outside Norway the reduction in the value of the krone has produced excess return measured in Norwegian kroner on top of developments on stock markets.

Developments in the world economy diverged in 2015. While growth tailed off in China and the temperature of the European economy remains low, there was moderate growth in the US economy. There was also a divergence in the stock market, which in purely statistical terms is one of the better indicators of future growth. Although the prospects of growth in the US economy remain good, the return on US stocks was weak in 2015. Shares in the Eurozone, on the other hand, performed well. Considerable uncertainty attached to developments on the Chinese finance and securities markets, and this impacted upon developments on stock markets throughout the world. The MSCI World Index measured in local currency showed only a minimal increase of 2.1 per cent in 2015.

For Pareto, the economic climate was generally favourable in this past year, although clearly, the situation for some of the subsidiaries of the group was more challenging.

## Earnings

Developments in the securities markets have a significant impact, directly and indirectly, on Pareto's income statement. Last year's changeable markets gave very mixed impulses to the operations

of the group. Nevertheless, 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 surplus liquidity in the securities market and has built up a relatively substantial portfolio of securities, much of which is in the form of investments in the group's own investment products. The value of this portfolio developed well in 2015. Parts of the portfolio were also sold off during the course of the year. Realised returns and dividend received by the parent company accounted for approximately half of the pre-tax profits of the group.

Group operating revenues in 2015 amounted to NOK 2,038 million, compared with NOK 2,512 million in 2014. Operating profit was NOK 588 million, as against NOK 985 million in 2014. Pre-tax profits totalled NOK 1,191 million, compared with NOK 1,165 million in 2014. The reduction in operating revenues can primarily be ascribed to lower levels of activity on the part of clients in oil related businesses. The downturn in operating profit was also due in part to the restructuring of the performance-based remuneration scheme operated by one of the subsidiaries, where a higher proportion of costs is now recorded as operating costs. Notwithstanding the marked reduction in operating profit, Pareto's profits were up, thanks to high levels of activity within real estate, excellent contributions by foreign subsidiaries and a very satisfactory return on investments in Pareto's securities funds and shares.

The financial strength and liquidity of the group are good. Book equity at yearend stood at NOK 5,845 million. Bank deposits totalled NOK 2,043 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 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 in large part be applied in the development of new ventures or invested in equities and other securities.

### Pareto Securities

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

The operating revenues of the company amounted to NOK 1.5 billion, which is on a par with the figure recorded one year earlier, although last year's figure does not include the former Pareto Project Finance. 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. Post-merger the company also offers a broader product range than previously. The pre-tax profit came to NOK 405

million, compared with NOK 466 million in 2014. 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 36 equity capital placements to a total value of more than NOK 16 billion. Activity levels were high in the shipping, oil and offshore sectors as well as in banking and insurance. Moreover, the company advised on a total of nine IPOs in 2015 including offerings in Sweden, France and the United States.

2015 proved to be a challenging year for high-yield bonds, especially in the energy and offshore sectors. Even so, the company was involved in arranging placements of high-yield bond issues to a value of over NOK 20 billion for, amongst other clients, Aker, Stolt Nielsen, Ocean Yield and DNO. Pareto Securities' Swedish business recorded a high level of activity and was involved in the placement of high-yield bonds for issuers that included ÅR Packaging, Scan Global Logistics and Roplan. During 2015, Pareto Securities also assisted a number of issuers in connection with bondholder meetings and debt restructurings.

Pareto Securities also advised on a number M&A transactions in 2015, including the merger of Frontline 2012 into Frontline, the sale of listed company Rocksource to HitecVision, the sale of OTC-listed yA Bank to Resurs Bank, the sale of Goodtech's Swedish business, General Electric's acquisition of Advantec, and Blue Ocean Drilling's acquisition of Northern Offshore.

The Project Finance business had a very strong year, with high levels of activity in both real estate and shipping. The business was involved in real estate transactions with a total value of more than NOK 13 billion, and the syndication of shipping and offshore projects to a value of NOK 2.8 billion.

Despite the falling oil price, subsidiary Pareto Offshore notched up yet another year of impressive results.

At yearend, subsidiary Pareto Business Management managed over 180 investment companies with a gross value of NOK 46 billion on behalf of Norwegian and international investors.

Pareto Alternative Investments (PAI) is a wholly-owned subsidiary of Pareto Securities and manages diversified investment companies in the real estate, shipping and offshore sectors. During the course of 2015 PAI recruited NOK 2.3 billion in fresh equity for the investment companies it manages. The combined equity capital of these investment companies at yearend totals approximately NOK 7 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

In the summer of 2015, Pareto Forvaltning changed its name to Pareto Asset Management and merged with Pareto Nordic Investments.



Market fluctuations and fund redemptions lead to a reduction in operating revenues from NOK 278 to NOK 244 million. The operating profit came to NOK 125 million, compared with NOK 166 million in the preceding year. Assets under management amounted to just over NOK 44 billion. Assets under management also include NOK 11.2 billion in debt managed on behalf of Norwegian municipalities.

The firm's global equities fund has now become the biggest individual fund with more than NOK 6 billion under management. The increase last year was largely due to a combination of returns and a weaker Norwegian krone. The most rapid growth was reported by the Nordic hybrid fund, which has posted very satisfactory excess returns over a number of years.

The Norwegian equities portfolio, which was originally established by Pareto Forvaltning and which overall is also the largest fund in the merged company, was held back in 2015 by its exposure to the oil service sector (25 per cent of the portfolio at yearend) and continuing low levels of liquidity in parts of the portfolio. The result has been underperformance and the continued redemption of client funds. Nevertheless, the long-term excess return is substantial.

The falling oil price and rising risk premiums on corporate bonds contributed to net redemptions from the firm's traditional equities and fixed-income funds. However, a new bond fund was launched during 2015 which is managed from the Stockholm office of the company.

Petter W. Borg stepped down as Chief Executive Officer at the end of 2015. The Directors would like to take this opportunity to thank him for his invaluable contributions to the building and development of the company into what has now become Pareto Asset Management, and for the outstanding results achieved during his time at the helm. At the same time the Directors would like to extend a welcome to Lasse Ruud, who now takes over as Chief Executive Officer of the firm.

#### Pareto JGO Shipbrokers and Pareto Bassøe Shipbrokers

As result of the low oil price and a generally challenging offshore market at the end of the year, the operating revenues of Pareto JGO Shipbrokers fell from NOK 87 to NOK 62 million, while the operating profit amounted to NOK 31 million (NOK 49 million in 2014).

In 2014, the company purchased UK shipbrokers Derrick Offshore. The combined brokerage business is one of the biggest in the segment of the global oil and offshore industry in which the two firms operate. Consolidated operating revenues amounted to almost NOK 105 million (NOK 101 million in 2014 – Derrick's operating revenues were included from 15 August 2014 onwards). The operating profit was down from NOK 44 million to NOK 21 million. Here, goodwill amortisations detracted more than share of profits added.

The brokers at Pareto Bassøe Shipbrokers improved the performance of the firm in 2015. In a challenging market for dry bulk charters, Pareto Dry Cargo succeeded in increasing its operating revenues from NOK 13 million to NOK 17 million. The operating profit amounted to NOK 9.6 million, an improvement on the NOK 6 million reported last year. For P.F. Bassøe, a strong

tanker market made for higher levels of business activity and also a better performance than in 2014. Added to this, the low level of the Norwegian krone relative to the US dollar had a favourable impact on earnings. Operating revenues increased from NOK 4 million to NOK 5 million. The operating result also improved: from a loss of NOK 583,125 in 2014 to a profit of NOK 313,470 in 2015.

#### Pareto Wealth Management

Pareto Wealth Management's operating revenues were up from NOK 77 million in 2014 to NOK 91 million in 2015, while the operating profit increased from NOK 11 million to NOK 18 million. The firm is seeing an increase in demand for diversified international fund portfolios which, in combination with direct investment in selected investment products, accounts for the increase in earnings.

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 portfolio has now grown to NOK 10 billion.

#### 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.

In recent years the market has been characterised by downward pressure on prices and intense competition. Notwithstanding this situation, by stepping up its sales and marketing activities Pareto Forsikringsmegling succeeded in increasing its customer base substantially in 2015. Nevertheless, the downward pressure on prices meant that operating revenues were reduced from NOK 68 million to NOK 66 million. The operating profit was NOK 18 million (NOK 21 million in 2014).

#### Pareto Bank

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

At yearend, Pareto AS owned 15 per cent of the shares. Senior employees of the Pareto group owned 0.5 per cent, while senior staff of the bank owned 1.6 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, not least in terms of securities lending.

In its eighth year of operations the bank recorded an operating profit of NOK 231 million, compared with NOK 209 million, NOK 153 million and NOK 94 million in the preceding three years.

Total assets stood at NOK 11.1 billion at yearend, as compared with NOK 11.3 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-company 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 parties 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 its 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 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, a 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.

Now, however, a new challenge has arisen: the lasting drop in the oil price. Whereas in recent years the Norwegian economy has stood out as far 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 may have appreciated. This issue has now been brought to the fore by the substantial drop in the price of oil over the last two years.

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, not least, to an oil price that remains low over a long period of time.

Notwithstanding the developments over the last two years, Pareto has a fundamental belief in oil and offshore related industries. This belief remains unshaken, even in the face of the cyclical fluctuations.

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

### Distribution of profits and other matters

In addition to its role as the parent company of the group, Pareto AS' operations consist of investing in various securities. The company is exposed to market risks on its own holdings of financial instruments. In addition, its subsidiaries are exposed to risks associated with 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 any special measures. The level of absence due to sickness within the group is low and no injuries or accidents were reported during the reporting year. The group practises equality of opportunity between men and women. In its recruitment policy the company makes a deliberate effort to attract the ablest candidates without discriminating on the basis of gender, ethnicity or other factors.

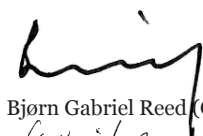
The company is not involved in research and development activities. The company's operations are not such that they pollute the external environment.

The group's profit after tax cost totals NOK 1,032 million. The parent company's after-tax profit is NOK 1,006 million. The Directors propose that the entire profit after taxes be transferred to Other Equity.


At yearend, owner's equity in the parent company had increased to NOK 5,003.6 million. Consolidated book equity stands at NOK 5,844.5 million.

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

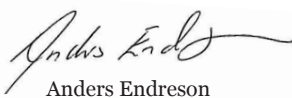
Oslo, 26 April 2016



Bjørn Gabriel Reed (Chairman)



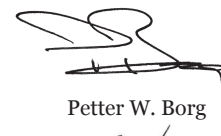
Ole Henrik Bjørge



Anders Endreson



Svein Støle (Director/CEO)



Petter W. Borg



Karsten Christensen

# Income Statement

Parent company (NOK '000)

Group (NOK '000)

2014	2015		Notes	2015	2014
		<b>Operating revenues</b>			
0	0	Operating revenues	2	2 037 674	2 511 861
<b>0</b>	<b>0</b>	<b>Total operating revenues</b>		<b>2 037 674</b>	<b>2 511 861</b>
		<b>Operating expenses</b>			
-8 818	-6 217	Personnel costs	3	-1 039 080	-1 169 859
-1 846	-2 768	Sundry other operating costs		-369 595	-337 252
-17	-155	Ordinary depreciation & amortisation	4	-41 214	-20 123
<b>-10 681</b>	<b>-9 140</b>	<b>Total operating expenses</b>		<b>-1 449 889</b>	<b>-1 527 234</b>
<b>-10 681</b>	<b>-9 140</b>	<b>Operating profit/loss</b>		<b>587 785</b>	<b>984 627</b>
		<b>Financial income/expenses</b>			
319 878	518 717	Financial income		558 131	374 412
486 508	531 484	Share dividends		161 180	98 361
-45 712	3 136	Adjustments, securities	10	7 356	-48 566
6 466	7 844	Share of associated companies	5	7 844	6 466
-108	-98	Interest paid		-7 731	-7 090
-10 551	-26 445	Other financial expenses		-123 514	-243 626
<b>756 481</b>	<b>1 034 638</b>	<b>Total financial income/expenses</b>		<b>603 266</b>	<b>179 957</b>
<b>745 800</b>	<b>1 025 498</b>	<b>Income before tax</b>		<b>1 191 051</b>	<b>1 164 584</b>
-46 309	-19 177	Tax expense	13	-159 433	-269 944
<b>699 491</b>	<b>1 006 321</b>	<b>Profit for year</b>		<b>1 031 618</b>	<b>894 640</b>
		<b>Allocations:</b>			
0	0	- Minority's share of profit		22 986	-69 816
0	0	- Provision for dividend		-108 957	-51 260
-699 491	-1 006 321	- Transferred to other equity		-945 647	-773 564
<b>-699 491</b>	<b>-1 006 321</b>	<b>Net</b>		<b>-1 031 618</b>	<b>-894 640</b>

# Balance Sheet - Assets

Parent company (NOK '000)

Group (NOK '000)

31.12.2014	31.12.2015		Notes	31.12.2015	31.12.2014
		<b>Fixed assets</b>			
		<b>Intangible assets</b>			
		Goodwill acquired	4	35 998	58 150
68	0	Deferred tax assets	13	33 216	55 699
<b>68</b>	<b>0</b>	<b>Total intangible assets</b>		<b>69 214</b>	<b>113 849</b>
		<b>Property, plant &amp; equipment</b>			
312	1 586	Fixtures, fittings, machinery etc.	4	57 785	36 515
		<b>Financial fixed assets</b>			
490 854	435 818	Shares in subsidiaries	5	0	0
27 524	31 541	Shares in associated companies	5	31 541	27 524
53 700	53 700	Other securities	6	53 700	60 900
306	0	Other non-current receivables	7	10	16 281
233	207	Premium fund	8	567	612
<b>572 617</b>	<b>521 266</b>	<b>Total financial fixed assets</b>		<b>85 818</b>	<b>105 317</b>
<b>572 997</b>	<b>522 852</b>	<b>Total fixed assets</b>		<b>212 817</b>	<b>255 681</b>
		<b>Current assets</b>			
		<b>Receivables</b>			
0	0	Trade receivables		607 905	691 612
40 061	48 385	Other receivables	9	404 620	286 650
<b>40 061</b>	<b>48 385</b>	<b>Total receivables</b>		<b>1 012 525</b>	<b>978 262</b>
		<b>Investments</b>			
4 347 246	4 348 641	Securities	10	5 009 354	5 069 549
<b>4 347 246</b>	<b>4 348 641</b>	<b>Total investments</b>		<b>5 009 354</b>	<b>5 069 549</b>
68 796	108 245	Bank deposits	11	2 043 141	2 059 567
<b>4 456 103</b>	<b>4 505 271</b>	<b>Total current assets</b>		<b>8 065 020</b>	<b>8 107 378</b>
<b>5 029 100</b>	<b>5 028 123</b>	<b>Total assets</b>		<b>8 277 837</b>	<b>8 363 059</b>


# Balance Sheet – Equity and Liabilities


Parent company (NOK '000)

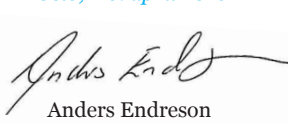
Group (NOK '000)


31.12.2014	31.12.2015	Equity	Notes	31.12.2015	31.12.2014
		<b>Paid-in capital</b>			
22 000	19 000	Share capital		19 000	22 000
50 138	24 301	Share premium reserve		0	0
<b>72 138</b>	<b>43 301</b>	<b>Total paid-in capital</b>		<b>19 000</b>	<b>22 000</b>
		<b>Retained earnings</b>			
4 903 862	4 960 305	Other equity		5 698 289	5 701 259
<b>4 903 862</b>	<b>4 960 305</b>	<b>Total retained earnings</b>		<b>5 698 289</b>	<b>5 701 259</b>
		<b>Minority interests</b>		127 219	184 313
<b>4 976 000</b>	<b>5 003 606</b>	<b>Total equity</b>	<b>12</b>	<b>5 844 508</b>	<b>5 907 572</b>
		<b>Liabilities</b>			
		<b>Provision for commitments</b>			
0	0	Pension commitments	8	3 616	4 039
0	0	Other long-term commitments	4	0	3 016
0	37	Deferred tax	13	100	374
<b>0</b>	<b>37</b>	<b>Total provision for commitments</b>		<b>3 716</b>	<b>7 429</b>
		<b>Non-current liabilities</b>			
0	0	Capital contributed by silent partners		17 455	25 742
<b>0</b>	<b>0</b>	<b>Total non-current liabilities</b>		<b>17 455</b>	<b>25 742</b>
		<b>Current liabilities</b>			
7 707	4 410	Other current liabilities	9	2 123 465	2 064 972
45 301	19 945	Tax payable	13	141 274	268 296
0	0	Dividends		108 957	51 260
92	125	Government charges and special taxes payable		38 462	37 788
<b>53 100</b>	<b>24 480</b>	<b>Total current liabilities</b>		<b>2 412 158</b>	<b>2 422 316</b>
<b>53 100</b>	<b>24 517</b>	<b>Total liabilities</b>		<b>2 433 329</b>	<b>2 455 487</b>
<b>5 029 100</b>	<b>5 028 123</b>	<b>Total liabilities and equity</b>		<b>8 277 837</b>	<b>8 363 059</b>

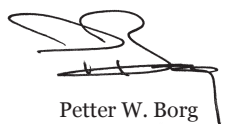
Oslo, 26. april 2016


  
Bjørn Gabriel Reed (Chairman)

  
Ole Henrik Bjørge

  
Anders Endreson

  
Svein Støle (Director/CEO)

  
Petter W. Borg

  
Karsten Christensen

# Cash Flow Statement

Parent company (NOK '000)

Group (NOK '000)

2014	2015		2015	2014
		<b>Cash flow from operating activities</b>		
745 800	1 025 498	Ordinary profit before tax expense	1 191 051	1 164 584
-10 668	-44 428	Tax paid in period	-264 246	-247 449
17	155	Ordinary depreciation and amortisation	41 214	20 123
45 712	-3 136	Securities adjustments	-7 356	48 566
31	26	Net change in pensions without cash effect	-378	-264
0	0	Other items without cash effect	20 074	8 961
-6 466	-7 844	Share of profits of associated company	-7 844	-6 466
-645	-8 324	Change in receivables	-34 263	580 014
3 462	-3 264	Change in other liability items	59 167	-87 438
<b>777 243</b>	<b>958 683</b>	<b>Net cash flow from operating activities</b>	<b>997 419</b>	<b>1 480 631</b>
		<b>Cash flow from investment activities</b>		
0	-1 429	Payments for purchases of tangible assets	-43 348	-19 567
-770 578	1 741	Net cash flow, short-term investments	67 551	-777 779
-60 000	0	Payments for purchases of financial fixed assets	0	-85 531
917	59 169	Received from sales of financial fixed assets	27 298	820
<b>-829 661</b>	<b>59 481</b>	<b>Net cash flow from investment activities</b>	<b>51 501</b>	<b>-882 057</b>
		<b>Cash flow from financing activities</b>		
0	-300 200	Dividend paid	-351 460	-116 249
0	-678 515	Payment purchase of treasury shares	-678 515	0
0	0	Change non-current commitments and liabilities	-8 287	375
0	0	Payments of equity to/from minority interests	-27 084	1 790
<b>0</b>	<b>-978 715</b>	<b>Net cash flow from financing activities</b>	<b>-1 065 346</b>	<b>-114 084</b>
-52 418	39 449	Net change in bank deposits	-16 426	484 490
121 214	68 796	Bank deposits in hand at 1 Jan.	2 059 567	1 575 077
<b>68 796</b>	<b>108 245</b>	<b>Bank deposits in hand at 31 Dec.</b>	<b>2 043 141</b>	<b>2 059 567</b>

# Notes to the Accounts

## Note 1 Group structure

- **Pareto AS** owns 75 per cent of Pareto Securities AS, 83.6 per cent of Pareto Asset management AS, 100 per cent of Pareto Bassøe Shipbrokers AS, 100 per cent of Pareto JGO Shipbrokers AS, 100 per cent of Pareto Wealth Management AS, 100 per cent of Pareto Forsikringsmegling AS, 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 Commodity AS** owns 100 per cent of Pareto Commodity Consulting AS.
- **Pareto Forsikringsmegling AS** owns 100 per cent of Pareto Forsikringsrådgivning AS.
- **Pareto JGO Shipbrokers AS** owns 100 per cent of Derrick Offshore Ltd.

## 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.

With effect from 1 January 2015, shares are valued in accordance with the lowest value principle at portfolio level. Prior to this time the investments were valued individually according to the same principle. As a consequence of the change in principle the opening balance sheet has been restated. The reversal of past writing down to market value up to procurement cost has been charged to equity.

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)

	2015	2014
Brokerage/Corporate finance	1 629 122	2 029 412
Management/Business management	408 552	482 449
<b>Total operating revenues</b>	<b>2 037 674</b>	<b>2 511 861</b>

Note 3 Salaries, number of employees, remuneration etc.

(NOK '000)

	<i>Parent company</i>		<i>Group</i>	
	2015	2014	2015	2014
Wages and salaries, holiday pay, nat. insurance	6 029	8 558	978 013	1 110 871
Pensions and other personnel costs	188	260	61 067	58 988
<b>Total</b>	<b>6 217</b>	<b>8 818</b>	<b>1 039 080</b>	<b>1 169 859</b>
Number of man-years	4	4	588	609

The CEO was paid NOK 3,500,000 in remuneration in 2015. A provision of NOK 250,000 has been made for fees for the directors of the parent company. A provision of NOK 1,172,000 has been made for fees for the directors of the subsidiaries.

Deloitte AS received fees of NOK 170,000 for auditing the parent company and NOK 2,756,000 for the group. Payment for other assurance engagements totalled NOK 16,000 for the parent company and NOK 2,228,000 for the group. Payments to other auditors to the group amount to NOK 31,000.

Payments to Deloitte Advokatfirma DA for legal services amount to NOK 51,000 for the parent company and NOK 256,000 for the group. These figures are exclusive of VAT.

Note 4 Tangible fixed assets

	<i>Parent company</i>		<i>Group</i>	
	Fixtures & fittings, IT	Fixtures & fittings, IT	Goodwill	Badwill
Procurement cost 01.01	388	211 668	66 457	-15 080
Additions in year	1 429	44 173	0	0
Disposals/sale	92	69 425	0	0
<b>Procurement cost 31.12.</b>	<b>1 725</b>	<b>186 416</b>	<b>66 457</b>	<b>-15 080</b>
Acc. depreciation 01.01.	76	175 077	8 307	-12 064
Disposals/sale	92	68 524	0	0
Depreciation this year	155	22 078	22 152	-3 016
<b>Acc. depreciation 31.12.</b>	<b>139</b>	<b>128 631</b>	<b>30 459</b>	<b>-15 080</b>
Book value 31.12.	1 586	57 785	35 998	0
Economic life	3-6 years	2-7 years	3 years	5 years
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line

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



# Notes to the Accounts

## Note 5 Shares in subsidiaries

(NOK '000)

Selskap	Office	% stake and votes	Book value pr. 31.12.
Pareto Securities AS	Oslo	75,0 %	69 317
Pareto Asset Management AS	Oslo	83,6 %	23 136
Pareto Bassøe Shipbrokers AS	Oslo	100,0 %	40 600
Pareto JGO 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
Vilfredo Kapitalforvaltning AS	Oslo	100,0 %	22 772
			<b>435 818</b>

## Shares in associated companies

Company Office in Pareto's stake	Fondsforvaltning Oslo 35,0 %	Odin Marine New York 35–41 %	Total associated companies
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.	7 484	20 040	27 524
Share of year's profit	1 108	6 736	7 844
Dividends received	-1 115	-2 712	-3 827
<b>Closing balance 31 Dec.</b>	<b>7 477</b>	<b>24 064</b>	<b>31 541</b>

## Note 6 Other shares/bonds

(NOK '000)

Other securities, parent company	Number	Cost price	Book value
Pareto Bank ASA	127 500	53 700	53 700
<b>Total other securities, parent company</b>		<b>53 700</b>	<b>53 700</b>

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

## Note 7

The parent company has granted employees of a subsidiary an interest-bearing loan which was redeemed in its entirety as of 31 December 2015..

## Note 8 Pensions

The group has a defined contribution pension scheme as required under the Act concerning Mandatory Occupational Pensions. Premium paid in 2015 totalled NOK 26,000 for the parent company and NOK 5,725,000 for the group.

One subsidiary has two unsecured pension agreements, and a provision in the amount of NOK 3,616,000 has been made in the balance sheet for this commitment as of 31.12.2015. The provision has been calculated on the basis of the assumptions normally employed in the insurance industry.

# Notes to the Accounts

## Note 9

The parent company has claims in the amount of NOK 47,735,986 on group companies.  
The parent company has debts of NOK 753,455 to group companies.

## Note 10 Securities

(NOK '000)

<b>Mutual funds, parent company</b>	<b>Cost</b>	<b>Book value</b>	
Fixed income funds	44 033	44 033	
Direct investment funds	47 876	47 876	
Equity funds	1 159 978	1 159 978	
	1 251 887	1 251 887	
<b>Other securities, parent company</b>			
Shares (NOK)	1 586 614	1 586 614	
Shares (SEK)	66 626	66 626	
Shares (EURO)	698 899	698 899	
Shares (GBP)	78 558	78 558	
Shares (CHF)	13 838	13 838	
Shares (USD)	624 698	624 698	
Bonds	6 613	6 613	
Other securities	15 693	20 908	
	3 091 539	3 096 754	
<b>Total securities, parent company</b>			<b>4 348 641</b>
Shares and partnership interests		131 350	
Direct investment funds		25 994	
Bonds and certificates		174 588	
Fixed income funds		147 511	
Equity funds		181 270	
<b>Total securities, subsidiaries</b>			<b>660 713</b>
<b>Total securities, group</b>			<b>5 009 354</b>

# Notes to the Accounts

## Note 11 Bank deposits

The parent company has a non-distributable deposit of NOK 67,000 lodged in an account for tax withholdings. The group's bank deposits include NOK 163,063,000 in non-distributable accounts, of which NOK 12,450,000 in accounts for tax withholdings.

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

## Note 12 Equity

(NOK '000)

Parent company	Share capital	Share premium account	Other equity	Sum
Equity at 1 Jan.	22 000	50 138	4 823 284	4 895 422
Portfolio valuation shares at 1 Jan.			80 578	80 578
Restated balance	22 000	50 138	4 903 862	4 976 000
Capital reduction 6 000 treasury shares	-3 000	-6 837	-668 678	-678 515
Extraordinary dividend		-19 000	-281 200	-300 200
Year's profit			1 006 321	1 006 321
<b>Total equity as of 31 Dec.</b>	<b>19 000</b>	<b>24 301</b>	<b>4 960 305</b>	<b>5 003 606</b>

Group	Share capital	Other reserves	Total
Equity at 1 Jan.	22 000	5 802 349	5 824 349
Portfolio valuation shares at 1 Jan.		83 223	83 223
Restated balance	22 000	5 885 572	5 907 572
Capital reduction 6 000 treasury shares	-3 000	-675 515	-678 515
Extraordinary dividend		-300 200	-300 200
Provision for dividends		-108 957	-108 957
Translation differences, subsidiaries		20 074	20 074
Net minority interests		-27 084	-27 084
Year's profit after tax		1 031 618	1 031 618
<b>Total equity as of 31 Dec.</b>	<b>19 000</b>	<b>5 825 508</b>	<b>5 844 508</b>

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

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

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

# Notes to the Accounts

Note 13 Taxes

(NOK '000)

Parent company

Group

2014	2015		2015	2014
745 800	1 025 498	Profit before income tax	1 191 051	1 164 584
-570 570	-940 283	Permanent differences	-565 162	-145 535
-1 910	-401	Change in temporary differences	-56 642	62 423
0	0	Application of losses from past years	-21 345	0
<b>173 320</b>	<b>84 814</b>	<b>Year's tax base</b>	<b>547 902</b>	<b>1 081 472</b>
46 796	22 900	Tax payable	155 376	287 679
-1 495	-2 955	Tax payable, withholding	-14 102	-19 383
<b>45 301</b>	<b>19 945</b>	<b>Total tax payable</b>	<b>141 274</b>	<b>268 296</b>
<b>Specification of temporary differences</b>				
-390	0	Current assets	-2 328	-32 575
217	211	Tangible fixed assets	-12 157	-131 515
-79	-63	Intangible assets	-4 979	-6 199
0	0	Other items	-89 995	0
0	0	Remaining loss for carrying forward	-37 777	-35 818
<b>-252</b>	<b>148</b>	<b>Basis for calculating deferred tax benefit/tax</b>	<b>-147 236</b>	<b>-206 107</b>
-68	37	25%-27% deferred tax benefit/tax	-33 116	-55 325
<b>Year's tax expense</b>				
45 301	19 945	Tax payable	152 154	286 184
492	-873	Tax correction for earlier years	-14 930	-332
516	105	Change in deferred tax benefit/tax	22 209	-15 908
<b>46 309</b>	<b>19 177</b>	<b>Tax expense</b>	<b>159 433</b>	<b>269 944</b>
6,2 %	1,9 %	Effective rate of taxation	13,4 %	23,2 %
<b>Reconciliation from nominal to true tax expense</b>				
201 366	276 884	Anticipated tax expense at nominal rate	321 584	314 438
-154 054	-253 876	Permanent differences	-152 593	-39 823
0	0	Change in tax rates	1 230	0
0	0	Correction previous year(s)	-5 572	0
-1 003	-3 831	Other items	-5 216	-4 671
<b>46 309</b>	<b>19 177</b>	<b>Tax expense</b>	<b>159 433</b>	<b>269 944</b>

# Notes to the Accounts

## Note 14

DNB has furnished guarantees for Pareto Securities AS and the company's participation in securities settlements with Norges Bank in the amount of NOK 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 15

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

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

## Note 16 Related-party transactions

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

Sales of services to other group companies	16 070
Purchases of services from other group companies	3 365

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

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



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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Pareto AS

INDEPENDENT AUDITOR'S REPORT

**Report on the Financial Statements**

We have audited the accompanying financial statements of Pareto AS, which comprise the financial statements of the parent company, showing a profit of NOK 1.006.321.000, and the financial statements of the group, showing a profit of NOK 1.031.618.000. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2015, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Pareto AS and of the group as at 31 December 2015, and

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Registrert i Foretaksregisteret  
 Medlemmer av Den norske Revisorforening  
 Organisasjonsnummer: 980 211 282

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

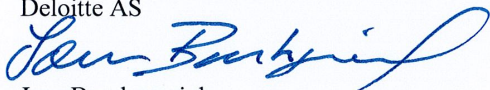
**Report on Other Legal and Regulatory Requirements***Opinion on the Board of Directors' report*

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, 26 April 2016  
Deloitte AS



Jørn Borchgrevink  
State Authorised Public Accountant (Norway)

Translation has been made for information purposes only

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